

THE SERVICE INNOVATION ON CUSTOMER ADVOCACY AND THE ROLE OF CUSTOMER PERCEIVED VALUE AND WILLINGNESS TO PAY

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Abstract. Innovation is creating something in order to maintain the competitive advantages. Service innovation is an increasingly and important factor in maintaining a company's competitive advantage. This study purpose is to investigate the effect of service innovation on customer advocacy and also to find out the role of customer perceived value and willingness to pay for coffee on demand. The research was done on a start-up company that built an application for the customer to purchase online easily. The sample were collected from the buyer that used the application to purchase the beverages in one store of coffee shop X. The total of 293 respondents participated in this study. This study found that service innovation is not statically significant to customer advocacy, however, it is significantly positive when mediating variable (customer perceived value and willingness to pay) is taken into account.

Keywords: *service innovation, customer perceived value, willingness to pay, customer advocacy, start-up.*

Introduction

Innovation is the *buzz word* that we have heard in our daily life, followed by industrial 4.0. Based on Drain & Schoonhoven (Drazin & Schoonhoven, 1996; Kanter, 1985) on (Johannessen, Olsen, & Lumpkin, 2001) innovation is creating something in order to maintain the competitive advantages. Innovation is considered to be more important to growth than other factors (Tidd, Bessant, & Pavitt, 2005). As we know, competitive advantage is one of the crucial things that company needs.

Companies that emphasize on innovation will try to improve the fit between innovative offerings and customer needs. Previous study about innovation focused on various conditions such as technological innovation, process innovation, service innovation and strategic innovation. (Birkinshaw, Julian ; Hamel, Gary; Mol, 2008).

Service Innovation is the company's ability in gathering information from customers, gain value from it and utilize its knowledge (Srivastava, Fahey, & Christensen, 2001; Yeh, 2016). Service innovation is increasingly an important factor to preserve a company's competitive advantages in service-oriented firms. Service innovations has become a major tool for competition in the market and to boost company's competitive advantage and improving the company's survival (Chen, Wang, Huang, & Shen, 2016; Lay, Schroeter, & Biege, 2009; Maglio & Spohrer, 2008; Tsai & Wang, 2017; Witell et al., 2017)

(University of Cambridge Institute for Manufacturing (IfM) and International Business Machines (IBM), 2008) The goals of service innovation is on technology innovation, business model innovation, social organizational innovation and demand innovation to improve existing service systems (incremental innovation), to propose new value (offerings) or to create new service systems (radical innovation). Service innovation could also arise from new combinations of existing service elements, such as: cell phone, ATMs and ticket kiosks, bar

code, credit instalment payment plans, leasing, creating new design in order to enhance the delivery system and so on (Ngo & O’Cass, 2009; Yeh, 2016)

Internet allows people to do many things such as; working, shopping, learning something new, or even combining the products that they would like to buy. Nowadays, most people like to review a product that they use. The review could be a positive or negative one. They can do it on a specific website such as *Sociolla*, *Female daily*, *Kaskus*, or on their own social media account. New customer will look for the review online to decide whether they will buy the product or they will look for the other substitute. Public opinion is considered as more honest review, hence it shows that internet, adds customer buying power. Nowadays, companies are still prioritizing their customer opinion and asking what they need, by using the old method such as email, telephone or via internet, but it could be avoided by putting the promotion email to junk, unsubscribing the ad, or blocking the telemarketing number.

Based on Urban (2005), (Urban, 2005) three strategies to overcome customer power are 1) strengthen the traditional push/pull model of marketing, (2) reinforce the relationships with customers, or (3) grasp true customer advocacy.

(Urban, 2005) Customer advocacy is based on the interests of customers who provide complete and impartial information, giving advice on which product are best for them (including fair comparisons with competitors), joint design of products, and a partnership that ended up forming long-term loyalty. Advocacy does not mean a communication between companies with their consumers. Rather, if the company advocates the customers’ needs, assuming that customers will reciprocate while maintaining trust, purchasing, and loyalty. It is considered a mutual dialogue and partnership.

