



FACULTY OF TECHNOLOGY

Remodeling hardware store customer experience towards digital era

Peetu Virkkala

INDUSTRIAL ENGINEERING AND MANAGEMENT

Bachelor's thesis

February 2018



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Supervisor: Hanna Kropsu-Vehkaperä

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TIIVISTELMÄ

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<p>Tiivistelmä</p> <p>Vähittäismyynnin digitaalisen aikakauden lähestyessä, asiakkaiden odotukset muuttuvat nopeasti. Tämä kiihtyvä muutos johtaa tilanteeseen, jossa yritysten täytyy sopeutua muutoksiin nopeammin kuin koskaan aiemmin ja toteuttaa muutoksia, joilla on perustavanlaatuisia vaikutuksia yritysten tapaan toteuttaa vähittäiskauppaliiketoimintaa. Monilla rautakaupparyityksillä on suuria ongelmia sopeutua näihin muutoksiin minkä johdosta ne ovat tilanteessa, jossa niillä on riski menettää markkina-asemansa. Jos nämä yritykset haluavat selviytyä digitaalisella aikakaudella, niiden täytyy sopeutua nopeasti näihin meneillä oleviin muutoksiin.</p> <p>Tämän tutkimuksen tarkoituksena on selvittää, miten rautakaupan asiakaskokemusta tulisi kehittää vastaamaan digitaalisen ajan asiakastarpeisiin. Tavoitteena on esittää päätelmiä digitaalisen aikakauden asiakaskokemuksesta Keskolle, suomen suurimmalle rautakauppatoimijalle, jotta Kesko voi sopeuttaa vähittäiskauppaliiketoimintansa digitaalisen aikakauden vaatimuksiin. Tavoitteeseen pyritään toteuttamalla kirjallisuuskatsaus digitaalisen aikakauden asiakaskokemuksesta vastaamalla seuraaviin tutkimuskysymyksiin: Mitkä ovat keskeisimmät toimintatavat ja käsitteet jotka tulee huomioida, kun asiakaskokemusta kehitetään vähittäiskauppaympäristössä, millaisia odotuksia asiakkailta on digitaalisen ajan asiakaskokemukselle vähittäiskauppaympäristössä ja miten yritykset ovat sopeutuneissa digitaalisen aikakauden odotuksiin ja kehittyvään kilpailuun vähittäiskauppaympäristössä? Asiakaskokemuksen käsitteitä ja toimintatapoja, asiakkaiden digitaalisen aikakauden tarpeita sekä yritysten sopeutumistapoja käsitellään organisaatioiden konsultointi analyysien ja olennaisten julkaisujen kautta.</p> <p>Asiakaskokemuksen keskeisimpiä käsitteitä ovat asiakas, asiakasvaatimus, yritys ja asiakaskokemuskoketuspiste. Keskeisimmät toimitavat liittyvät asiakaskokemuksen yrityslähteisten etujen maksimointiin muun muassa yhteensopivuushallinnan, kuulopuheen ja itsepalvelutekniikoiden avulla. Asiakas odottaa digitaalisen aikakauden kivijalkakauppakokemukselta nettikauppaan verrattavaa kilpailukykyistä hintaa ja tuotteiden saatavuutta, laadukkaita tuotteita, moitteetonta asiakaspalvelua sekä digitaalisen ja fyysisen kaupan toimintojen yhdistämistä. Yritykset vastaavat näihin muuttuneisiin asiakasvaatimuksiin hahmottamalla selkeän pitkän aikavälin vision yrityksen digitaalisen kaupankäynnin kehittämiseksi, hyödyntämällä kerättyä dataa, kouluttamalla asiakkaitaan ja henkilökuntaansa käyttämään digitaalisia ratkaisuja sekä tavoittamalla yksittäisiä ja isoja ihmisjoukkoja tehokkaasti digitaalisten ja fyysisten mainoskanavien kautta.</p> <p>Kirjallisuuskatsaus paljastaa keskeiset vaatimukset, jotka Keskon ja muiden rautakauppatoimijoiden tulisi huomioida menestyäkseen digitaalisen aikakauden muuttuneessa kilpailussa. Asiakkaan ja yrityksen välisten fyysisten ja digitaalisten kosketuspisteiden analysoimiseksi tulee kehittää yhä analyttisimpiä ja tehokkaampia datankeruu- ja datankäsittelylaitteistoja. Nykyisten tuotteiden ja palveluiden kehittämismahdollisuuksia alati kehittyviin asiakaskokemusstandardeihin tulee tarkkailla jatkuvasti. Digitaalisten laitteiden ja perinteisen kaupankäynnin palvelut, kanavat ja edut tulee yhdistää toisiaan tukeviksi ja yhdistäviksi palveluiksi, tuotteiksi ja kokemuksiksi, jotka muodostavat osiaan parempia asiakaspalveluratkaisuja. Yrityksen liiketoiminta tulee kehittää mahdollisimman mukautuvaksi, jotta nopeisiin digitaalisen aikakauden muutoksiin voidaan reagoida riittävän nopeasti. Rautakauppaliiketoiminnan uudet teknologiat tulee tehdä tutuksi entistä tehokkaammin sekä kaikille asiakkaille, että myös yrityksen kaikille työntekijöille. Lopuksi, yrityksen vision sekä lyhyen- ja pitkänaikavälin tavoitteiden tulee vastata digitaalisen aikakauden tarpeita.</p> <p>Tämän tutkimuksen tuloksia voidaan hyödyntää kehittämään Keskon, ja miksipä ei muidenkin yritysten, valmiutta vastata digitaalisen aikakauden asiakastarpeiden muutoksiin kivijalkakauppaliiketoiminnassa, sillä tulokset ovat yleisiä toimintaohjeita, jotka on helppo implementoida erilaisten yritysten kivijalkakauppaliiketoimintoihin.</p>			
Muita tietoja Tämä työ on tehty yhteistyössä Kesko Oyj:n kanssa			

