



Experiential Marketing to Increase Net Marketing Contribution Margin (NMCM) through Customer Value

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ABSTRACT

Objective – Experiential Marketing may have a positive effect on both the formation of customer value and in the generation of profits for a company.

Methodology/Technique – This study examines the calculation of the Net Marketing Contribution Margin (NMCM) in achieving a company's return. The survey shows an increase in total business income in 2014 by IDR 3.59 trillion, and in 2015 by IDR 3.8 trillion. However, the scheduled passenger income has decreased by 20.61%.

Findings – The findings show that the ratio of promotions, tickets, and sales expenses to the total number of sales fluctuated between 2009 and 2015. This is contrary to the revenue generated through Experiential Marketing, which continued to increase from year to year.

Novelty – The study shows that, without a strong communication strategy, a company may not be able to reach its full potential.

Type of Paper: Empirical.

Keywords: Customer Value; Experiential Marketing; Net Marketing Contribution Margin (NMCM); Marketing Communication.

JEL Classification: M30, M31, M39.

1. Introduction

Assessing the success of a company in terms of profits obtained is achieved by calculating each selling activity. This can assist in identifying which sale activity contributes to the generation of the most significant amount of income for the company. This assessment can be carried out in several ways, one of which includes calculating the Net Marketing Contribution Margin (NMCM). Having a clear marketing strategy is essential for success in the ever changing business environment.

* Paper Info: Revised: August 5, 2017
Accepted: December 14, 2017

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However, the profit obtained from experiential marketing will heavily depend on the level of customer value of the company.

2. Literature Review

The main focus of marketing strategies is to effectively allocate and coordinate marketing resources and activities, to achieve the company's objectives in a certain market. Therefore, the scope of marketing strategy is used to determine the target market for certain products or lines. Moreover, companies use marketing strategies to obtain a competitive advantage over their competitors (Walker and Mullins, 2014: 10).

2.1 Experiential Marketing

Experiential marketing refers to the process of identifying and achieving customer satisfaction (Smilansky, 2009: 9). The International Experiential Marketing Association (2011) states that experiential marketing enables customers to be involved and interact with brands, products, and services in a sensory way. Experiential marketing is a process of attracting customers through providing in-depth experience on a product or brand (Adeosun and Ganiyu, 2012). Experiential marketing focuses on using six senses (smell, vision, taste, touch, hearing and balance) to build emotional attachment with brands. The stimuli from these senses trigger customer's motivation and needs, and drive consumers to buy products for the sake of achieving the marketing objectives (Wang, Chang and Lin, 2014). Experiential marketing is becoming increasingly useful, because it involves satisfying both companies and consumers (Srivastava, 2008).

Purchasing decisions do not have an immediate effect on the brands themselves, however, companies often take part in various promotional activities, such as offering price discounts, to influence the purchasing decisions of consumers (Clow and Baack, 2014:352). Arone and Vasconcelos (2009) explain that experiential marketing is how a company manages and creates the best possible experience for consumers when experiencing their brand. In a period of industrial growth, marketing strategies such as event marketing and experiential marketing were becoming more common among companies in 2015 (79%) compared to 2014 (21%).

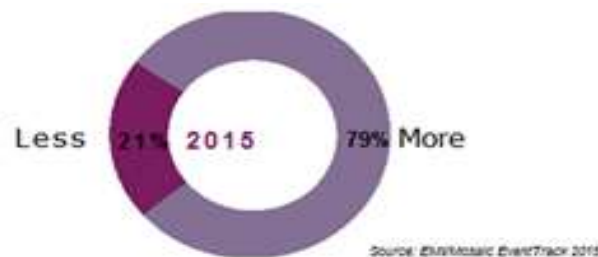


Figure 2.1 The use of event marketing and experiential marketing in 2015

Source: EMI/Mosaic Event Track, 2015

2.2 Net Marketing Contribution Margin

The contribution margin related to marketing activities can be calculated using the Net Marketing Contribution Margin (NMCM).

