Journal of Business Research xxx (2016) xxx–xxx

Contents lists available at ScienceDirect

Journal of Business Research

Customer equity and value management of global brands: Bridging theory and practice from financial and marketing perspectives: Introduction to a *Journal of Business Research* Special Section

C. Anthony Di Benedetto [a,*], Kyung Hoon Kim [b]

[a] *Temple University, USA*
[b] *Changwon National University, Republic of Korea*

ARTICLE INFO

Article history:
Received 1 January 2015
Received in revised form 1 March 2015
Accepted 1 March 2015
Available online xxxx

ABSTRACT

Academics and practitioners show much interest in the topic of customer value management (CVM): using customer level data to drive customer behavior and customer acquisition and retention decisions in order to optimize the total value of current and future customers. With the incredible growth in data availability and data analytic capabilities, CVM is now a reality for many firms who use it to implement and extend their customer relationship management (CRM) programs. This Special Section gathers several state-of-the-art research studies on CVM, providing a statement of our theoretical knowledge of this topic at this time as well as a foundation to guide future CVM research studies.

© 2016 Published by Elsevier Inc.

1. Introduction

Customer value management (CVM) is "the optimization of the value of a company's customer base, [focusing] on the analysis of individual data on prospects and customers…[which] is used to acquire and retain customers and to drive customer behavior with marketing strategies such that the value of all current and future customers is optimized" (Verhoef & Lemon, 2011). As such, CVM is based in customer relationship management (CRM), and uses many of the same metrics such as trust and commitment. But, unlike CRM, CVM also specifically obtains and analyzes customer data and uses this data analysis to find the optimal ways to increase customer value. Recent years bear witness to growth in customer database technology and software, as well as in the ability to obtain real-time customer data. Therefore an increasing number of firms have invested in CVM, and it has drawn the attention of marketing academics as well (e.g., Franke & Von Hippel, 2003; Islam & Rahman, 2016; Kim, 2015; Kim, Ko, Lee, Mattila, & Kim, 2014; Sinha & DeSarbo, 1998; Sun, Kim, & Kim, 2014).

Marketing scholars Philip Kotler and Kevin Lane Keller define customer lifetime value, or CLV, as the "net present value of the stream of future profits expected over the customer's lifetime purchases" (Kotler & Keller, 2009, pp. 64–67). This is not only important to assess, but also encourages companies to build and maintain relationships with their customers. Briefly put, it is always much less expensive to retain a customer than to incur customer acquisition costs to replace a lost customer.

Consider a simple example. A customer buys about $1000 of products from a company every year, at about a 25% profit margin. Losing this customer five years from now, because of one bad encounter with service personnel, means foregoing $250 profit every year from year 6 and beyond, at the current net present value. While this is a sizeable loss, the actual loss sustained by the company is probably larger, for several reasons. (1) A loyal customer is likely to increase his purchases from the company through time, so that $1000 revenue would have increased through time. (2) It requires less effort to maintain a loyal customer (less promotional outlay is required to keep him loyal), so that 25% profit margin would have greatly increased. (3) A total unknown is how much bad word of mouth is spread by the dissatisfied customer. If he tells a few friends about the bad service encounter (or worse, posts it on social media), who knows what the total net future loss of revenues and profits would be? Even this simple example clearly illustrates why firms are willing to invest heavily in customer relationship management (CRM) programs! Of course, some of this expenditure goes to train service employees, who are the "face" of the company and can strongly influence whether the customer has a positive or negative experience. Another consideration is how to try to win back lost customers, and what programs are most effective in converting bad word of mouth into good. From the company's perspective, these additional expenses are more than compensated for by the lifetime value of good customers.

A consideration in CRM is that not all customers have the same value. For example, the price paid by customers is an important driver of value, and ultimately of customer satisfaction (Daniels, 2000). In

* Corresponding author.
E-mail addresses: tonyd@temple.edu (C.A. Di Benedetto), stride@changwon.ac.kr (K.H. Kim).

http://dx.doi.org/10.1016/j.jbusres.2015.03.048
0148-2963/© 2016 Published by Elsevier Inc.

Please cite this article as: Di Benedetto, C.A., & Kim, K.H., Customer equity and value management of global brands: Bridging theory and practice from financial and marketing perspectives: Int..., *Journal of Business Research* (2016), http://dx.doi.org/10.1016/j.jbusres.2015.03.048

ARTICLE IN PRESS

order to implement a CRM program effectively, one would have to categorize customers in terms of their CLV and the expected net present value from their profit stream. Once this is done, more financial and human resources can be devoted to the customers with the highest value. Products and services, as well as promotional messages, can even be personalized to match the needs of the most valuable customers. It is easy to see that it requires skill in data analytics to conduct the required analyses correctly and accurately. While the value in this procedure is clear, it is only recently that CVM has hit its stride: the data analytic capability exists to determine customer lifetime values, expected profit streams, and what CRM programs are most likely to get a lost customer to reconsider and become a valued and loyal customer once again.

One industry that has made great use of CVM is the consumer credit industry, and credit giants like Capital One are among the leading exponents of CVM practice (Verhoef & Lemon, 2011). Clearly, assessing a customer's profitability is a point of interest. Banks are sometimes unpleasantly surprised to learn how many of their customers are actually unprofitable — one estimate puts this number at over 45% (Niraj, Gupta, & Narasimhan, 2001). A recent study of CVM in the consumer credit industry suggests that, while managers understand the concepts of customer management and customer value, they may not be able to fully exploit these concepts to their advantage (Stirling, 2000). In order to improve decision-making, a data-driven methodology is essential for assessing CVM throughout the customer's life cycle.