ABSTRACT FOR THESIS

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<p>Abstract</p> <p>When approaching digital era of retail, customer's expectations are changing fast. This accelerating change leads to situation, where companies have to adapt to changes much faster than ever before, and do changes which have fundamental effects to ways how companies implement their retail business. Many hardware retail companies have huge difficulties to adapt to these changes which put them at risk to lose their market position. If these companies want to survive in digital era, they have to adapt fast to these ongoing changes.</p> <p>In this study, the objective is to investigate how hardware store customer experience should be developed to correspond changed digital era customer needs. The goal is to provide deductions related to digital era customer experience for Kesko, Finland's biggest hardware retailer, to help them to adapt their hardware retail business to digital era requirements. This goal is going to be achieved through a literature review on the customer experience in digital era and by answering following research questions: what are the key practices and concepts that have to be addressed when customer experience is developed in retail environment, what kind of expectations customers have for digital era customer experience in retail environment, and how companies are adapting to digital era customer expectations and evolving competition in retail environment? The literature about customer experience concepts and practices, customers' digital era needs and companies' ways to adapt is gathered from organizations' consulting analysis and essential research papers.</p> <p>Central concepts of customer experience include customer, customer requirement, company, and customer experience touchpoint. Central customer experience practices are connected to maximizing the benefits from customer experience for company through Compatibility Management, Word of Mouth and Self-Service Technologies. From retail hardware stores, digital era customer expects price and availability which are competitive to digital stores, quality products, impeccable customer service, and bonding of digital and retail store functions. Companies adapt to these changed customer expectations by creating clear long-term vision for their digital commerce, by making better use of their collected data, by educating their customers and employees to use digital solutions, and by reaching both individual and large groups of customers efficiently through digital and physical marketing channels.</p> <p>The literature review reveals key requirements that Kesko and other hardware store companies should address to succeed in changed digital era competition. To analyze physical and digital touch points between the customer and the company better, more analytical and powerful data collection and data analyzing tools should be developed. Possibilities to develop current products and services to all-time evolving customer expectation standards should be monitored constantly. Services, channels and benefits of digital tools and retail tools should be combined to mutually supporting and connecting services, products, and experiences, which form better customer service solutions than their parts on their own. Business of the company should be developed to be as adaptable as possible, so that the company can respond in time to fast digital era changes. New hardware store technologies should be made known for all customers and all employees. Finally, company's Visio and both short- and long-term goals should resemble digital era requirements.</p> <p>Results of this study can be applied to develop Kesko's, and why not also other companies' readiness for responding to changes in digital era customer requirements in their retail store business, because the results of study are general recommendations which can be implemented easily to different companies' retail store businesses.</p>			
Additional Information: This paper has been done in co-operation with Kesko Oy			

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MARKINGS AND ABBREVIATIONS

CEM Customer Experience Management

CRM Customer Relationship Management

SST Self-Service Technology

TPB Theory of Planned Behavior

WOM Word of Mouth

RaSi ry Rauta-, Rakennus- ja Sisustustarvikekaupan yhdistys
(Translation) Association of Iron, Construction and Decorating Supplies

1. INTRODUCTION

This thesis untangles, how hardware store customer experience should be developed to correspond digital era customer needs. Digital era is the age of extreme customer expectations, bringing up huge challenges for the companies. This increased complexity leads to situation, where companies have to adapt to changes much faster than ever before. (Bonnet et al. 2014) Right now, most of the companies aren't digitalizing their customer experience systems and practices fast enough compared to digital leaders. If these companies want to survive in digital era, they have to adapt fast to ongoing changes. (Buvat et al. 2017)

During the recent years, Finnish hardware store companies have failed to adapt quickly to digital era customer expectations. From 2015-2016, Finnish hardware stores building supply, interior accessory, and hardware store product sales decreased in over 50% of all stores interviewed in RaSi ry, Association of Iron, Construction and Decorating Supplies, survey. (RaSi ry, 2015) If Finnish hardware stores want to rise from this comedown, and adapt to changes which digital era brings up, they have to be able to offer compelling digital customer experience which answers for customers' needs by meshing digital and physical experiences seamlessly together (Bonnet et al. 2014).

The goal of this thesis is to provide deductions for digital era customer experience requirements, which Kesko, Finland's biggest hardware retailer, can then use to adapt their business to digital era requirements. The thesis has been split to one primary research question, and three secondary research questions, which will be addressed throughout the thesis. The primary research question for this thesis is:

How hardware stores should develop their customers' customer experiences in retail to face digital era requirements successfully?

In order to answer this objective, the following research questions have been set:

What are the key practices and concepts that have to be addressed when customer experience is developed in retail environment?

What kind of expectations customers have for digital era customer experience in retail environment?

How companies are adapting to digital era customer expectations and evolving competition in retail environment?

These research questions are answered through the literature review about the topic of the thesis. This literature is mainly gathered from the timely analysis created by famous organization consulting companies, and from the essential research papers considering customer experience, customer expectations and digital era. To give more reliability for deductions made from the chosen literature, many different literature sources were used to verify reliability of information. Relevant analysis and research papers were mainly find through Google Scholar research database system by using concepts ‘customer experience in digital era’ and ‘customer expectations for digital era retail’ in addition to sources provided by Kesko.

The thesis is structured as follows. The chapter two goes through what is customer experience, how customer experience data is gathered and analyzed, what are the key concepts and practices for good customer experience, and how customer experience may evolve in future. The chapter three addresses customer expectations in digital era, companies’ difficulties to meet these expectations, practices which digital leading companies use to meet these expectations, and short summary about the current hardware store digitalization situation in market leaders, startup sector, and in Finnish hardware store sector. After this, chapter four address the main findings and deductions from literature review, which Kesko can use to develop their customer experience practices in retail towards digital era requirements. After that, chapter five summaries the work done, and answers to research questions introduced in introduction.

2. CUSTOMER EXPERIENCE

2.1 Concept of customer experience

Customer experience can be defined in many ways. Customer experience is an internal, subjective response which customer has for any direct or indirect contact with a company. (Meyer & Schwager, 2007) It's a set of interactions between a customer and a product, a company, or part of its organization. These interactions are strictly personal and they imply the customer's involvement on different levels: rationally, emotionally, sensory, physically and on spiritually level. (Gentile et al. 2007)

Customer experience encompasses the total customer experience involving the customer's cognitive, affective, emotional, physical and social responses to the retailer's doings (Verhoef et al. 2009). The total customer experience contains all aspects of a company's offering, including advertising, service and product features, quality of care, ease of use and reliability, and should therefore be considered as company's first concern (Meyer & Schwager, 2007).

