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Salesperson CLV orientation's effect on performance ☆

Leslier Valenzuela *, Eduardo Torres, Pedro Hidalgo, Pablo Farías

Business School, Universidad de Chile, Santiago, Chile

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ABSTRACT

Previous studies show how strategies based on the customer lifetime value (CLV) can lead to an increase of profitability for a firm. In this context, marketing serves the purpose of maximizing CLV and customer equity (the CLV of current and future customers). For most types of service firms, salespeople are direct participants in implementing the CLV concept. However, prior research does not answer the question of whether or how salesperson CLV orientation can enhance profits. Using data on salespeople in a large Chilean retail bank, this study shows that the effect of salesperson CLV orientation on salesperson performance follows an S-shaped function (which is first convex and then concave). Additionally, data does not support the idea that the optimum level of CLV orientation depends on salesperson customer orientation, salesperson adaptive selling behavior, or salesperson experience (i.e., CLV-oriented behaviors could be effective across a wide range of salespeople). As such, this study addresses an important concern among researchers and managers that is related to how to increase the salesperson performance. The findings of this study suggest that firms need to monitor individual salesperson CLV orientation more closely.

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1. Introduction

Prior research shows how strategies based on the customer lifetime value (CLV) can lead to increased profitability for a firm (e.g., Kumar, Venkatesan, Bohling, & Beckmann, 2008; Rust, Lemon, & Zeithaml, 2004). CLV is generally defined as the present value of all future profits obtained from a customer over the life of his or her relationship with a firm (Gupta et al., 2006). In this context, marketing serves the purpose of maximizing CLV and customer equity (the CLV of current and future customers). CLV focuses on long-term profit rather than short-term profit or market share. Therefore, maximizing CLV is effectively maximizing the long-run profitability and financial health of a firm (Berger et al., 2002; Gupta & Zeithaml, 2006). Gupta, Lehmann, and Stuart (2004) use data from five firms to show that CLV provides a good proxy for firm value. Kumar (2006) shows that CLV is highly correlated with firm value using a longitudinal analysis of a firm's data.

Customer equity management brings together value management, brand management, and relationship management (Vogel, Evanschitzky, & Ramaseshan, 2008). Since the early 1980s, the concept of relationship marketing gained an increase in acceptance in the field of general marketing (Berger & Bechwati, 2001). Customer relationship management (CRM) is a cross-functional organizational process that focuses on establishing, maintaining, and enhancing long-term relationships with high-value customers (McNaughton, Osborne, Morgan, & Kutwaroo, 2001; Parvatiyar & Sheth, 2001; Payne & Frow, 2005). Major CRM activities include customer interaction management (e.g., identification, acquisition, and retention), customer relationship upgrading (e.g., cross-selling, up-selling), and customer relationship win-back (i.e., reestablishing relationships with lost but high-value customers) (Keane & Wang, 1995; Parvatiyar & Sheth, 2001; Reinartz, Krafft, & Hoyer, 2004; Wang & Feng, 2012). Several studies of CRM reveal that many firms failed to effectively deploy and manage their CRM programs (e.g., Boulding, Staelin, Ehret, & Johnston, 2005; Reinartz et al., 2004). Firms spend billions of dollars on CRM, but approximately 70% of CRM projects fail to achieve expected performance (Reinartz et al., 2004).

The effectiveness of CRM activities depends on how CRM is integrated with the firm's existing processes and structures (Boulding et al., 2005). For most types of service firms, salespeople are direct participants in implementing the CRM process and the CLV concept. CRM technology tools are designed to assist salespeople and their firm to meet objectives in managing CLV and customer equity (Hunter & Perreault, 2006). CRM programs help salespeople identify and target their high-value customers as pressures mount to make more effective and efficient use of resources to achieve firm goals (Yim, Anderson, & Swaminathan, 2004).

Studies examining approaches used by firms to manage customer portfolios as a key asset show that the emphasis is on the CLV (e.g., Hogan, Lemon, & Rust, 2002; Kumar, Lemon, & Parasuraman, 2006; Reinartz & Kumar, 2003; Reinartz, Thomas, & Kumar, 2005; Rust et al., 2004; Shah, Rust, Parasuraman, Staelin, & Day, 2006; Venkatesan & Kumar, 2004). Firms that adopt the CLV concept work to build customer equity and firm value. These organizations see themselves as focused on

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* Corresponding author.
E-mail addresses: lvalenzuela@unegocios.cl (L. Valenzuela), eduardot@unegocios.cl (E. Torres), phidalgo@unegocios.cl (P. Hidalgo), pfarias@fen.uchile.cl (P. Farías).

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acquiring and serving high-value customers (a CLV orientation) by conducting business activities that enhance customer equity. A modern CLV-oriented management style considers the relationship with a customer to be an investment. Consequently, it requires that salesperson's customer-related activities to be structured with respect to the CLV (Gupta & Zeithaml, 2006). However, prior research does not answer the question of whether or how salesperson CLV orientation can enhance profits. This study uses data on the salespeople of a large Chilean retail bank to address this question. The retail banking industry demonstrates a high degree of sophistication in their customer engagement activities. In this sense, this industry offers an ideal context in which to understand the effect of salesperson CLV orientation on performance.