(Lacey & Morgan, 2008) Customer advocacy reflects a combination of marketing resources that contribute to a more efficient and effective marketing enterprise, including voluntarily sharing information by customers, company sponsored marketing research, word-of-mouth recommendations, and increases level of current purchasing activities.

Customer value is the satisfaction experienced by the customers in taking a certain actions related to the cost of that action. Low values reduce satisfaction but did not lead to dissatisfaction. (Khan & Khan, 2017)

(Urban, 2004) The strategy for customer to advocate is customers will reciprocate with their trust and purchases. Companies might announce the higher prices for their products or services, because a lot of customers are willing to pay for it. When customers have their trust on the company, they will always inform other people about their experience and it will reduce the companies’ costs for getting a new customers.

Obviously, one of the companies’ goals is to gain much profit. One way to achieve it is by increasing the price. Not every customers willing to pay higher price, so it is important to check rather the willingness to pay affect the role of willingness to pay in service innovation and customer advocacy.

The previous study by (Lacey & Morgan, 2008) stated that authors were unwillingly paid to be reviewed, hence this research enclosed customers willingness to pay as the mediator between service innovation and customer advocacy.

In a service context, advocacy is an important component of consumer loyalty and firmly related to customer retention and consumer willingness to pay more (Fullerton, 2005; Zeithaml, Berry, & A, 1996)

Based on the description above, the researchers are trying to investigate the effect of service innovation on customer advocacy and examine the role of customer perceived value and willingness to pay for coffee on demand of a start-up company, Coffee Shop X, that build an application for the customer to purchase online easily.

Method

This research examined the relationship between service innovation and customer advocacy and the role of customer perceived value and willingness to pay for coffee on demand in start-up company (Coffee Shop X) that build an application for the customer to purchase the beverages easily. The survey was conducted in one of their coffee store in East Jakarta, Indonesia. As mentioned on (Yeh, 2016), the result from other industries (Roy, 2013) and countries will be different. The hypotheses of this study were as follow:

H1: Service innovation affects customer advocacy for coffee on demand in the start-up company.

H2: Service innovation affects customer perceived value for coffee on demand in the start-up company.

H3: Customer Perceived Value has mediating effect on the relationship between service innovation and customer advocacy for coffee on demand in the start-up company.

H4: Service innovation affects willingness to pay for coffee on demand in the start-up company.

H5: Willingness to pay has mediating effect on the relationship between service innovation and customer advocacy for coffee on demand in the start-up company.

The researchers conducted a survey in order to assess customer advocacy on service innovation. The questionnaire was distributed online using email, social media, linked in, WhatsApp group, and mailing list to 400 respondents. The researchers managed to get 239 valid responses after eliminating irrecoverable and invalid responses. The questionnaire was analysed using SEM Lisrel 8.80.

Most of the respondents were female (57 per cent), younger than 30 years of age (46 per cent), and the majority were university graduates (78 per cent).

The data were collected using a four-point Likert scale (1 = strongly disagree and 4 = strongly agree). The respondents were asked to complete the questionnaire and gave their current opinion on each variable. The 14 statements in the questionnaire was structured to measure the 4 constructs in the figure above.