Customer and his or her expectations are the central parts of the customer experience research. Customers expectation are mainly set by previous experiences which customer has had with the company, and to which customer compares his or her new experience. (Pine & Gilmore, 1999) Social environment has big effect to these expectations: different customers impact each other's customer experience before, during and after the contact with the company (Verhoef et al. 2009). Other factors that affect customer expectations include competition, market condition, and customer personal situation. It has been said, that creation of distinctive customer experience may provide economic value for firms. Therefore, companies are interested in developing customer's customer experience. (Pine & Gilmore, 1999)

To offer a great customer experience, many companies have employees responsible of Customer Experience Management (CEM), whose goal is to manage customer's experience to create value for both to the firm and to the customer. CEM focuses on current experience of the customer whereas Customer Relationship Management (CRM) focus on the recorded history of the customer. It's important to choose right management

method according to case at hand, to be sure that the management is done efficiently. (Verhoef et al. 2009)

2.2 How customer experience data is gathered

Customer experience data is gathered from different touch points where customer interacts with the company. For instance, these touch points can be situations where customers contact customer servicers or situations where companies advertise their products to customers in social media. (Meyer & Schwager, 2007) When company has enough customer experience data, it can create its own integrated series of clues that meet or exceed customer's emotional needs and expectations. By using different emphasis for this data, and by combining individual touch points data together, company can offer unique experience for company's product or service over its competitors. (Berry et al. 2002; Meyer & Schwager, 2007)

Anything that can be perceived or sensed or recognized from its absence, is a clue which affect customer experience. Clue can be functioning clue from good or service which is emitted by things or by humans, or emotion which arise from interaction with good or service. In principle, all of these clues have equal value; the goal is to offer right clue to customer at the right time. (Berry et al. 2002)

To get a comprehensive data, the data from individual touch points should be categorized to three patterns: past, present, and potential pattern. Past pattern data contains findings from customer's recorded past experience, present pattern data contains findings from recent experiences, and potential pattern data contains data uncovered through researching opportunities, which may emerge by observing customer's behavior or from interpretation of customer data. (Meyer & Schwager, 2007)

When considering timings for data gathering, information about company's key services and products should be gathered at scheduled intervals to create trustworthy customer data flow. Measuring customer satisfaction is not the way to understand how customer satisfaction can be achieved. It's just a sum of all bad and good experiences which customer has experienced through his or her interactions with the company. In fact, to really understand how customer is satisfied, companies have to deconstruct customer experience into component experiences. (Meyer & Schwager, 2007)

Other big mistake is to place one customer-facing group to take responsibility of organizations customer experience. Even though this may provide some positive results like savings in costs, this way of work doesn't give comprehensive view about customer experience. (Meyer & Schwager, 2007)

In addition to potential pattern data, if a company wants to forecast customer behavior in the future, it can use Theory of Planned Behavior (TPB), which aims to forecast and control customer behavior (Solomon, 2015; Ajzen, 1991). TPB identifies behavior intention as a main influence, and subjective norm and attitude towards the act as secondary influences for customer's behavior intention. This perceived behavioral control has a significant role in forecasting customer's future behavior. (Hoyer et al. 2013)

From all customer experience research methods, well designed e-mail surveys are the best way to collect data from customers. E-mail surveys are easy to send, modify, and process to a big audience so that a company's CEM resources are used efficiently. (Meyer & Schwager, 2007) Foundation for the customer experience idea generation can be done through experience audit, where a company films and researches customers, and implements in-depth interviews with the customers and employees. This way, the company can create so called "experience motif" which reflects the organization's core values and branding strategies. This can be then used as a foundation for all ideas which a company uses to improve their customers' customer experience. If experience motif is created successfully, it can put a company to a superior position compared to its competitors. (Berry et al. 2002)

2.3 Key practices of good customer experience

Quality of customer experience can improve significantly only if it becomes a company's top priority so that a company's work processes, systems, and structures change to reflect customer experience (Meyer & Schwager, 2007). Products and services themselves aren't enough for a customer: companies have to offer satisfactory experience to get a customer's attention. To do this, companies have to detect all the clues which customers are leaving behind before, during and after the buying process. This way, customers' expectations and assessments, which they are likely to do after the buying processes, can be used to develop customer experience further. (Berry et al. 2002)

Successful brands connect their fundamental value propositions in their offerings as a feature which improves customer experience (Meyer & Schwager, 2007). Consumers whose first impression of brand is negative can be influenced with non-comparative information. Respectively, customers with positive first impression can be influenced more by comparative information. Companies should therefore influence their customers' expectations on case by case basis. (Muthukrishnan & Chattopadhyay, 2007)

Interactions between humans

Interactions among customers may have profound deep effect to customers' service experience (Martin & Pranter, 1989). Generally, companies can improve their customers' customer experiences by having knowledgeable customers assisting other customers in need of help (Verhoef et al. 2009). There is always a risk, that customer may try to spoil the experience of other customer in an attempt to sabotage the company (Harris & Reynolds, 2003). Addition to direct negative effects this sabotage has to company, it may also ruin experiences of other customers (Verhoef et al. 2009).