To deliver high value to the customer, the firm must also consider the value of the company's goods and services to the customer; that is, consider two complementary perspectives on CVM (Evans, 2002). Assessment of customer perceived value in a product or service offering requires continuous monitoring of customers, as well as continuously updating and improving the product. It has been noted that both sides of the equation (value of the offering to the customer as well as value of the customer to the company) need to be considered to ensure that both parties gain the most value from the relationship (Evans, 2002).

Several recent studies in the product literature examine value creation and customers' willingness to pay. For example, in a series of research studies (Franke & Piller, 2004; Franke & Schreier, 2010; Franke, Schreier, & Kaiser, 2010; Franke & Von Hippel, 2003), it has been shown that using toolkits for user innovation can increase value creation and willingness to pay for consumer items such as scarves and watches (that is, consumers would have a higher perceived value, and would be willing to pay a price premium, to get a product they designed themselves rather than one "off the rack"). Nevertheless, they caution that the user toolkits used in these studies were simple and fun exercises resulting in relatively inexpensive consumer products; the willingness to pay an increased price may not be observed in cases of complex B2B toolkits that require much effort to learn to use correctly (Franke & Schreier, 2010).

In sum, companies have used CRM techniques for years and understand the value of getting close to the customer. With the data availability and data analytic methodologies available today, managers can attach real numbers, at the individual customer level, to make decisions that affect customer perceived value and customer retention at an increasingly granular level, and continuously refine their efforts so as to optimize the total value incurred from all current and future customers. This is the essence of good CVM practice.

2. In this Special Section

Fourteen articles appear in this JBR Special Section. This Special Section explores various aspects of customer equity and customer value management from numerous perspectives. The objectives are twofold. First, the papers should present the very best on an emerging research topic, written by the best experienced authors and also young scholars, representing the newest trends and identifying the most pressing questions for future research. Second, for young researchers working in that area, the Special Section should serve as a starting reference point for research for years to come; it should become the "go-to" source for anyone doing serious research in this area. This collection of articles accomplishes the first as well as the second objective, and is designed to be a useful reference for future research in customer equity and value management.

2.1. Customer value anticipation, product innovativeness, and customer lifetime value: the moderating role of advertising strategy

Hao Zhang, Xiaoning Liang, and Shiquan Wang explore the relationship between customer value anticipation, product innovativeness, and customer lifetime value, focusing on customer perceptions of customer value anticipation and its influence on purchase attitudes and behaviors toward new products. They make an important contribution to the literature which, at this point, has not deeply investigated the effects of product innovativeness on customer equity or the impact of advertising strategy on customer lifetime value.

2.2. Antecedents of loyalty point redemption: implications for customer equity management

This study of loyalty point redemption was conducted by Joon Ho Hwang, Jaiho Chung, Jae Wook Kim, Dongwon Lee, and Weon Sang Yoo. Many firms have turned to loyalty points to boost customer retention, but few studies have investigated the factors that determine redemption behavior. The authors examine several demographic characteristics of member customers, as well as the transaction channel used (online versus offline). They find that younger customers are more likely to redeem than accumulate points, and that online channels play a moderating role in this relationship. An advanced understanding of redemption behavior can help firms improve their customer equity management initiatives.

2.3. A cross validation of consumer-based brand equity models: driving customer equity in retail brands

Sertaç Çifci, Yuksel Ekinci, Georgina Whyatt, Arnold Japutra, Sebastian Molinillo, and Haytham Siala examined the concept of consumer-based brand equity (CBBE). CBBE is an important driver of competitive advantage since it provides customer equity, brand differentiation, and brand performance, so a solid understanding of CBBE is important to managers seeking to achieve brand success. They compare two existing models of CBBE applied to retailing, one by Yoo and Donthu (2001) and one by Nam, Ekinci, and Whyatt (2011). They also add brand awareness to the Nam et al. (2011) model to increase psychometric properties and model performance.

Empathy can increase customer equity related to pro-social brands

Eun-Ju Lee examines how corporate social responsibility (CSR) programs can increase customer empathy, thus reducing price sensitivity and supporting customer equity. The results of this study show that customer willingness to pay was increased for pro-social products, and a follow-up neuromarketing study provide evidence of the existence of the emotional empathy response to CSR messages.

2.4. The dynamic effect of customer equity across firm growth: the case of small and medium-sized online retailers

The authors of this study (Tae Ho Song, Sang Yong Kim, and Ji Yoon Kim) study the dynamic effect of customer equity on firm performance. They gather online sales data at the individual level to investigate the relationship between customer equity and firm profitability, finding only a weak relationship between the two. This unexpected finding is resolved by taking dynamic firm life-cycle effects into account: at early

Please cite this article as: Di Benedetto, C.A., & Kim, K.H., Customer equity and value management of global brands: Bridging theory and practice from financial and marketing perspectives: Int..., *Journal of Business Research* (2016), http://dx.doi.org/10.1016/j.jbusres.2015.03.048

Download English Version:

https://daneshyari.com/en/article/10492545

Download Persian Version:

https://daneshyari.com/article/10492545

Daneshyari.com