Consumer Empowerment: What and Why?

Andreas Geyer-Schulz and Lars Meyer-Waarden

The second French-German workshop about Consumer Empowerment took place at the University of Karlsruhe (KIT) between January 10–11, 2013. Within the scope of consumer empowerment scientists discussed recent developments in this field and established cross-disciplinary cooperations in their own fields of research.

Consumer empowerment is deeply rooted in the human dreams and phantasies of a good life: The Jinns in Aladdin and the Enchanted Lamp – one of the most famous stories of One Thousand and One Nights translated by Antoine Galland in 1709 – empower and enable the bearer of the enchanted lamp to fulfill all his wishes and desires (Fulda 1912). But scientists do not believe in Jinns: Today, technological progress has brought this dream to the brink of realization: Internet services as modern Jinns empower and enable consumers to participate in new ways in the design, production, and fulfillment of products and services for their wants. Pierre Teilhard de Chardin’s vision of the future of man (Teilhard de Chardin 1963) rests on the extrapolation of biological and social evolution: he predicts that the human race will evolve and will reach a transhuman stage (ultra human). With the rapid development

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of a technology-driven ubiquitous service system (the Jinns), consumer empowerment adds technological progress as a new dimension to man’s evolution: Even today, service systems give man ultra human capabilities.

Consumer power and empowerment are multi-faceted phenomena. Consumer empowerment is a firm-initiated strategy to increase consumers’ control over their marketing process (co-design, recommendation). This firm-controlled transfer of power results in positive outcomes of consumer collaborations in the form of the firms’ co-designed offer. However, consumer empowerment also might lead to undesired or uncontrolled transfers of power, such that it entails a rejection of intrusion (advertisements, market research) or individual (negative word-of-mouth) or collective actions (boycotts). Yet, these multiple faces are not clearly defined. Furthermore, despite the centrality of consumer power for marketing practice we still struggle to understand the forces behind these phenomena, both theoretically and empirically. A recent survey of these struggles is e.g. [Denegri-Knott et al. 2006].

To start and to understand this paradigm shift we have to look closer to the history and evolution of marketing and management. Originally the autonomous, self-determined, sovereign and empowered consumactor was the anti-consumer – a citizen engaged in fair trade, whose purchase was a citizen act. This led to collective consumerist movements, such as collective boycotts of goods from a company whose business practices are deemed unfair (Friedman, 1996). But this consumactor gently drifted towards a less ethically engaged individual and became a smartshopper in times of crisis (Bearden et al. 1984; Blattberg et al. 1978; Schindler, 1998). These creative agents adopt tactics to counteract the strategic maneuvers of firms, they are not powerless dupes manipulated by marketers (Abercrombie, 1994). The last evolution is that this consumactor expects the brands to offer opportunities to become an “artist” of marketing and design. Today, the consumer claims the role of a creator. Based on this, companies have built marketing strategies which are centered on the power transfer to consumers.

Historically, marketing came to this point, because the centralized, unilateral version of mass marketing and management, as practiced for more than 50 years, had achieved its limits, such that it no longer creates value for either customers or the firm. With the rise of information technologies, a customer who previously seemed recognizable and stereotypi-
tical might today disappear into multiple identities on the Internet which existing marketing logics could not track. Customer relationship management (CRM) and mass customization thus have become crucial (Franke et al., 2009, 2010), but as is common for many innovations, most firms have been guided simply by imitation rather than by a real initiative to differentiate themselves from their competition. CRM thus has marked a beginning of this trend, but has often perverted individualization for purposes of productivity using mass customization and automation too much. The euphoria of marketing academics and managers (e.g. Malone, 1998) thus has given way to disillusionment, along with consumer resistance and decreasing marketing performance indicators, including loyalty and satisfaction (Meyer-Waarden, 2012).

In the meantime, a new marketing paradigm has emerged to empower consumers (Prahalad and Ramaswamy, 2000; Fuchs et al., 2010) through a shift of market power from suppliers to consumers, in connection with the increasing use of information technologies (Malone, 1997). Consumer empowerment is rooted in a background trend: the return to the individual consumer. Marketers have to start from him/her and have to return to him/her – a fact that had been completely neglected for decades by traditional mass marketing.