This has led to the need for compatibility management, which involves attracting similar customers together, and improving their customer experience through positive interaction between same minded fellow customers (Pranter & Martin, 1991). The way how effectively company manages customer satisfaction, has straight impact to the overall customer satisfaction. Those companies, which combine functional and emotional benefits within their offerings, can provide holistic customer experiences which are very difficult for competitors to copy. (Berry et al. 2002)

Addition to this, Interaction between employees may also affect customer's customer experience (Verhoef et al. 2009). It's important, that every employee who affect the customer experience, has a shared idea about what the customer experience really means for the company. Otherwise, comprehensive customer experience cannot be offered to the customer. (Meyer & Schwager, 2007) Employees can lower the risk related to purchase which customer feel by revealing information related to product quality, warranty and money back guarantee possibilities. Usually, customer wants to try the product before the buying so he or she should be given the chance to do it if possible. (Teo & Yeong, 2003)

Word of Mouth and customer loyalty

The positive or negative information, which spreads from human to human verbally or through communication tools, is called Word of Mouth (WOM). Customers perceive WOM more trustworthy than marketing information, cause WOM comes from other people, not from the company itself. The effect of WOM is more powerful, if the product or the product category informed through WOM is new for the customer. (Solomon, 2015)

WOM is usually split into two parts: positive and negative WOM. Customer experience results improve, if customer hears positive WOM whereas hearing negative WOM weakens customer's experience. Negative WOM is also a big threat for the company, because customers give usually more value for negative WOM than positive WOM when they are doing their purchasing decisions. (Solomon, 2015) Satisfaction, commitment and identification of customers' increase the amount of positive WOM. Therefore, companies should aim to arouse these factors in customers through CEM to develop their customer experiences (Brown et al. 2005).

Customer loyalty means customer's constant buying habit towards specific brand. It contains four areas: cognitive, affective, conative and functional loyalty. (Oliver, 1999) When customer buys something, he or she goes through purchase decision process, which contains five steps: identification, information gathering, comparison, purchase decision, and behavior after purchase (Kotler et al. 2013). Customer loyalty in e-commerce increases, if company can satisfy following needs: customization, contract interactivity, cultivation of service, customer care, community, chance to choose and character of the shopping experience. Positive e-loyalty increase positive WOM and therefore customer's willingness to pay more from company's products and services. (Srinivasan et al. 2002)

The widespread use of social networking needs to be addressed, when companies develop customer experiences. All customer interactions should be treated as they could be broadcasted live to internet. Therefore, each customer should be respected similarly to minimize the risk of negative WOM and to maximize the chance for positive WOM. (Grainer et al. 2014)

Customer relationship management

Customer experience research and data gathering fails usually when company focus too much to CRM, instead of customer experience. Other reasons for these failures include decision makers' inability to do decisions based to customer experience problems, and corporate leaders' unwillingness to gather data because they fear what the data could reveal from company's practices. (Meyer & Schwager, 2007)

Blending Employee-Based Technology, and Self-Service Technology (SST) together, enables best customer experience end results (Reinders et al. 2008). Good SST decision are made, when role of service recovery and characteristics of SST, and effects of customers' education related to SST failures and recovery are validated. Hence, SST should be designed so, that customer confusion, frustration and resistance to changing customer experience can be minimized. (Verhoef et al. 2009)

Customer technology readiness, customer's inherent propensity to embrace and use technology to accomplish his or her goal, has a big effect to how customer service technologies are designed (Parasuraman, 2000). Because of this, it's important to think strategic roles of the SST, to understand how SST elements can be fitted to company's value chain to support company's customers' customer experiences (Verhoef et al. 2009). Actions, including hiring better personnel, providing appropriate training for employees and using soft skills like empathy, flexible language and adaptive responses when interacting with the customers, should be prioritize when companies develop their customer service methods (Grainer et al. 2014).

2.4 Forecasts for the digital era customer experience

Customer experience tools of the future are strongly connected to digitalized word in digital era. This digitalization is a process, where products, relations, and structures are transferred to the digital form, and which is happening in multiple industries at the same time. (Yoo et al. 2010; Sia et al. 2016) It contains use of new digital technologies enabling significant changes in business, including mobile technology and analytics which enables improvements in customer experience (Fitzgerald et al. 2014). The digital Era is an intense socio-economic transformation which is happening on the scale similar to that of the previous Industrial Revolution (Drucker, 2002). It is characterized as a technology,

which increases the speed and breadth of knowledge turnover within the economy and society, and as a technology where digitalization works as a driving force of change. (Shepherd, 2004).

Both physical and digital products benefit from digitalization. Through digitalization, new features and use cases can be added to physical products (Barrett et al. 2012). Digitalization has brought new type of markets for digital content called Digital Content Markets (Frank et al. 2011). These markets include both traditional products in digital format, and brand new exclusive products and services like virtual products and services (Lehdonvirta, 2012). Main challenges in digital market include customers' habits towards physical counterparts of digital products and services, piracy and hacking (Frank et al. 2011).

Nowadays and in the future, customers have greater number of choices than ever before. Many of these choices are more and more complex, and they can be found through multiple channels. In this environment customer will choose, simple, burdensome integrated solution over other solutions. (Meyer & Schwager, 2007) At the same time, technology based services are becoming more and more integral part of shopping experience, which increases the speed which customer experience data can be gathered and processed (Verhoef et al. 2009; Meyer & Schwager, 2007). Similarly, digital era is changing the way how employees are interacting with customers. These changes have to be addressed in the companies, to develop long lasting customer serving principles for employees to fulfill customers' needs. (Verhoef et al. 2009)

There are many customer experience research topics which are still under study, and which will have a huge impact to how good customer experience is orchestrated in digital era. This includes topics like optimum blend of employee- and technology based service systems, the extent to which strong brand perceptions has effect to customer experience, the ways how retailers using experience based strategies can grow, and how changes in the designed experience affects core customer groups. (Verhoef et al. 2009)

2.5 Summary of key customer experience practices and concepts

Customer experience is customer's internal, subjective response which customer has for company, and a set of personal interactions between customer and company, product, or

service. Customer and his or her expectations are the central parts of the customer experience. Other important parts in customer experience are competition, market condition, and customer's personal situation.

Customer experience data is gathered in scheduled intervals from touch points where customer interacts with the company. E-mail surveys are the best way to collect customer experience data from the customer. Experience audits are also good choice when foundation for the customer experience idea creation has been created. This data enables companies to create their own integrated series of clues to improve customer experience. Comprehensive understanding of customer satisfaction demands compatibility from individual customer experience components, right kind of measuring and orthodox use of TPB.

