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# Customer value anticipation, product innovativeness, and customer lifetime value: The moderating role of advertising strategy

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## ABSTRACT

Customers are regarded as the key intangible assets of a firm. Therefore, it is necessary for firms to have the capability to anticipate customer value. The study investigates the relationships among customer value anticipation, product innovativeness, and customer lifetime value from the customer's perspective. Empirical evidence from 178 MBA students shows that customer perceived customer value anticipation can significantly influence product innovativeness and the relationship is partially mediated by product innovativeness. In addition, both functional and emotional advertising are found to play a moderating role in the relationship between product innovativeness and customer lifetime value. The paper concludes with a discussion of the theoretical and managerial implications of the empirical study.

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## 1. Introduction

In today's highly competitive market, customers are regarded as the key intangible assets of a firm (Bayon, Gutsche & Bauer, 2002; Gupta & Zeithaml, 2006). To help manage customer assets effectively and nurture customers' loyal behaviours, marketing scholars, such as Blattberg and Deighton (1996) and Rust, Lemon and Zeithaml (2004), propose the concept of customer equity and address the importance of customer equity in predicting firm's long-term performance. Customer equity usually has been defined as the sum of the lifetime values of the firm's current and future customers (Hanssens et al., 2009). Thus, managing individual customer and maximizing his/her lifetime value is the key to increase customer equity. A substantial body of literature which discusses the drivers of customer lifetime value (CLV) already exists (e.g. Marshall, 2010; Venkatesan & Kumar, 2004). However, several limitations exist.

First, a highly market-orientated firm is supposed to spend resources and attention on tracking market trends as well as monitoring customers' dynamic needs. Thus, the ability to anticipate customer value is critical for firms. Following Flint, Blocker and Boutin's (2011) definition, this paper defines customer value anticipation (CVA) as the firm's ability to sense, foresee, and anticipate what specific customers will value from its offerings. CVA is an anticipation and prediction process from the firm's perspective. But from the customer's perspective,

he/she also has feelings or perceptions about the firm's ability to anticipate his/her need (Flint, Blocker, & Boutin, 2011). However, limited research has focussed on how customers' perceptions of marketers' customer value anticipation influence their attitudes or purchase behaviours, especially under a new product development context.

Second, product innovativeness is a key concept in the innovation literature, which refers to the degree of newness and novelty of the product (Akgun et al., 2007; Cillo et al., 2010; Su et al., 2013). It has been widely acknowledged that product innovativeness generates the growth of firms by increasing sales revenue and creating re-purchase opportunities (Butner & Wilterding, 2006). However, what is less clear is a holistic investigation on the effects of product innovativeness on customer equity from customer behaviour perspectives (Hertenstein & Platt, 1997; Zhang, Ko & Lee, 2013).

Third, recent research indicates that different customer value communication activities/strategies (through marketing campaigns) may jointly influence customer value and firm value (Srinivasan et al., 2009). Among marketing communication strategies, the advertising support can lead to more prosperous outcomes of firm performance (e.g., relative higher prices and customer loyalty). However, whether the advertising support also enhances new product performance is still unclear. Therefore, the research on the impacts of different advertising strategies on the relationship between product innovativeness and customer lifetime value is worthwhile.

Therefore, this study is an initial attempt to address the gaps in the existing literature. It is designed to test a conceptual model that examines the relationship among customer value anticipation, product

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innovativeness and CLV. We also integrate the prior studies of advertising support and product innovation to test the impacts of different advertising strategies on innovation–CLV linkage. From the theoretical background, this study will contribute to recent research in product innovation management and customer relationship management. From the managerial standpoint, this study provides guidelines for firms to implement value communication activities, and to maintain and increase their customer value.

## 2. Literature review and hypotheses design

### 2.1. Customer value anticipation

Firms should have the ability to anticipate customers' potential value (Narver et al., 2004). As introduced in the Introduction, customer value anticipation refers to “a supplier's ability to look ahead at what specific customers will value from supplier relationships including their product and service offerings and the benefits they create given the monetary and non-monetary sacrifices that must be made to obtain those offering benefits” (Flint, Blocker & Boutin, 2011, p. 219). From the firm's perspective, it is not only a process for anticipation, but also a process for predicting the outcomes of the product offerings. The marketing department may take in charge of this process, and anticipate the outcomes throughout the whole process of new product development. In order to increase the effectiveness of the anticipation process, firms should pay more attention on their future (Yadav, Prabhu & Chandy, 2007), and involve customers in the new product development process (Ulwick, 2002). The prediction process may guide the new product development and service offerings to facilitate customer value creation. But this study does not focus on firms' customer value anticipation activities per se, but rather focus on customers' perceptions of those CVA activities from their own perspective.

