CUSTOMER EQUITY MANAGEMENT THROUGH CUSTOMER ENGAGEMENT: A CRITICAL REVIEW

Darina PAVLOVA[*]

Abstract

The current trends in business processes call for companies to operate in a highly competitive environment. Part of the changes observed is the increased focus on customer retention. The management of customer relations and the retention and expansion of the customer base are among the main tasks of any business. The concept of customer equity management provides opportunities for fulfilment of these tasks, but also monitors the financial well-being of the company. All this necessitates its implementation by businesses.The ability to preserve and manage the company's customer base is the application of the customer equity concept. This paper presents the opportunities for managing and increasing the value of customer equity through customer engagement. The research carried out tries to unify the conceptual framework of customer equity with the process of customer engagement resulting in the development of an integrated conceptual framework. Based on the proposed conceptual framework, the author draws the attention of managers not only to the analyses of the profitability from customers, but also to engagement of the entire customer base, regardless of its financial contribution to the well-being of the company. As a result, the intangible benefits from customers are regarded as an opportunity to increase the company's customer equity.

Keywords: *Customer Equity, Customer Engagement, CLV, Customer Equity Managemen, Brand.*

1. Introduction

The current trends in the development of the economy lead to substantial changes in the marketing approaches adopted by businesses. Recent decades have seen a shift from product to consumer-focused marketing. Already in 1996 the community was presented with the concept of customer equity, which has been established as the leading philosophy of marketers. At its core "customer equity" is seen as the total of the discounted lifetime values of the company's customers. This definition has different aspects, and depending on the scope of customers the authors may be placed inti two groups. The first one (Blattberg, Deighton (1996), Hanssens, Rust, Srivastava (2009)) define customer equity as the sum of discounted lifetime values of the existing customers of the company; the second group (Rust, Lemon (2004), Gupta, Zeithaml (2006), Leone (2006), Vogel, Evanschitzky, Ramaseshan (2008), Blattberg, Getz, Thomas (2001)) believe that customer equity should include the future customers of the company. As a concept, customer equity management studies and creates opportunities to retain the company's customers and increase the cash flows they generate in the long run. This, in turn, ensures the operation and prosperity of companies in the market. The fierce competition and the rapid adoption and imitation of products requires businesses to treat their customers in a special way so as to retain them, given that competitive advantages based on product features alone do not last long. In this regard, the management of customer relations and the retention and expansion of the customer base are among the main tasks of any business. The concept of customer equity management provides opportunities for fulfilment of these tasks, but also monitors the financial well-being of the company. All this necessitates its implementation by businesses.

On the other hand, the dynamics of changes in the market and in consumer needs and perceptions, accompanied by the rapid development of new technologies, have caused the emergence of the concept of customer engagement. Customer engagement is about creating a connection between the brand and the consumers. Customer engagement is the way the company creates relationships with its customer base, in order to encourage loyalty and brand awareness. This can be achieved through marketing campaigns, regular publications on the company's website, and promotion of the brand through social media and mobile and portable devices.

In this regard, of special importance is the integration of new consumer-centric marketing approaches, in particular customer engagement in the context of customer equity management. This is based on the inextricable link between customer engagement and the financial benefits it brings in the long-term, expressed by the value of customer equity.

This paper aims to present the fundamental importance of the concept of customer equity management for businesses, and to propose a conceptual model which integrates the new paradigm for customer engagement and could contribute to and further developed the theoretical achievements in the field of customer equity.

[*] Chief Assist. Professor, PhD, Marketing Department, "University of Economics - Varna", Bulgaria (e-mail: darina.pavlova@ue-varna.bg)

2.Content

2.1. Customer Equity Management

Customer Equity Management as a concept requires a clarification of the term customer equity. Here above we presented two sets of views on this matter, from which we can summarize, that the main emphasis is on the value that customers generate in the course of their relationship with the company. The key difference in these views lies in the scope of customers. Customer equity is expressed either as a result of the relationships only with existing customers or as a result of relationships with both existing and future customers. In this regard, the author places the focus on existing customers and proposes a definition of customer equity, which draws from the views presented above and further develops and supplements them:

Customer equity is the value expression of current and future relationships with existing customers, which generate tangible and intangible benefits for the organization.

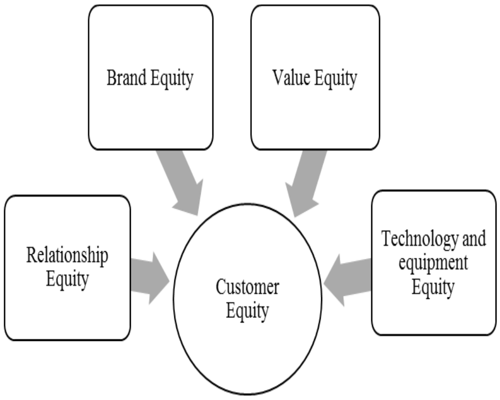
This definition is essential for the purposes of this paper, as the conceptual model developed for customer equity management aims to increase not only the tangible but also the intangible benefits for the company.

Central for the concept of customer equity is the assumption that customers are a major source of revenue for businesses. With this in mind, the focus is on the successful market performance of the company by maintaining effective relationships with its customer base in the long term. Guidance for establishing, maintaining and maximizing the benefits of these relationships is provided by the concept of customer equity. This concept may be presented as an innovative approach to retaining and acquiring customers, which leads to sustainable competitive advantages, enhanced market presence and increased market value.