To create great customer experience in retail, customer experience has to be company's top priority in everything they do. Good customer experience is satisfactory, unique experience, which connects company's value proposition and company's offering's functional and emotional benefits with customer's needs. Central principles which enable this great customer experience are compatibility management, good communication inside and outside the company, increased positive WOM, decision makers focus on right practices, and smart use of SST.

3. CUSTOMER EXPERIENCE IN DIGITAL ERA

3.1 Customer expectations in digital era

Digital era is the age of extreme customer expectations (Bonnet et al. 2014). Customer's complainant satisfaction is lower today than in 1970s even though services and products have developed significantly from those times. This is due to use of social networks and other current communication channels, which have raised the quality cap drastically in the area of customer service. (Grainer et al. 2014) For companies' disadvantage, this pace of changing customer expectations is accelerating all the time: what worked yesterday is not guaranteed to work in the future, and new methods to fulfill customers' needs have to be implemented quicker than ever before (Bonnet et al. 2014).

Digitalization has revolutionized customer's ability to search information and compare different options together. By providing comprehensive enough network environment for customers, the customers don't necessarily want to search information outside of company's network environment, which gives the company competitive advantage. At the same time, customers price sensitivity in digital environment has decreased, which makes customers to buy more high quality high price products than before. (Teo & Yeong, 2003) Large groups of customers are ready to receive offers and information to their mobile devices from stores, and almost all customers value mobile marketing in the form of coupons or discounts. These customer groups will probably increase even more when the time goes on. (Alström et al. 2013)

Digital era customer expects similar user experience from physical stores as from online stores: same prices and delivery times, big stock levels and flawless service (Buvat et al. 2017). If these needs are not fulfilled and customer gets mad, he or she gets often really mad, and has a big effect to mindset of other customers through social communication channels, which has a big chance to lead decreased overall customer loyalty. In short, digital era customer expects businesses to handle customer service flawlessly and get everything faster and better than ever before in retail. (Grainer et al. 2014)

Digital era customers have an ability to buy products instantly from the internet, so stores have to offer something different which gets their attention. In fact, customers want stores to serve a higher purpose than simply selling the product: they want to be entertained in

the stores through different senses. They want that the store is a physical entity supported by digital operations like convenience designs, internal navigation solution, personalized messaging, socially inspiring experiences and enhanced customer experiences. (Buvat et al. 2017)

When digital era customers need help with their problems, they are often interested in more personal, human opinion. They want to be treated with dignity; be thanked when they contact the customer service, have an opportunity to open their feelings, and get apologies for their problems. At the same time, they want to get explanation for their problems and be sure that these problems don't occur again. As mollycoddle as these needs may sound, company's ability to fulfill them has a big influence to digital era customer's continued brand loyalty. (Grainer et al. 2014)

In digital era, mobile technology is customers number one channel to communicate, get information, and purchase products and services. Digital era customers find Apps more usefully to find information and interact with the company compared to physical stores. (Buvat et al. 2017) Even though most mobile purchases are done through platform-based application stores like App Store and Google Play right now, customers want more and more to make their purchases through companies own browser sites (Alström et al. 2013). When customers are using companies' websites and corresponding apps in addition to other tens of apps and websites they use daily, they often feel time pressured, and are forced to make significant personal sacrifices to contact customer service related to their problems. Therefore, customer service has to work perfectly to fulfill their needs. (Grainer et al. 2014)

3.2 Difficulties to meet digital era customer expectations

Meeting these digital era customer expectations is not easy task to handle. Biggest barrier for this, is companies lack of awareness of the possible advantages derived from using digital tools to solve this expectation. (Alström et al. 2013) When companies fail to exploit these advantages, they struggle to meet customers' digital needs and customers feel their shopping experience just as a chore to undertake (Buvat et al. 2017).

Some of the most critical digital advantages which companies fail to use efficiently are mobile marketing and customer tracking possibilities. This is because traditionally,

customers have made their digital purchases via desktop and laptop computers, but digital era business is focusing more to smartphone and tablet devices. Most of the companies have reacted to this change slowly, and are now falling behind in competition, because physical stores and their related digital services have to be connected together effectively to get value out of them. (Alström et al. 2013; Buvat et al. 2017) This complexity of new digital era channels with existing operations is daunting for many companies (Bonnet et al. 2014).

Conversations inside the company may also turn out to be a big problem which leads companies to implement wrong in-store digital initiatives, and have problems in communications between the store employees and managers. This leads to situation, where in-store digital initiatives don't match with the customer's expectations due to company's struggle to measure return of their investment to these initiatives, and investing effects to overall sales and customer experience. Even though these technologies would match customer needs, it's still common that their implementation fails somehow because retail employees aren't adopting them correctly. (Buvat et al. 2017) Even today, it's still pretty common, that in individual business modules inside companies, customer experience, while being everyone's priority, is no one's job (Bonnet et al. 2014).

Biggest technology challenges which companies face in digital era are difficulties to integrate legacy retail systems to in-store digital initiatives, and lack of real-time product inventory data across their stores. If companies are still implementing foundations to enable digital initiatives, the in-store digitalization slows even more. (Buvat et al. 2017) Poor execution for these upgraded systems and practices has often a big negative impact to customer experience development investments (Grainer et al. 2014).

Profusion of customer interaction possibilities presents a big challenge for companies (Grainer et al. 2014). Companies are struggling to offer traditional way of managing customer relationship while still doing an overhaul of organizational culture (Bonnet et al. 2014). Ping-ponging customers from one customer service employee to another is still common, so companies are failing to solve customer's problems on one-stop, which gets customers more frustrated (Grainer et al. 2014).

3.3 How to meet digital era customer expectations

Companies, that are leading in competition to meet digital era customer expectations, have a clear vision of the future of their retailer stores: how they look like, what is vision for organizations of those stores, and where to invest in new technologies and digital initiatives in them (Buvat et al. 2017). They look outside to all-time changing world to transfer systems inside their companies, focus on smart investments in digital channels, use data smartly to create engaging customer experiences, and integrate physical with digital experience to create unending customer experiences (Bonnet et al. 2014).