2. Conceptual framework

This study links salesperson CLV orientation to salesperson performance. Fig. 1 presents an overview of the resulting conceptual framework, which includes salesperson customer orientation, salesperson adaptive selling behavior, and salesperson experience as control variables.

2.1. Antecedents of salesperson performance

As an outcome, salesperson performance is defined as the financial result of a salesperson's sales activities (Oliver & Anderson, 1994). Understanding the characteristics of effective salespeople is a long-standing goal of managers and researchers. Therefore, identifying useful predictors proves helpful in selecting, training, and managing salespeople. Two characteristics of salespeople that are the focus of prominent research streams in sales force research are salesperson adaptive selling behavior and salesperson customer orientation. Franke and Park (2006) combine findings from 155 samples of more than 31,000 salespeople to test alternative models of antecedents and consequences of adaptive selling behavior and customer orientation. They conclude that adaptive selling behavior and selling experience increases self-rated, manager-rated, and objective measures of performance. At the same time, they found no strong evidence in support of a positive effect of salesperson customer orientation on salesperson performance.

Saxe and Weitz (1982) introduce the concept of salesperson customer orientation (also called salesperson relationship orientation; see Mallin & Pullins, 2009) to the marketing literature to oppose the prevalent selling orientation of many salespeople. A high level of customer orientation reflects a high level of concern for the customer's long-term needs, while a low level of customer orientation reflects a selfish concern for the achievement of short-term sales objectives (Cross, Brashear, Rigdon, & Bellenger, 2007). Customer-oriented behaviors, such as identifying customer needs and adapting the offer, are key elements in building relationships (Palmatier, Scheer, & Steenkamp, 2007). Customer orientation is found to affect customer attitudes (e.g., Brady & Cronin, 2001; Goff, Boles, Bellenger, & Stojack, 1997). However, in their comprehensive meta-analysis on outcomes of salesperson customer orientation, Franke and Park (2006) find no strong evidence in support of a positive effect of salesperson customer orientation on salesperson performance. Recently, Homburg, Müller, and Klarmann (2011) consider nonlinear (quadratic) relationships between both constructs to show that approximately 30% of salespeople exhibit customer orientation levels that are higher than the optimum (i.e., the linear term of customer orientation is positive and the quadratic term of customer orientation is negative). Homburg et al. (2011) suggest that customer-oriented behaviors are particularly effective in creating value if they help customers satisfy their core needs. Beyond that, increases in customer orientation add less value for the customer.

Adaptive selling behavior is the altering of sales behaviors during a customer interaction or across customer interactions based on perceived information about the nature of the selling situation. Salespeople are extremely adaptive when they use unique sales presentations for each customer and also alter their behavior during an interaction (Weitz, Sujan, & Sujan, 1986). Accordingly, research largely concludes that adaptive selling behavior improves salesperson performance regardless of the circumstances (Franke & Park, 2006).

Salesperson experience includes knowledge of the firm's products and/or services on one hand and procedural knowledge on the other. Experience gives salespeople the opportunity to encounter a wider variety of selling situations, develop a broader repertoire of selling

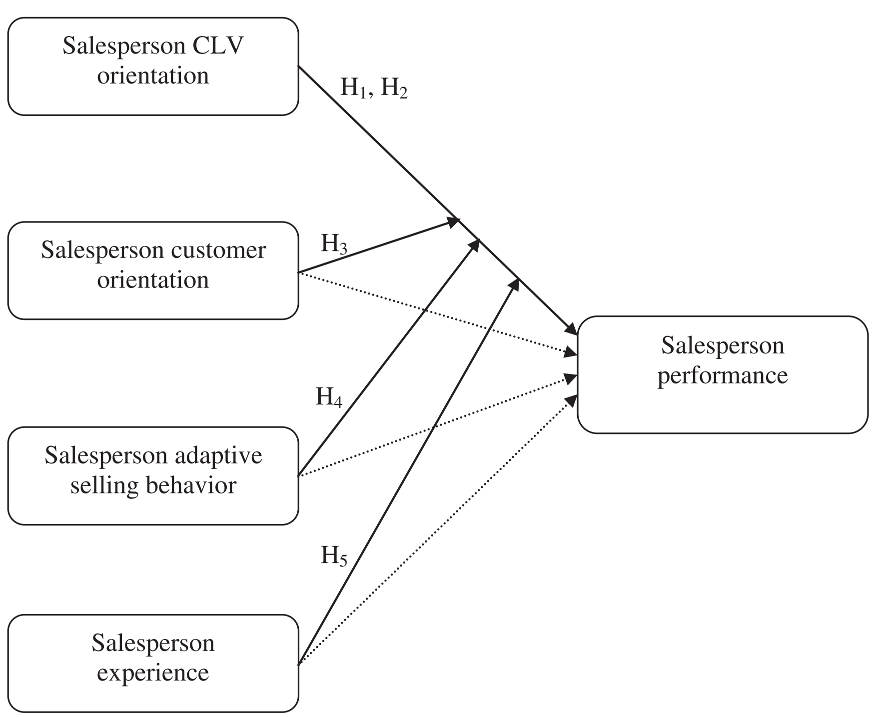

Fig. 1. Conceptual framework.

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