Consumer empowerment as firm-initiated and controlled transfer of power results in positive outcomes of consumer collaborations in the form of the firms’ co-designed offer with the goal of delivering a higher value at less costs to more customers (Von Hippel et al., 1999; Prahalad and Ramaswamy, 2000; Franke et al., 2009, 2010). Co-production, the lowest stage of empowerment, is an old example where companies seek to appropriate the consumer’s abilities with the only target to reduce costs. IKEA and McDonalds have built their strategies on this principle successfully. Co-creation is the highest level of consumer empowerment. Innovation and product/service creation, traditionally considered the domain of R&D, are there outsourced to consumers. The new challenge, therefore, is giving the consumer the right tools and services to collaborate and – to motivate them to co-create or co-produce value. This change leads to the transformation of CRM from a generator of knowledge about the customer into CRM as the creator of knowledge together with the customer. There are thus a lot of positive outcomes of consumer empowerment. The co-creation of value for the customer might result in value for the company through increased willingness to pay and increased loy-
Consumer empowerment modifies the notion of value, because the consumer determines the value of a product by producing or using it and not through the manufacturer’s production efforts. The consumer also must learn to use and maintain the product, as well as adapt it to his unique needs, situations, or behaviors. This assertion constitutes the point of departure in the evolution of marketing towards a service dominant logic (Vargo and Lusch 2004).

Yet this transfer of power may not be desired or controlled well by firms, especially if consumers are conscious of their power, competencies, and expertise. In this case, consumers may manipulate marketer-intended meanings, engage in negative word of mouth (WOM; Villanueva et al. 2008) or refuse to co-produce or co-create (Franke et al. 2009, 2010). According to Forrester Research (2010), U.S. consumers generate 500 billion WOM impressions of products every year (Bernoff et al. 2010), and they are perceived as more credible than marketing messages. The transfer of power also could lead to destruction, rejection (e.g. consumerist movements, boycotts, avoidance), and, last but not least, resistance to consumption. In summary, marketing implications arising from consumer empowerment can be examined in terms of a process that makes control and management by firms over consumer access increasingly difficult. A rich tradition of criticizing marketing practice as a powerful economic, social institution designed to control and dominate consumers still exists though. Despite the important consequences of such responses, especially in new forms of public spaces (e.g. Internet, collaborative platforms), academic research on consumer empowerment remains scarce in the management science literature.

Due to technology and digital media based service systems – the modern Jinns – this transfer of power has taken place. Without mobile web and web 2.0 this development – the transfer of power to the consumer – would not have happened. More than three decades ago the economic role of these modern Jinns and their impact on competition has been discussed in computer science by Black Ives and Gerard P. Learmonth in their 1984 landmark paper The Information System as a Competitive Weapon (Ives and Learmonth 1984) from an information systems development point of view. The authors describe tactical changes in the information systems of companies which support the strategic aspect of customer/consumer empowerment by enabling customers/consumers to participate in business processes in a different way. The rise of digital media
more than any other media finally allowed this recovery of the relationship in its original sense by the consideration to transfer power to the individual. Digital media transform the brand into a person with which the consumer can initiate a conversation, to develop a real relationship (which was the initial idea and real essence of relationship marketing when the concept appeared first in the academic service marketing research in the 1980ies [Berry, 1983, 1995; Groenroos, 1984; Morgan and Hunt, 1994]. Digital media provide simple, helpful and hedonistic empowerment tools. Crowdsourcing is one of them. There are many other tools. It is interesting to note that empowerment carries two distinct and complementary aspects. The original meaning of empowerment (operate the suggestions of consumers) has been enriched by another dimension, co-creation which is the nirvana of the empowerment process, because the client becomes actor of innovation and the products'/services’ creation process in the firm.

The fine-grained customer/consumer resource life cycle (CRLC) describes the generic model of an integrated business process between customer/consumer and supplier which covers the whole product/service lifecycle: The concept is illustrated by a host of practical examples of IT-enabled changes in process steps and their early adopters. Reread from todays’ perspective, we see that all the changes suggested have become reality, but that the early innovators have not become the new global players.