Digital leaders put high emphasis for their employees' development. They train their store associates to use new in-store technology, take feedback from them to improve in-store customer experience initiatives, and they teach them to use customer data more efficiently than their competitors. (Buvat et al. 2017) They empower customer service employees to offer efficient, one-stop solutions for customers' problem through positive WOM, smart customer service investments and effective Omni-channel customer service tools. They don't approach customer service through lifetime value thinking, instead, they approach complains resolving through open approach which takes into account their customers' connections with their personal community within broad network instead of individual customers, to influence wide range of actual and potential customers. (Grainer et al. 2014)

Companies, who transforms customer experience through new technologies, digitized operations, and right people capabilities are the winners of digital era (Buvat et al. 2017). This comprehensive digital customer experience change requires compelling orchestration of data, IT, people, processes and customer behavior, strong customer behavior analysis, smart investments in digital channels, an ability to harness customer data efficiently and an ability to mesh digital and physical experience together. (Bonnet et al. 2014)

Digital era customer demands personal approach. Digital leaders offer this by making customer feel stronger sense of responsibility in interactions with the company. (Diehl et al. 2015) This can be done for example through mobile interface, which is in fact, a must for many companies, if they want to success in digital era competition (Alström et al. 2013). Digital era leaders are developing their personal approach by enabling customers to share their good and bad experiences through social media mobile applications, which

their customers' use through their mobile devices. In contrast to the accepted folk wisdom, positive WOM in social media has a bigger influence to people way to interact with companies than negative WOM, and these companies use it to their advantage. (Grainer et al. 2014)

Businesses which use internet wider and more extensively, grow faster and are more profitable because of digital business advantages generated by digital tools which they use. These highly digitalized companies proactively engage potential customers to a far greater extent than their competitors. (Alström et al. 2013) These companies use digital technologies to enhance their back-end operations: introduce inventory management robotics and in-store analysis solutions in stores, improve supply chain visibility through whole company, and develop solutions for their retail employees (Buvat et al. 2017).

Introducing technology of physical stores for customers, is the key to address customers' top frustrations (Buvat et al. 2017). This technology includes systems like online CRM, sales analysis, price comparison and order management solutions. Companies that deploy these sophisticated digital solutions are able to achieve higher growth and better profitability in digital era than their competitors. (Alström et al. 2013) To reach the level of these digital leaders, other companies have to develop their digital initiatives aggressively, invest on creating digital customer experience units, create innovative customer experience solutions, and scale their solutions fast to all of their retail stores. Otherwise, these companies will have a hard time to keep up with the digital leaders. (Buvat et al. 2017).

3.4 Current situation in hardware retail

Following subchapters contain short examples about the current situation in different fields of hardware retail environment.

Startups and microenterprises – Malmo Hardware Store

Most of the big hardware companies have adapted slowly to digital era challenges, and are now following startups and microenterprises which manage to adapt faster to changes which digitalization brings up. As it is common for startups and microenterprises, they

are ambitiously taking risks by trying new innovative solutions to challenge market situation, which is not possible to many bigger companies. (Ringel et al. 2016)

Malmö Hardware store in Malmö city center is a great example of traditional hardware store which has been able to respond successfully to digital era challenges. Store's unique offering includes Toolpool-service which enables customers to borrow tools via phone, handyman service which let customers to get help in their home, and workshops which are open for everyone to learn practical craft skills. (Diehl et al. 2015)

Even though its small size, Malmö Hardware store has succeeded. According to research, main reason for this is the community around the shop, which enables unique and rewarding customer experience, where community transfers knowledge through in-store conversations and workshops. Knowing each other in this community, and being part of the same community makes customers' and employees' everyday life smoother. Many of the offered services are free, and they connect customers' both together and with the tools and materials they use. (Diehl et al. 2015)

Behind many successful startups stands a great leader, and Malmö Hardware store is no exception from this. According to research, the store owner has many values and practices, which enables successful human-oriented hardware business in digital era:

- Perceives business as an extension of his own personality
- Finds business personally rewarding
- Has authentic approach to business
- Has urge to think differently
- Pursues sustainable business goals
- Desires to act differently to satisfy community needs
- Has principle to act fair
- Uses knowledge sharing approach
- Is legitimate for others

By acting according to these values and practices, Malmö Hardware store has succeeded to offer higher purpose retail experience for its customer. Even though Malmö Hardware store isn't challenging its bigger competitors in Malmö, bigger hardware retail companies can learn from it to adapt to digital era. (Diehl et al. 2015)

Market leaders – Lowe’s

Lowe’s, United States second largest hardware store is one of the leading actors in the field of hardware store digitalization. As seen in Figure 1, Lowe’s approach for digital era challenges is versatile: Robotic solutions, AR/VR tools and on-demand-manufacturing services change traditional retail hardware store experience dramatically, whereas innovating for impact projects, in-house programs and start-up accelerators help Lowe’s to develop new digital era innovations. To do this, Lowe’s uses narrative-driven innovation to find new opportunities and image new possibilities to share their vision of future with their customers. This way, Lowe’s is able to disregard barriers, bring creativity, inspire and forecast concerns related to digital era.

