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## The Coffee Shop New Retail Business Model

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### Abstract

New retail is an innovative business model combining online and offline (O2O) shopping experiences (Alibaba Group, 2018) and is discovering how to adapt to the digital transformation. Several factors that could affect consumer experience when shopping online include ease of accessing and using the web, Hedonic and Utilitarian Features, Convenience, personalization, social interaction, and compatibility on various devices. The study aims to measure the relationship between the new retail business model dimension: customer, convenience, and communication to customer experience. This research identifies the factors that influence the customer experience in the new retail business model; three hypotheses were built in this study, then tested. The quantitative approach uses a partial least square (PLS) application to obtain the data and measure the impact of each dimension on the new retail concept. The population in this study is Starbucks consumers who have used all online-offline channels and are living in Bandung West Java. Based on the research objectives, the conclusion from the research results is the establishment of a model that represents the relationship between consumer variables, convenience, communication, and customer experience. Based on the model validation results, consumers and communication are the factors that influence the customer experience in coffee shops online and offline in the new retail concept. The communication variable is the most significant variable that directly affects the customer experience.

**Keywords:** *New Retail; Business Model; Customer Experience; 4C Theory; The Coffee Shop*



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## INTRODUCTION

The retail business needs to change the concept to survive by changing its business model. Several new concepts have been successfully applied in some countries such as Thailand, combining retail stores with tourists or Singapore; opening a retail store between offices and settlements (Ekarina, 2018). Therefore in 2019, it started the concept of a new business model that will support its business growth. This business model is called "new retail." New retail is an innovative business model combining online and offline (O2O) shopping experiences (Alibaba Group, 2018) and is discovering how to adapt to the digital transformation. This opinion aligns with Zhang, Liang, and Yin (2018), stating that "new retail" requires technological assistance. Although a theoretical definition of "new retail" does not yet exist, it can be defined as "Modes of retail centered on consumers by relying on advanced technology; Big Data and Artificial Intelligence to improve production, circulation, and sales processes in the retail ecosystem."

Due to the dynamic environment where the company must innovate, the concept is also crucial for the coffee shop retail industry because the changes in this industry are speedy (Ferreira & Ferreira, 2018), such as Starbucks. This retail coffee shop has more than 3000 outlets worldwide and is experimenting with different types of stores (physical stores and online stores). Starbucks continues to improve the appearance of its digital store to provide a better experience for

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consumers (Bhattacharyya, 2019). Starbucks merchants are also available in online motorcycle taxi service providers in Indonesia, Go Food and Grab Food, and adopted a new retail business model.

Zhang, Liang, and Yin (2018) state that there are four main components in the new retail business model, which include the 4Cs theory: Customer, Cost, Convenience, and Communication plus Context (distribution channels), types of goods, where new retail is a pattern that is more consumer-oriented and pays attention to and reconstructs the relationship between customers, interests, and the marketing context. Positive customer experiences when using the product can build a positive image for the company and increase the chances of consumers becoming loyal customers. According to Nasermoadeli, Ling, and Maghnati (2013), customer experience is when consumers get a particular sensation or knowledge from various levels of interaction between various elements created during the service process. The sensations and knowledge that are felt will automatically be stored in the consumer's memory. Based on the study of Bilgihan et al. (2016), several factors that could affect consumer experience when shopping online include ease of accessing and using the web, Hedonic and Utilitarian Features, Convenience, and personalization, social interaction, and compatibility on various devices. Thorfiani et al. (2021) also find that e-commerce technology and platform could affect the customer experience.

## LITERATURE REVIEW

Alibaba has implemented a business model innovation named a new retail business model (NRBM) in response to those issues. New retail is a concept first proposed by Jack Ma, founder of Alibaba Group, in 2016; it is an innovative business model that combines online and offline (O2O) shopping experiences (Alibaba Group, 2018), which will help retail stores adapt to the digital era. However, another opinion states that the new retail concept is not 100% unique because the British Department Store has already implemented omnichannel innovation. Nike has also opened a flagship store, using data-driven hybrid digital/physical technology and connected to the Nike App to improve customer satisfaction (Bird, 2018). Although it is not 100% new, the widespread and concurrent use of the concept in the Alibaba Group is an essential part of the return to traditional retail business with digitalization.

Previous research stated that to generate, strengthen and maintain customer loyalty, companies must understand the concept of customer experience and apply it systematically (Mascarenhas et al., 2006). According to Nasermoadeli, Ling, and Maghnati (2013), customer experience is when consumers get a particular sensation or knowledge from various levels of interaction between various elements created during the service process. The sensations and knowledge that are felt will automatically be stored in the consumer's memory. The most significant difference between new and traditional retail is the prominence of the consumer-oriented nature. Thus the consumer-centric 4C theory (Customer, Cost, Convenience, and Communication) is more consistent with an analysis of new retail (Zhang et al., 2018).