In the invited lecture Collaborative Consumption: Does Materialism Contribute to Sharing? Christophe Benavent, professor at the university Paris Nanterre, investigated the propensity of the consumer to share products or services with other consumers depending on the product or service category. His motivating example Airbnb (www.airbnb.com) – the leading internet platform for sharing rooms between consumers – is an example of a service which supports the process step Select a Source in the CRLC model.

Benavent’s lecture on Airbnb led to a spirited discussion on the nature of transformative services and it raised the problem of a strategic reorganization of industries and how to analyze the strategic options.

Transformative service research has a very broad research agenda (including the planning, building, and managing of service infrastructures) that relates to and advocates the personal and collective well-being of consumers and societies [Rosenbaum et al, 2011]. A transformative ser-
vice is defined as “a service or a product that centers on creating uplift- ing changes and improvements in the well-being of both individuals and communities” (Ostrom et al. 2010). This research identifies issues related to supporting and enhancing well-being outcomes, which may include among other things, consumer experiences, consumers’ freedom, control and agency, as well as their social networks and services, their happiness, and a mitigation of their vulnerability as consumers.

In the case of Airbnb, the availability of a global intermediation service on a provision base has started to change the tourism industry and also the rental market for apartments in attractive areas. The structural industry changes made possible by Airbnb basically empower and enable consumers to provide almost all accommodation related services of a hotel to other consumers (Amann and Tietz 2013). However, in addition the change also has disruptive social effects: The availability of affordable housing for the working class is considerably reduced and the quality of living for regular inhabitants is negatively affected. In Berlin, about 600 000 guest beds are already offered on such platforms: A black room market is on the rise (Niedermeier 2012).

In his book *Niche Envy: Marketing Discrimination in the Digital Age* (Turow 2006), Joseph Turow analyzes the global advertising industry – another industry undergoing drastic technological change – from a marketing perspective. His analysis shows that marketing communication and its instruments (e.g. product placements, direct selling, guerilla marketing, viral marketing, in-store displays, email, sampling, e-commerce, ...) have become dominant. The changes are technologically driven: Customer information gained from customer profiling leads to customized advertising, content, and pricing. Information technology shows its Janus faces: There is an inevitable trade-off between customer/consumer convenience and well-being and privacy. Trust-building and trust destroying activities hang in a delicate balance.

The analysis of potential changes in industry structures has been a major concern in the development of e-commerce: Schlüter and Shaw (1997) and, applied to the integration patterns in electronic channels, Schlüter-Langdon and Shaw (2002) provide a two-layer/ three-stage framework for the analysis of value chains and value-adding activities of the digital interactive service (DIS) industries. The framework is built from a generic 2-3-6 industry structure (2 layers, 3 stages, 6 sets of core activities) by defining strategic roles on top of the industry structure
for certain scenarios. Christoph Schlueter-Langdon and Michael Shaw have investigated potential structural changes for the following industries: publishing, retailing, financial and travel services. Almost all of the analyzed changes support customer/consumer empowerment and enablement – albeit with a deficit on the marketing side.

Now, let us return to the tale of *Aladdin and the Enchanted Lamp*. We consider the tale as a metaphor for a modern service system: From a system analysis point of view, the Jinns and the Enchanted Lamp form the visible part of the service system, and the service production system the Jinns use is invisible. Rubbing the lamp and ordering the Jinns is an easy to use end-user interface comparable to Apple’s iPhone interface.

Marketers concentrate their research on the visible part: the customers/consumers and their wishes and the various ways of interaction with the service system. The service system itself is considered as a black box. Management information systems specialists and computer scientists, on the other hand, see the service system as a white box and they emphasize the design and the analysis of the interior of the white box according to system requirements specifications.

Communication across the system boundary is severely hampered. We illustrate this communication breakdown and lack of interdisciplinarity by two examples which show the importance of an easy-to-use, reliable, and faultless service system for customer/consumer empowerment:

1. Marketers discovered that out-of-stock situations and delivery problems were a main problem of early e-commerce sites empowering the consumer for home-shopping (e.g. Holloway and Beatty [2003]). However, a root cause analysis is missing in these papers. For a management information system specialist, a glance on the architecture of web-shops reveals that customer/consumer interactions were not properly encapsulated as transactions with ACID-properties (Atomicity, Consistency, Isolation, Durability) over several system components. This type of architecture is still thought to be acceptable in many organizations because of the cost advantages of building only loosely coupled systems without end-to-end transaction concepts and the assumption of system analysts that race conditions are unlikely to occur.