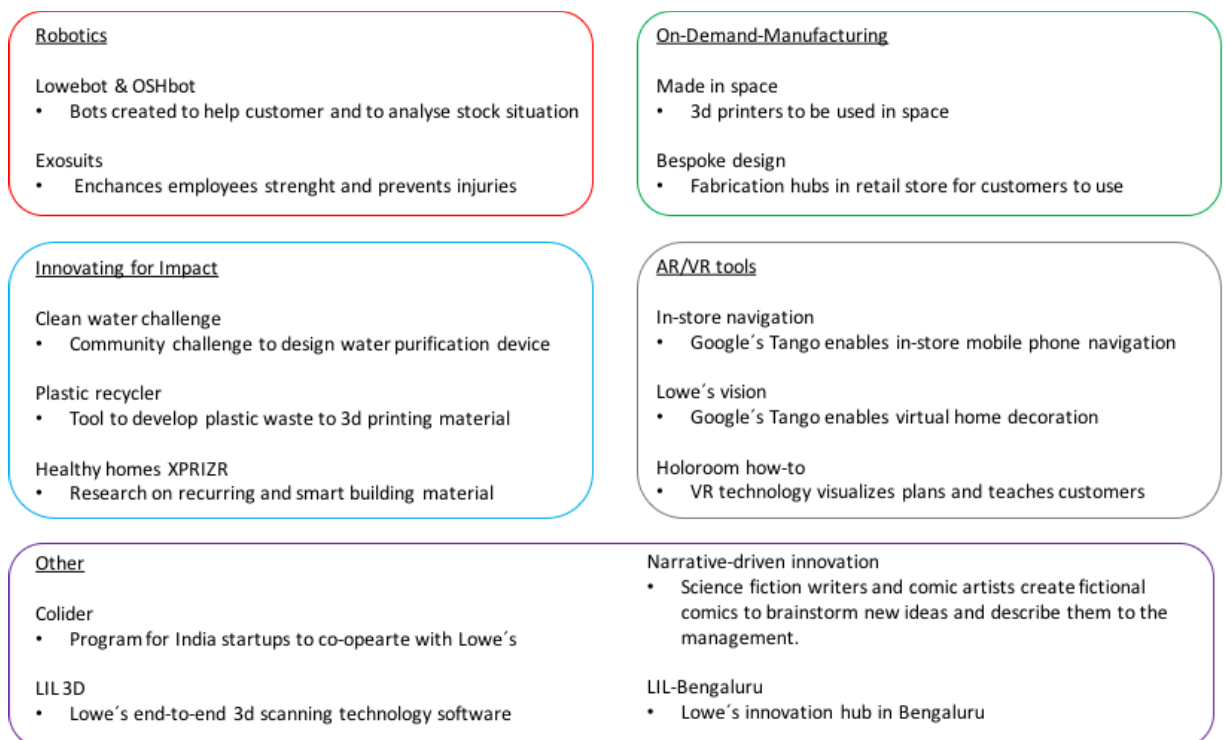


Figure 1. Lowe’s approach for digital era challenges (Lowe’s, 2018)

Situation in Finland – Liiteri and overall hardware retail

In the capital city area of Finland, multiple companies are collaborating with researching institutes and cities to develop circulation economy solutions. One of these, Liiteri renting service, has many same kind of services as Malmo Hardware store. Liiteri let users to rent and retrieve or order hardware tool’s, and return broken electrical tools to Liiteri to be recycled. Liiteri service simplifies customer’s life and works as a research platform for hardware retail solutions. Because of its small size, it fits better to the city environment than full range hardware store. (Liiteri, 2017)

However, Finnish hardware companies have developed just few new digital era products and services compared to the market leaders. At the same time, Finnish hardware stores' sales have decreased in multiple sectors, as seen in Table 1 and 2. This is partly due to changes in customer's habits: more and more customers buy ready-made houses and less and less of them buy hardware store products to build crafts on their own. To improve their sales, Finnish hardware stores have to change their operations to correspond changed customer needs and upcoming digital needs. (RaSi ry, 2015)

Table 1. The overall sales in different product categories in Finnish hardware store retail compared to year 2014 sales (January-August 2015) (RaSi ry, 2015)

Retail category	Building Supplies	Interior Accessory	Hardware Store Products	Yard and Gardening Supplies	Overall Sales Growth	Sales Growth Forecast for the Year 2015
Increased	23,50 %	16,70 %	21,30 %	32,10 %	23,60 %	36,10 %
Didnt change	14,70 %	19,40 %	18,00 %	28,30 %	13,90 %	25,00 %
Decreased (<5%)	27,90 %	33,30 %	29,50 %	13,20 %	26,40 %	19,40 %
Decreased (>5%)	33,80 %	30,60 %	31,10 %	26,40 %	36,10 %	19,40 %

Table 2. Changes and forecasts for Finnish hardware store retail business compared to year 2014 (January-August 2015) (RaSi ry, 2015)

Area	Development of the Earnings	Development of the Amount of Employee	Earning Estimate For Year 2015	Amount of Employee Estimate for Year 2015
Increases	20,80 %	11,10 %	33,30 %	5,60 %
Remains unchanged	41,70 %	66,70 %	43,10 %	61,10 %
Decreases	37,50 %	22,20 %	23,60 %	33,30 %

3.5 Summary of digital era customer requirements and companies' responses

Digital era is the age of extreme customer expectations due to raised quality cap in the area of customer satisfaction. Customer's ability to search information and compare different options together has improved significantly. Increased use of e-commerce has decreased customers' price sensitivity, which leads customers to buy more high quality high price products than ever before. These customers are ready to get more offers through digital channels, but at the same time demands same kind of user experience from physical stores as from online stores.

Digital era customer expects businesses to handle customer service flawlessly, and get everything faster and better than ever before in retail. The customer has an ability to buy products instantly from the internet, so retail stores have to offer higher purpose products or services than digital stores to get customer's attention. When the customer needs help, he or she demands personal, human help to get empathic comprehensive answer to his or her problem. Mobile technology is customer's number one channel to interact with the company. Customer finds Apps and company websites more usefully to find information and interact with the company compared to physical stores. Due to digital change, customer feels more and more time pressured and demands fast, one stop customer service experience.

Companies which are succeeding in meeting these digital era customer needs in retail have clear vision of the future of their retail stores. They look outside to change inside, use data efficiently, create engaging customer experience, and integrate physical with digital in unending experiences. They give high attention for their employees' by developing them to face digital era challenges. Their approach to customer service differs much from past: they focus on connections instead of just individual customers. Their customer experience methods are developed by acquiring new technologies, digitized operations, and right people capabilities. They succeed in this all through masterful orchestration of digital resource and research assets.

These companies reach customers through personal approach both face to face and via mobile interface. Their mobile applications and websites go together with their retail experiences and they create an environment where customer is encouraged to share positive experiences. They use their internet channels wider and more extensively, and engage potential customers to a far greater extent than their competitors. They use new technology to enhance their back-end operations and make this technology known for their customers by introducing it to help them with their top frustrations.