NMCM covers the operating expenses of a business and even makes profit. The use of NMCM as a profitability measurement enables marketing managers to be more prepared in evaluating the favorable impact of their marketing strategies (Best, 2004: 38). Based on this, Best (2009: 505-506) has designed a concept of NMCM with the following market considerations and profitable growth:

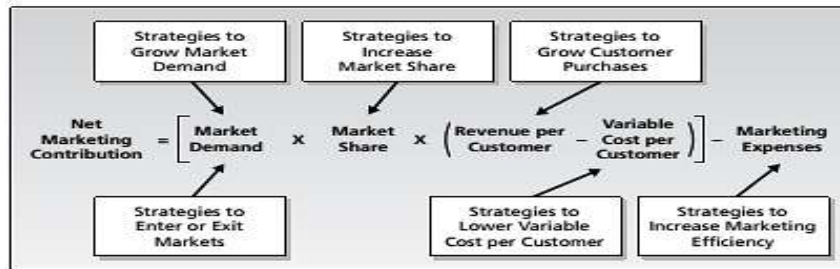


Figure 2.3 NMC Based on Market-Based Strategies and Profitable Growth

Source: Best (2009)

2.3 Customer Value

The principle of customer value oriented marketing is that a company should invest a large portion of its resources into marketing to customers for value development. Through creating customer value, a company can increase their returns (Kotler and Armstrong, 2014: 618-619). Customers have different perceptions on the value they obtain from a brand. In most cases, the level of customer value is directly related to a company's level of engagement with marketing strategies (McDonald and Wilson, 2011:16). The proposition of customer value describes the approaches a company takes to satisfy its customer's needs and wants, particularly with reference to the price paid for their products (Thompson, Peteraf, et al., 2014: 10). In the 21th century, marketing orientation applies to most economic sectors all over the world, including the conference industry. This has resulted in the significant influence that customer's needs and wants have on the marketing strategies of companies that is experienced today (Davidson and Rogers, 2007: 18). Customer value is created when the perceived benefits received from the transaction exceeds the ownership cost incurred (Yamamoto, 2014). The value that customers perceive they are obtaining is the difference between the customer's prospective evaluation of the benefits and costs incurred, as well as the alternative benefits perceived (Kotler and Keller, 2012: 80).

2.4 Marketing Communication

Market communication focuses on the message that a company is aiming to deliver to its customers (for example, the credibility and trustworthiness of their products) and the technical information used to induce a positive evaluation of the brand by its' customers (Funk, 2008: 158). To determine the effectiveness of market communication, it is necessary to identify the target market, determine the goals of the communication, design the message the company wants to convey, choose the media that will be used to deliver the message, and establish a method of obtaining feedback from the message (Kotler and Armstrong, 2014: 435).

Market communication refers to communication through messages and media related to the market. Market communication is divided into two types: above the line (ATL) and below the line (BTL) (Vana and Cerna, 2011). For example, strategic changes within a company must be communicated to all teams within the company (Wheelen, et al., 2015: 322). Marketing communication is one of the marketing strategies used by companies to achieve their desired targets.

3. Research Methods

This study uses an exploratory method to obtain data for goals which have been predetermined. This involves describing the phenomenon that is the research object, and explaining the relationship between the variables. A descriptive analysis technique was used, and most of the data was obtained from the financial

data of the observed object. The data was then processed using a simple technique. The unit of analysis in this study is PT, Garuda Indonesia, Tbk., in the implementation of GATF in 2015. The unit of observation is the consumers that attended the event, and the management members involved in the marketing and finance activities of the company. This unit of observation also indicates other research indicators that should be measured in order to support the data obtained. Based on the indicator of each variable studied, secondary data was obtained using two techniques: field research and library research.

4. Discussion

Experiential marketing may help an organization enhance the experience of their consumers (Same and Larimo, 2012), as well as encourage consumers to participate in product development (Jain and Lohia, 2014). This develops a level of emotional attachment through the influence that these process have on consumers' six senses during the event, resulting in a long term relationship with the brand that can be maintained (Masterman and Wood, 2005: 217-218).