2. The problem of measuring technology acceptance of end-users is an active area of research in computer science, management information
systems research and, last but not least, in marketing. However, the analysis of recent articles in top journals of the three fields (Seiffer, 2013) show three independent clusters of research:


b. In management information systems, most published investigations use the technology acceptance model (TAM). See Davis (1985, 1989) or one of its variants (Venkatesh and Davis, 2000). Recent surveys of the TAM model are given by Chuttur (2009) and Turner et al (2010). As these two reviews show, the link between technology acceptance, actual use of a technology and thus customer empowerment is receiving considerable attention in the management information systems community.

c. In marketing, researchers have proposed a host of different models with different operationalizations of the same latent constructs. As examples of this line of research, we refer to Parasuraman’s Technology Readiness Index (Parasuraman, 2000) and the work of Dabholkar (1991, 1996), and Reinders et al (2008) on the evaluations of consumer self-service options.

Cross-references and an analysis of the overlap and differences between the research work in the three disciplines are missing completely. In the age of the wide (global) availability and electronic dissemination of scientific publications this is both surprising and shocking.

Empowerment, participative and collaborative consumption, co-construction, co-production, co-creation are common denominators of a consumer orientated phenomenon. Regardless of the name, these trends will merge into only one single strategy. Marketers will have to think without borders. They will have to establish a digital strategy. Closed silos with
brand strategies, digital strategies, information system strategies, and, social networking strategies are done and obsolete. An empowered consumer requires to lift the participatory level to the brand strategy and to make digital strategy evolve into a social strategy. The challenge is important because a consumer who is not listened to nor understood, who is not engaged by the brand, who cannot not participate, will be a disinterested consumer whose chances of defection will increase. The individual must be placed into the centre as brands too often tend to forget humans and their well being.

Customer/consumer empowerment and customer/consumer enablement therefore is a fascinating new interdisciplinary research field which requires the seamless integration of research from marketing, management information systems and computer science. We, therefore, focus in our investigations on these and other related issues in order to stimulate further considerations and research.

The 16 contributions in this book (listed alphabetically by author) focus on customer empowerment and have been presented at the 2nd French-German Workshop Customer/Consumer Empowerment (KIT, Karlsruhe, 10th-11th January, 2013). They give a snapshot of the work in progress in the emerging field customer/consumer empowerment of a group of 29 French-German researchers in Marketing, Computer Science and Management Information Systems:

1. In the contribution The Long-term Impact of Sales Promotions on Customer Equity Herbert Castéran and Lars Meyer-Waarden study the long term effects of sales promotions by integrating promotion-related explanatory variables into stochastic consumer behavior models. The introduction of explanatory variables considerably improves the model quality. Finally, the positive or negative impact of promotions on customer equity depends on brands (national/private label) and promotion types (monetary/non-monetary).
2. Sihem Dekhili and Chantal Connan Guesquière discuss the very controversial issue of transferring the power of price setting to the consumer in their contribution The “Pay What You Want” Pricing Policy: Power Sharing or Communication Action?.
3. Rewarding a customer with an elevated status based on repeat-purchases or spending level is a classic incentive in hierarchical loyalty programs. But what happens if firms offer customers an elevated
status who have not earned it? In their contribution *How Profound Is the Allure of Endowed Status in Hierarchical Loyalty Programs?* Andreas Eggert, Ina Garnefeld and Lena Steinhoff report on experimental evidence on the bright and the dark sides of status endowment.

4. Andreas Geyer-Schulz and Michael Ovelgönne’s contribution *Recent Advances in Modularity Optimization and Their Application in Retailing* reports on the algorithmic progress in graph-clustering and its potential for customer empowerment and enablement in several types of retail applications.

5. The customer as a co-producer and his willingness to pay is investigated in a series of innovative experiments (mainly with regard to transferability and degree of co-production activities) by Nicola Bilstein, Jens Hogreve, Christina Sichtmann and René Fahr. In their contribution *Paying for a higher Workload? The Relation between Customer’s Co-Production and Willingness to Pay* they present their findings.