Customer is the core of marketing. In new retail, customers' need is the primary concern of companies when they produce goods and make supply plan (Zhang et al., 2018). The company must understand and create value that suits the customers' needs, providing more than just products and services but more customer value. Currently, most retailers offer the same online store display interface and offline shopping process for all users (Zhang et al., 2018); but in fact, customer are living in different environments with different personality traits and hobbies, and the diversification of income and the multi-level distribution of age further determine the complicated

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features of customer. Customer buying behavior is more complicated than expected (Peltola, 2015; Heitz-Sphan, 2013). From a company's point of view, customers can switch erratically between channels (online and offline) and even between companies depending on their buying process needs. Data analysis is based on the customer buying behavior and customer experiences from various physical or digital interaction channels. (Online and offline) help trailer companies make straightforward portraits of each customer.

H1. The is a significant relationship between customer buying behavior and customer experience.

New retail should pay attention to convenience variables (Zhang et al., 2018). Convenience (CV) is the capability to use anything without problem (Shah et al., 2021), keep up with the rhythm of modern customer lifestyle, and solve the problem of spending too much time shopping (Zhang et al., 2018). In the online channel, convenience offers choices to compare product prices from different restaurants, allows customers to avoid wasting time at restaurants, and prevents situations like car parking and traffic (wang et al., 2019; He et al., 2019; Yeo et al., 2017). Technology helps enterprises to carry out daily business activities conveniently and quickly.

H2. There is a significant relationship between convenience and customer experience.

Customer communication emphasizes the participation and interaction of customers in the whole process. In the process of participating in the interaction, the transmission of information and emotional contact is realized due to the increase in applied information and communication technology (ICT) to provide added value to the customer. In the internet era, communication can be carried out in two directions, delivered personally, and reaches an extensive range of consumers. Through the internet, frequent and effective two-way communication can be established to tell customers just how much the retailer wants to satisfy them.

H3. There is a significant relationship between communication and customer experience.

## RESEARCH METHOD

This research was conducted using a survey method through an e-questionnaire as a research instrument. The measurement instruments in this study were prepared by adopting or adapting measurement items in the literature related to the constructs used in this study. The measurement items that make up the new retail business model consist of constructs of the customer, convenience, and communication. The measurement items built for each construct are then used as the basis for the question items in the questionnaire. The questionnaire designed in this study consisted of three parts: the opening section, the respondent's personal information section, and the core section containing statement items related to the constructs in the research model. All question items in this section are assessed using the Likert scale (1-6). After the research instrument was prepared, the next step was the data collection process.

The data collection and testing stage is divided into two stages: preliminary studies and primary studies. The preliminary studies to collect preliminary data were used to test the validity and reliability of the research questionnaire. The primary studies were used to measure the research model. Data was collected using the convenience sampling method. The respondents used

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in this study were Starbucks consumers who made purchases at offline stores and online stores domiciled in the city of Bandung.

The preliminary studies have a sample of 30 respondents based on the assumption of data adequacy. The questionnaires are distributed within one month, in August 2021. The primary studies were collected over two months (September – October 2021). the data that has been collected is then processed using the Partial Least Square (PLS) approach. Data processing is carried out to find answers regarding the formulation of the problems that have been compiled. If the data processing results have been obtained, then conclusions can be drawn.

## FINDINGS AND DISCUSSION

The data was collected in preliminary testing of the measurement instruments used before the primary data collection. Suppose the measurement instrument passes the validity and reliability test. In that case, the instrument can be used for primary data collection. However, if it does not pass the validity and reliability test, it is necessary to improve the measurement instrument. The initial validity and reliability are calculated using SPSS 20 (Sugiyono, 2018). Based on the data calculation, t value > 0.361 (t table), which shows that the data is valid and reliable, as indicated by Cronbach's alpha value, is reliable if  $r > 0.6$ , and it is obtained that  $r_x = 0.837$  and  $r_y = 0.885$ , which means  $r > 0.6$ . Based on the validity and reliability testing results, all measurement instruments are proven to be valid and reliable and can be used for primary data collection in primary data collection. Primary data collection amounted to 107 questionnaires, but the data that can be used in the measurement are 71 questionnaires that match the criteria. Respondents' recapitulation data from primary data collection can be seen in Table 1.

Table 1. Recapitulation of Respondent Profiles

Profile	Criteria	Percentage
<b>Gender</b>	Women	50.7%
	Men	49.3%
<b>Age</b>	< 20 y.o	7.04%
	20-30 y.o	36.62%
	30-40 y.o	43.66%
	40-50 y.o	4.23%
	>50 y.o	8.45%
<b>Monthly Income</b>	<Rp 3.000.000,-	29.58%
	Rp 3.000.000,- sd Rp 5.000.000,-	14.08%
	Rp 5.000.000,- sd Rp 10.000.000,-	40.85%
	>Rp 10.000.000,-	15.49%
<b>Buying Frequency/month</b>	< 3	83.10%
	3 -5	14.08%
	> 5	2.82%
<b>Offline Channel</b>	Coffee Houses	39.4%
	Stores	71.8%
	Outlets	38%
<b>Online Channel</b>	Starbuck Mobile App	19.7%
	Go Food	64.8%
	Grab Food	53.5%

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After the data is collected, the next step is the data processing stage. Data processing was using the Partial Least Square (PLS) approach. The R2 value of the model is 0.578, which indicates that 57,8% of the total variation in customer experience can be explained by three independent variables (customer, convenience, and communication) and indicates that the influence of the independent variable is robust (Kock, 2014:2). Figure 1 illustrates the overview of the model in this study.