This study focuses on PT. Garuda Indonesia, Tbk., as this company is the biggest aviation service company in Indonesia. In 2014, PT. Garuda Indonesia, Tbk. became the only Indonesian airline to win the World Airline Awards. Therefore, with good market communication and revenue, Garuda Indonesia should be able to generate good NMCM from every marketing activity it does.

The data obtained from Garuda Indonesia's financial reports on NMCM generated as a whole, can be seen in the following figure:



Source: Data processed, 2017 (Annual Report Garuda Indonesia, 2009-2015)

The above graph shows that the NMCM generated has consistently increased between 2008 to 2015. However, the net profit before tax fluctuated, and in 2014 it decreased significantly, causing a loss of more than IDR 4.2 trillion. However, conditions improved in 2015, and the net profits grew positively, reaching IDR 983.27 billion. Although Garuda Indonesia's NMCM consistently increases, the index of NMCM growth shows a significant decline. The above graph shows that the index of NMCM growth significantly decreases from 37.38% to 7.18% in 2014 and again in 2015 to 6.92%. This indicates that some marketing activities of PT. Garuda have not generated optimum results.

4.1 The Influence of EXM on NMCM through CV

The calculation of the experiential marketing hypothesis shows that its influence on net marketing contribution margin is high. The structural model of the influence of EXM on NMCM through CV is shown below:

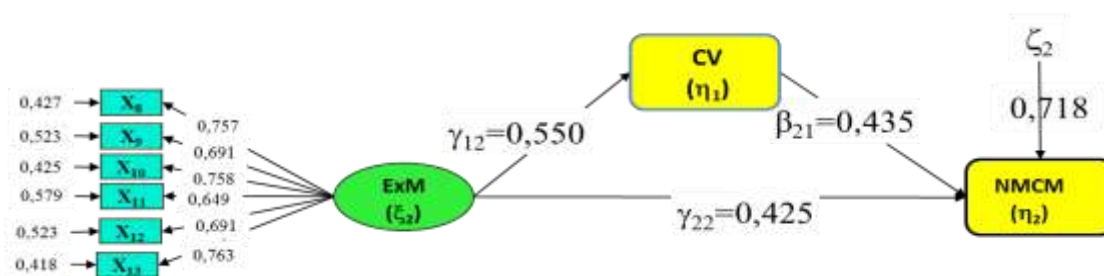


Figure 4.2: Structural Model of the Influence of EXM(ξ2) on NMCM (η2) through CV(η1)
 Source: Statistical Data, processed, 2017

Based on the statistical calculation in the hypothetical test, the influence of experiential marketing on the net marketing contribution margin through customer value is summarized in the following table:

Table 4.1
 (t Test) The Influence of EXM on NMCM through CV

Hypothesis	Coefficient	T _{calculation}	p	T _{critical}	Decision	Remarks
$\gamma_{12} \times \beta_{31} = 0$	0.239	5.375	0.000	1.96	H ₀ is rejected	Significant

Source: Statistical Data, processed, 2017

Based on this calculation, the value of t_{calculation} for experiential marketing is 5.375. The statistical value of the t-test obtained is in the area resulted in a t_{calculation} that is bigger than t_{critical} = 1.96 (t_{calculation} = 5.375 > 1.96) and the value of significance (p) = 0.000 < 0.05. This means that H₀ is rejected.

However, the influence of experiential marketing on the net marketing contribution margin through customer value is (0.555 × 0.435 × 0.425 × 100%) = 10.3%. Thus, experiential marketing influences the net marketing contribution margin indirectly through customer value, as much as 10.3% where no other variable taken into account.

5. Conclusion

Previous researchers such as Alkilani, Ling and Abzakh (2013); Natasha and Kristanti (2013); Adeosun and Ganiyu (2012); Sharma and Sharma (2011); Rahardja and Anandya (2010); Nigam (2011) and Utami (2009) agree that experiential marketing is a key method of building market communication that provides consumers with new and memorable experiences, by emphasizing their senses, such as feel, think, act and relate, to influence their decision to buy a product. With the absence of a direct influence of predictor (experiential marketing) on the criterion (NMCM), it can be said that customer value has a mediatory influence on experiential marketing.

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