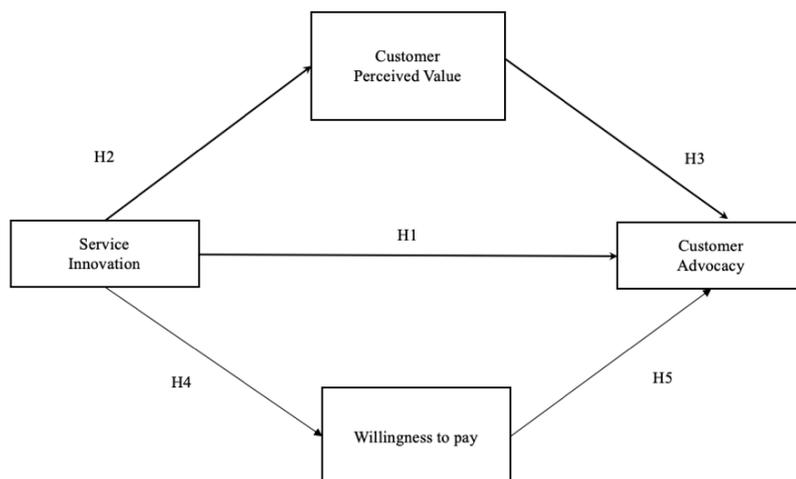


Figure 1 Theoretical Framework

Discussion and Result

Based on the result shown in figure 2, the loading factor in all measurement are considered good, the loading factor in each indicators are >0.5, as mentioned in (Jr et al., 2019) if the loading factor > 0,70 is considered as significant. In addition, the construct reliability (CR) in each variable is also considered good, with the value as follow: service innovation 0.799; customer advocacy 0.803; customer perceived value 0.781; willingness to pay 0.805. Therefore, this ensures excellent reliability. The contents of the questionnaire are based on relevant theories. They refer to the content of the questionnaire in the relevant literature and include the opinions of the scholars. Hence, this study has a considerable degree of content validity.

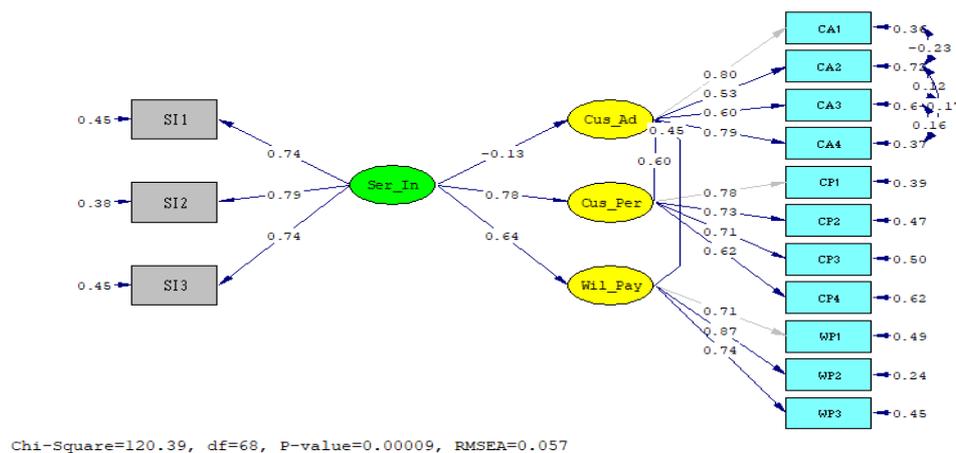


Figure 2 Standardized

The result indicated that the relationship between service innovation and customer advocacy is not significant, as shown in Table 1, t value output for this hypothesis is -0.96 less than -1.96, hence, hypothesis 1 is not supported. This result is inconsistent with the other findings of (Yeh, 2015, 2016). This is a proof that the result in other industries and countries will be different. Not every innovation will have direct impact to customer advocacy. Customer advocacy is the extreme of word of mouth and it could be positive or negative (Afridi, Sajjad Ahmad ; Khan, Wajid ; Bangash, 2019). People will voluntarily promote the products they like or the service that is really helpful for them to smoothen their activity. In this study, the relationship between service innovation and customer advocacy is not significant. Some of the customers might think that they do not really trust the innovation. They also might think that it is inefficient. Future research might add the customer trust as construct between service innovation and customer advocacy.

Service innovation is significantly affect the customer perceived value, it is shown in Table 1 that the t-value is greater than 1.96. The more service innovation is given by the company, the more value that customer will get. Customer perceived value also means that the value for money which customer pay to the company, in this context the coffee shop X. Hence, hypothesis 2 is supported.