Changes of digitalization are already seen in hardware retail. Startups and microenterprises take big risks to adapt fast to customers' digital era expectations. One of them, Malmo Hardware store has succeeded because of its unique offerings, strong community, and owner's human-oriented values and practices. Big market leaders, like Lowe's, use innovative and versatile methods to adapt to digital era challenge's and challenge concepts of hardware retail. In Finland, new and unique hardware retail

services, like Liiteri, have been created. Nevertheless, there is still lot to do in Finnish hardware retail to meet digital era requirements for customer experience.

4. DISCUSSION

As we have learned, customer experience can be defined in many ways. Nevertheless, it's always something that customer feels towards company or company's offerings, which can be witnessed or affected in personal interactions between customer and company. Therefore, it's a sum of multiple experiences which happen in touch points between customer and company. Understanding this is important, when we think about digital era requirements: most of the changes that digital era brings up have effect only to these touch points. Hence, by understanding and creating tools to control what is happening in these touch points, retail companies' can adapt faster to digital era, and find real problems in their retail business.

Many retail companies lack awareness of advantages derived from digital tools and adapt therefore slowly to the competition. They fail to make use of mobile marketing and customer tracking possibilities, and are finding the complexity of new channels daunting. Many of the same companies have difficulties in developing conversations inside the company which leads to bad and slow decision making. It's still pretty common, that no one inside the company takes true responsibility of customer experience. Developing old legacy systems to correspond digital era challenges causes problems for many companies by slowing adaption to market situation. Profusion of customer interaction possibilities is too much for many companies when they are at the same time overhauling their organizational culture for digital era needs.

Today's customer expects that customer experience is satisfactory, individual, experience, which connects company's value proposition and company's offerings functional and emotional benefits with customer's needs. Many of these customer experience demands are same as in digital era. What differs, is customer's expectation to standards of these practices. Digital era customer has much higher standard for company's practices than today's customers. Therefore, before even creating new services and practices for digital era customer, retail companies have to ensure, that the offerings which they are offering today can compete or can be developed to compete in digital era retail environment.

Digital era customer experience in retail is foremost an experience which gives customers something which they can't get via their digital devices. When customer uses digital device, he or she is locked to limitations of his or her device, but when customer uses this device as a part of his or her retail experience, his or her possibilities to interact with the company, and company's possibilities to interact with the customer are enormous. This creates huge opportunities for retail companies to develop new customer experience services and tools. Effective usage of this evolving area of digital retail is one of the central success factors to fulfill digital era customer needs.

When we are reviewing companies that are leaders and laggards of digital era, main reason behind laggard's failure to improve their business is dependence to old practices, tools and ways of thinking. Due to increasing pace of competition, their current way of develop their business to match digital leaders is just not fast enough. What they should do, is to change their practices, tools and ways of thinking quickly as bendable as possible. This can be done by for example by re-imaging company's practices, implement large renewing of existing problematic tools and services, and by training and hiring employees with digital mindset. If this is done successfully, non-digital era retail companies are transformed to digital era retail companies and they have a chance to compete with digital leaders.

Addition to structures inside the company, it's also crucial to develop methods how retail companies' employees and customer's interact with each other. Even thou we have been discussing mainly about how big problems companies have to adapt to digital era, customers have also challenges to keep on with the changes, and evolve their mindset of customer experience. If the basics of digital era technology adoption isn't in place for these parties, retail companies' whole processes to evolve their customer experiences faces many crucial problems.

Last but not least, to implement these actions successfully, retail companies should evolve their vision and goals for customer experience to meet digital era requirements. Approach for customer service and even the definition of the customer is changing dramatically in digital era. Customer experience needs to serve communities, individual customers and possible customers, who can be reached through huge personal networks. They are connected together through complex digital channels, and have lots of differing needs that have to be addressed to keep overall customer satisfaction going strong.

To conclude, when Kesko is developing their customers' customer experience in hardware retail stores, they have huge possibilities to succeed, as long as they concentrate to the presented key requirements. Decision making has to be based on deep understanding of customer experience touch points, and their current offerings have to be able to compete or be developed to future needs. Huge possibilities of digitalization have to be used efficiently to advantage, and practices, tools and ways of thinking have to be bendable. New customer experience technology has to be introduced successfully for both employees and customers, and finally overall business vision and goals have to be developed to resembled digital era customer experience needs.

This thesis has been focusing on wide problems, and has purposely concentrated to provide recommendations without going deeper to actual implementation of these recommendations. From one perspective, this can be seen as a fault, but it's a necessary to keep this study in planned scope. Hence, this opens possibilities to research the topic further in future to learn, how these recommendations can be implemented to Kesko's business, and what kind of effect they have for Kesko's ability to adapt their customer experience to digital era customers' need.

5. CONCLUSIONS

This study aimed to provide deductions from the literature review to help Kesko to develop their customers' customer experiences in hardware retail to adapt its retail hardware business to the changes of digital era. Material for this literature review was mainly gathered from the timely analysis created by famous organization consulting companies, and from the essential research papers considering customer experience, customer expectations and digital era

The first theory chapter presented the key practices and concepts which companies have to address, when they develop customer experience in their retail environments. As a summary of the key customer experience practices and concepts, we can state that customer experience is sum of interactions between customer and company which can be informed only, if it becomes as a company's main goal in everything they do.

After that, we unraveled what kind of expectations customers have for digital era customer experience in retail environment, and how companies are adapting to digital era customer expectation and evolving competition in retail environment. As a result, we found that digital era customers have high standards for customer experience, and want to experience unique, human shopping experience in digital era retail stores. Companies which succeed to meet digital era customer expectations use practices, tools and ways of thinking that can be bended to digital era requirements and have a clear vision of their future retail stores.

In the discussion chapter, the key requirements to which Kesko should concentrate were presented. This considered the deductions that were identified in the previous chapters considering the digital era requirements and basic concepts and practices of customer experience. In addition, the constraints of the study were discussed.

There are still many customer experience research topics that have to be researched, to help hardware retail companies to adapt to digital era. However, the foundation for all the coming changes can and should be created right now in retail companies, if these companies want to continue their retail business successfully in digital era retail environment.

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