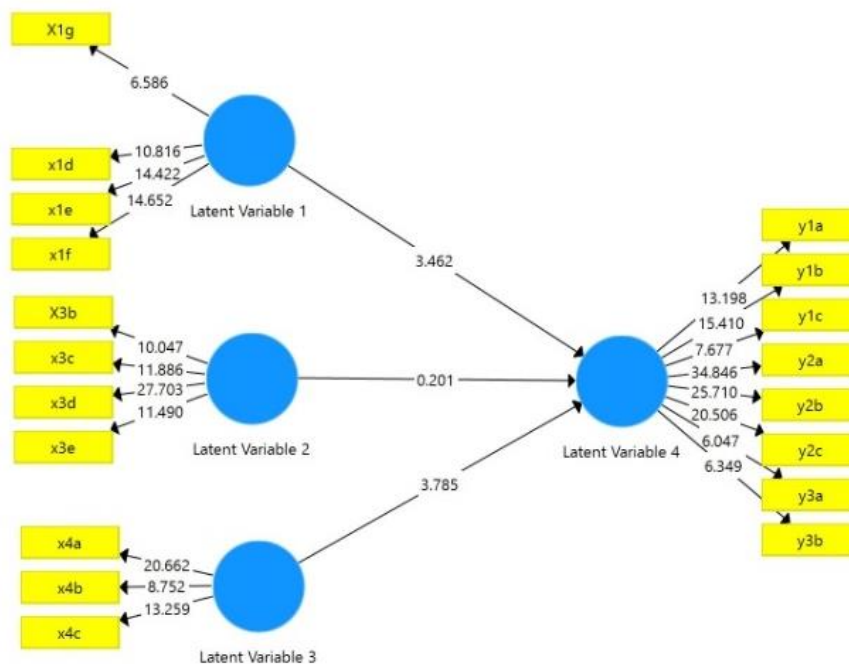


Figure 1. Overview of The Model

The results conclude that all three hypotheses were supported at the 5% significance level ( $\alpha = 5\%$ ). The finding of this study shows that the communication variable has the most substantial and most positive impact on a coffee shop's customer experience (3,785). The hypothesis of the path relationship between communication  $\rightarrow$  and customer experience is statistically significant (P-Value  $< 0.001$ ), so the hypothesis is accepted. Communication has the most significant p-value, indicating that communication dramatically influences the customer experience. The result shows that there is interactive two-way communication both online and offline. Enhancing online and offline two-way communication with customers about customer experience makes new retail coffee shops more competitive. Customer communication emphasizes the participation and interaction of customers in the whole process (Zhang et al., 2018). In this interaction, the transmission of information and emotional contact is realized, and the customer reviews products and services.

The consumer variable has the second substantial and most positive impact on customer experience (3.462). The hypothesis of the path relationship between consumers'  $\rightarrow$  customer experience is statistically significant (P-Value  $< 0.001$ ) to accept the hypothesis. It shows that the consumer location factor, the products offered to follow consumers' wishes, characteristics, and

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needs. The results also show that the information provided about products and services follows consumer needs, and consumers have sensitivity to discounts and sales promotions.

The convenience variable has the weakest impact on customer experience (0.201). The hypothesis of the path relationship between convenience → customer experience is not statistically significant (P-Value = 0.841), so the hypothesis is not accepted. This shows that consumer experiences related to consumers are free to choose sales channels according to their needs, and the easy transaction processes both online and offline in purchasing products in coffee shops are not good enough. It is necessary to improve pre-sales, sales, and after-sales service on every online and offline (O2O) channel so that consumers can get a pleasant experience. Convenience includes improving the consumer experience.

### CONCLUSION & FURTHER RESEARCH

The study proves that the New Retail Business Model (NRBM) aligns with consumer expectations. New Retail Business Model (NRBM) dimensions: Customer and Communication positively impact customer experience. Based on the research objectives, the conclusion from the research results is the establishment of a model that represents the relationship between consumer variables, convenience, communication, and customer experience. Based on the results of this study, it was found that the communication, consumer, and convenience variables could explain customer experience well. However, the convenience variable showed an insignificant p-value. Researchers are advised to explore information and find more profound evidence related to the influence of convenience variables on consumer satisfaction for future research, as shown in previous studies.

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