In the consumer purchasing literature, purchase decisions are usually made based on the evaluation of products or services. In the evaluation process, customers have expectations before they go out searching for products and/or services. Although customer expectations may be influenced by numerous factors (Zeithaml et al., 1993), one of the most dominant factors is their expectation on firms' anticipation activities. To be specific, customers are expecting that firms anticipate their needs and desires, even if sometimes they themselves cannot. But when customers have more knowledge about the product categories and consumption experiences, they will be capable of recognizing whether and to what extent their suppliers have an anticipation capability. Especially in the twenty first century, customers can obtain new product related information through the internet or social media, even before firms launch their new products. For example, after Apple launches five generations of Iphone, customers already have a feeling about how good Apple is at anticipating customers' dynamic needs. This special feeling about the target brand can influence customers' attitudes toward the new products.

### 2.2. Product innovativeness

To obtain sustainable competitive advantages, firms have to introduce innovative products or services regularly and continuously (Fallah & Lechler, 2008). One indicator of the success of new products is the product innovativeness (Ahlstrom, 2010). The product innovativeness can help firms to distinguish themselves from competitors and build competitive advantages (Ahlstrom, 2010; Jai & Tung, 2015; Seebode et al., 2012). Researchers note that sometimes all customers care about is how and what is new about an innovative product, so they may have strong feelings and perceptions about the product innovativeness (Phau et al., 2015; Zhang, Ko & Lee, 2013). Due to its impact on consumer behaviors and attitudes, the product innovativeness has gained more attention in the customer-related literature (Athanasopoulos, 2000).

### 2.3. Customer lifetime value

Customer lifetime value (CLV) has been defined as “the present value of the future cash flows attributed to the customer relationship” (Farris et al., 2006, p. 143). It is a financial measure that assesses customer prospecting and firm value (Blattberg, Kim & Neslin, 2008), which has been widely accepted as a metric to measure customer performance in the customer relationship management (CRM) field (Venkatesan & Kumar, 2004).

There are two main methods of calculating CLV: (1) the simple retention model, and (2) the Markov migration model (Berger & Nasr, 1998; Blattberg, Kim & Neslin, 2008; Stahl et al., 2012). Compared to the retention model which assumes that customer acquisition and retention is a stable process, the migration model maintains that some customers may temporarily defect-skip purchases for a period or two- and then resume purchasing after the switching period. The migration model addresses the move-in and move-out behaviours of customers (Stahl et al., 2012), therefore, a new dimension of CLV – acquisition rates – is included in the Markov migration model to help explicate the movement of customers' purchasing behaviours. The Markov migration model has been widely accepted and used in a substantial portion of studies (Rust et al., 2004; Venkatesan & Kumar, 2004). Drawn on the existing literature, this study also tends to use the Markov migration model to calculate customer lifetime value.

### 2.4. Hypotheses design

#### 2.4.1. The relationship between CVA and product innovativeness

From the firm's perspective, new product development process is a process that includes the detection, the development, and the deployment of new products (Yadav, Prabhu & Chandy, 2007). Detection refers to the identification of new technology and recognition of customer value. This is the process in which customer value anticipation capability works to explore potential customer needs and generate new knowledge. From customers' perspective, perceptions on customer value anticipation are usually generated before customer knowing the new products. Therefore, a higher level of customer perceived value anticipation may increase customers' perception on the product innovativeness.

**H1.** Perceived customer value anticipation positively affects consumers' perception on product innovativeness.

#### 2.4.2. The relationship between product innovativeness and CLV

Innovation may affect both financial (e.g., Blundell, Griffith, and Reenen, 1999; Sorescu & Spanjol, 2008) and non-financial performance of a firm (e.g., Nasution & Mavondo, 2008; Zhang, Ko, & Lee, 2013). Studies have also proved that the more innovative the new product is, the more profit the company gets (Song & Montoya-Weiss, 1998). Kleinschmidt and Cooper (1991) report that compared to the moderately innovative products, the highly innovative products have higher success rates and can lead to a higher level of return on investment. Zhang, Ko and Lee (2013) finds that the degree of product innovation can positively influence the antecedents of customer equity (value equity, relationship equity and brand equity). In other words, the higher the degree of innovation is, the better customer equity will be.

**H2.** Consumers' perception on product innovativeness positively affects customer lifetime value.

### 2.5. The moderating effects of advertising strategy

Advertising is firms' attempt to influence the purchasing behaviours of their customers or clients by providing persuasive selling messages about the products and/or services (Pihl, 2013). Over the years, studies on advertising demonstrate that advertising strategies affect consumer

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