Customers might think that they paid for the high quality service or they paid more than what they got. In fact, in the company that sell the product, the customer might be paying only for the product they bought but not the service. Some customers are willing to pay more for the service because they consider it as extra feature. The more we pay, the more we get. The more service is given by the company, the more money should we pay to the company. This rule of thumb is also supported by the result that examine the relationship between service innovation and

willingness to pay. It is shown that service innovation is significantly and positively affect willingness to pay, hence the hypothesis 4 is supported.

Furthermore, the result shows that there is a significant influence between customer perceived value and customer advocacy and there is not significant influence between service innovation and customer advocacy. It is indicating that customer perceived value has a perfectly mediating effect between service innovation and customer advocacy. Hence, hypothesis 3 is supported. Meanwhile (Khan & Khan, 2017) stated that in e-tailer business, the direct relationship between customer perceived value and customer advocacy is not significant.

Willingness to pay acts as the perfect mediator variable because the relationship through the mediator variable is more significant than the direct role of service innovation and customer advocacy, as shown in figure 3. In summary, hypothesis 5 is supported.

Table 1 T- values

	T Values	Relationship
Ser_In -> Cus_Ad	-0.96 < -1.96	Not significant
Ser_In -> Cus_Per	10.10 > 1.96	Positive and significant
Cus_Per -> Cus_Ad	4.86 > 1.96	Positive and significant
Ser_In -> Will_Pay	7.82 > 1.96	Positive and significant
Wil_Pay ->Cus_Ad	5.15 > 1.96	Positive and significant

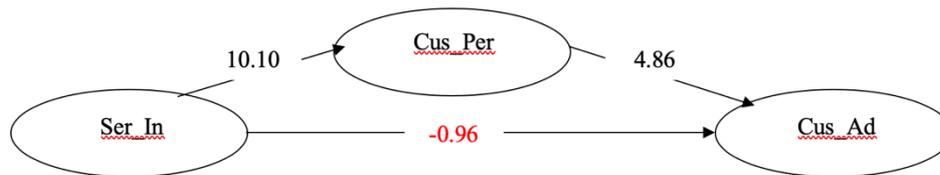


Figure 3 Relationship between Service Innovation and Customer Advocacy through Customer Perceived Value

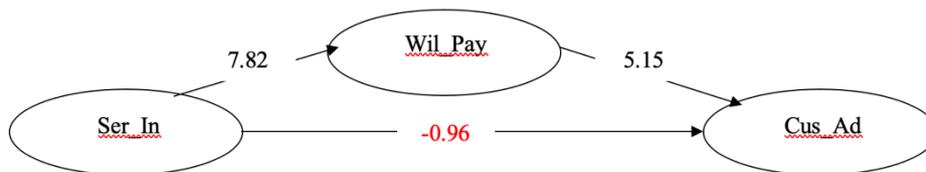


Figure 4 Relationship between Service Innovation and Customer Advocacy through Willingness to pay

Conclusion

The results show a comprehensive theoretical and empirical foundation for understanding the impact of service innovation on customer advocacy and determining the role of customer perceived value and willingness to pay for coffee on demand in the start-up company.

The empirical study found that service innovation in the start-up company for coffee on demand has negative influence on customer advocacy. Additionally, customer perceived value and willingness to pay are the perfect mediators between service innovation and customer advocacy. Thus, if company wants customer to be advocated, they should consider customers’ willingness to pay and customer perceived value for their business.

This study has several limitation that hopefully could be the future research directions. This research tested the hypothesis using a purposive sampling technique. The future study should test a larger number of samples in order to have the full picture. By replicating this study with other firms in a variety of industries, it is expected that it would certainly enhance the generalizability of the results. The future research could focus on the effect of the firm performance including financial performance after the company innovates. In addition, this study examine willingness to pay as the mediating effect on the relationship between service innovation and customer advocacy which have not been explored in the previous research.

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