6. Martin Klarmann and Johannes Habel investigate the link between downsizing and customer satisfaction and its moderators in their contribution *Mass Layoffs: When and How Do They Affect Customer Satisfaction?*. They combine data from the American Customer Satisfaction Index with data from Compustat and survey data.

7. The contribution *Complaint Management and the Role of Relationship Quality* by Lars Meyer-Waarden and William Sabadie reports on the respondents’ reactions to a compensation activity selected from a set of 8 compensation scenarios. The authors find that the nature of compensation as well as its value and the way it is communicated strongly depend on the customer type.

8. In their contribution *Customer-to-Customer Interactions within Online Review Sites: A Typology of Contributors* Andreas Munzel and Werner H. Kunz study the motivation of consumers with regard to eWOM. Based on a survey of eWOM activities and motives, they identify three types of consumers of a hotel online review site, namely lurkers, creators, and multipliers.

9. In the paper *Converting Opinion Seekers in Opinion Givers in the Tourism Industry: Building Trust Is Critical!* Gilles N’Goala and Caroline Morrongiello investigate which antecedents are relevant for consumer participation and engagement on the Web 2.0. The main con-
tribution is that most tourists want to help their companies/resorts and that the perceived sincerity of online reviews has a large impact on participation and engagement.

10. The contribution *How Web 2.0 Tools Impact The Museum-Visitor Relationship* by Jessie Pallud explores the changes in the relationship between museums and their visitors caused and made possible by social media. The reason for this development is the need for museums to adopt a competitive strategy in order to cope with competition from other leisure and entertainment activities and with budget reductions by governments.

11. Daria Plotkina, Andreas Munzel return to the origin of the word-of-mouth effect: Customers spread their positive experiences with new products by chatting in their social environment. In their contribution *What's New With You! On the Moderating Effect of Product Novelty on eWOM Effectiveness* they propose an experimental framework based on a between-subject factorial design to study the effect of product novelty.

12. Claire Roederer and Marc Filser outline a research agenda for investigating the cyber-experience of various types Internet-based consumer interactions (including co-production and co-creation) in their article *e-Voicing an Opinion on a Brand - A Research Agenda*.

13. In the *The Contribution of Gratitude to Satisfaction Models for Complaining Customers* Françoise Simon, Chantal Connan Guesquière and Vesselina Tossan investigate the effects of gratitude and transactional satisfaction on purchase intent and word-of-mouth in a complaint situation. They find that while transactional satisfaction has an impact on word-of-mouth, gratitude impacts purchase intent.

14. Andreas Sonnenbichler discusses the problems of consumer privacy, empowerment and enablement on Facebook by considering an appropriate access control model. In his contribution *Social Access Control* he analyzes the current Facebook access control model and identifies four classes of users with different requirements for access control. He introduces the Access Definition and Query Language (ADQL) and suggests this language as a tool for modeling and implementing personalized access control in Facebook.

15. Loyalty programs have boomed in recent years. However, these marketing tools almost never were profitable. The contribution *Understanding the Effectiveness of Loyalty Programs* by Lena Steinhoff and
Robert W. Palmatier provides a new framework that links gratitude, status, and fairness with customer loyalty and profitability. Their framework separates the measurement of direct effects on customers receiving loyalty program rewards from the measurement of indirect effects on customers not receiving rewards.

16. In their contribution *Lead-users vs. Emergent Nature Consumers for Marketing Co-creation: Are They Really Different?* Eric Vernette and Linda Hamdi-Kidar assess the similarity and differences of the latent constructs lead-user and emergent nature consumer. They conduct a web-based questionnaire survey of French video-game players and their main finding is that a refinement of the concept of lead-user into a global lead-user and a specific lead-user is possible and that the concept of a global lead-user is highly related with the concept of an emergent nature consumer in the sense that both concepts share similar traits.
We hope that you will enjoy these first insights of our research about con-
sumer empowerment. Other workshops about the topic will follow and
will be published. The next workshop will be co-organised on May 13th
and 14th, 2014 by EM-Strasbourg Business School (Humanis) and the
Institute of Informationsdienste und elektronische Märkte – KIT at the
University of Montpellier. Finally, the editors of this book are very in-
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We hope that the presented volume will find interested readers and
that it encourages further research about emerging consumer behaviors
and company strategies such as empowerment.

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References