The concept of customer equity is relatively new. It gained ground after 2000, when it was elaborated into a new management approach aimed at the successful long-term operation of the business (Blattberg, Getz and Thomas 2001, 111). The concept is based on the belief that the customer is a strategic value-generating resource, and that this value needs to be estimated, managed and maximized (Blattberg, Getz and Thomas 2001, 3-12). Customer equity management is a process that uses customer behaviour data and financial evaluation methods. It seeks to obtain the highest benefits from customers while their relationship with the company exists, and is based on the familiar concepts of customer lifetime value and customer life cycle, which it brings together in a new way. The application of this management approach requires integration of corporate strategies relating to products and consumers. This highlights one of the main contributions of the concept, namely the new insight into the efficient allocation of resources and efforts of businesses (Blattberg and Deighton (1996), Rust, Lemon and Zeithaml (2004), Reinartz (2005)).

In the literature there has been some controversy regarding the essential characteristics of the concept. According to Berger (2002), it lies in the basis of managing the value of relationships between customers and the company. Bayon,

Figure 1



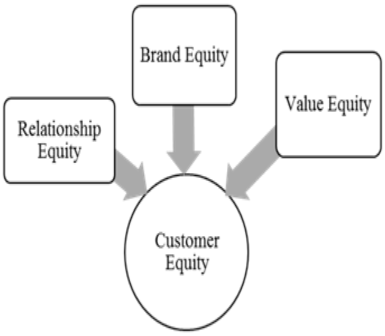
Gutsche and Bauer (2002), in turn, regard the concept of customer equity as the optimal basis for consumer behaviour analyses. The two views combined regard customer equity as an expression of the expected future behaviour of the customers of the organization. This makes the application of the concept particularly important, as it may help build long-term relationships with customers and increase the value of the business, thus improving its market performance in the long run. These assertions are supported in publications by Pitt, Ewing, Berthon (2000), Flint, Woodruff, Gardial (2002), Slater (2009) and others, according to whom customer equity can be defined as a significant competitive advantage.

2.2. Cystomer equity management model

The essence and importance of customer equity for the company examined above raises the questions of its management and maximization. This paper is focused on an approach to customer equity management formulated by Lemon, Leone and Rust (2005). The authors put in the spotlight the customer life cycle and the possibilities to extend it. The approach presents customer equity management by analyzing consumer behaviour and defining the factors that drive customers to buy from a certain company both in the present moment and in the future. Lemon, Leone and Rust (2005) elaborated the concept of customer relationship management and defined the core values used to manage customer equity. This highlights the specific direction of this approach, namely the strong emphasis on consumers.

The value-based approach to customer equity management is based on an analysis of three stages of the customers' relationship with the company. The first stage is customer acquisition. This is the time when the customers form their opinions on the brand and the product before the purchase is made. In the second stage, after the purchase, the customers form an opinion on brand equity and value equity. As a result of these evaluations, the customers continue to purchase from the relevant company. The third stage is the analysis of the value of the relationship established between the organization and the customers, which is turned into relationship equity by means of specific marketing tools. Thus, the authors define the influence of three determinants on the long-term value of the relationship with the customers. According to the equity approach, an organization can retain and expand its customer base by creating value equity, brand equity and relationship equity. Therefore, customer equity depends on the effect of these three values (Rust, Zeithaml and Lemon 2000, 9).

Figure 2



The equity approach presents the mechanism by which each of the determinants leads to an optimal relationship between the company and the customer. These three equities act both individually and in concert, and define the customer lifetime value (CLTV), and their effect on all customers determines the value of customer equity. This makes their management an indispensible necessity.

Value Equity is the consumer evaluation of the value of the product/service, based on perceptions of spending and receiving (Rust, Zeithaml and Lemon 2000, 56).

Brand Equity is the subjective and intangible evaluation of the product beyond its objectively perceived value (Rust, Zeithaml and Lemon 2000, 56).

Relationship Equity is the association of the customer with a brand, outside the customer's objective and subjective evaluation of that brand (Rust, Zeithaml and Lemon 2000, 57).

In previous research the author has identified and acknowledged the impact of an additional determinant that affects customer equity, namely technology and equipment equity. Technology and equipment equity should be understood as the consumer attitude towards the technology and equipment used in the company's activities (Ivanov and Pavlova 2017, 89-99). This fourth equity determinant is included due to the dynamics of the modern technological environment in a marketing context, and the companies' effort to engage and involve customers in the manufacturing process. In addition, in an effort to distinguish themselves from other market players, companies use technology as an approach to distinction. Efforts are made by manufacturers to make consumers aware about innovations used in their activities, and to make manufacturing processes visible in order to establish a relationship of trust with customers and instil in them positive attitudes towards the company's operations, products and brands. With regard to this fourth determinant it has been noted that consumers are increasingly aware of the production facilities and practices of organizations, and that online communication channels provide an opportunity to engage customers in these processes by converting them from observers to participants in the modification of existing products and the creation of new ones.

As a result, the model created by Lemon, Leone and Rust (2005) is further developed and enriched with a fourth factor, which contributes to customer equity management (Figure 2).

The impact of these four key determinants on customer equity requires reinforcement. One possibility to influence customers by creating all four equities is through the application of a new consumer marketing approach, namely customer engagement.

2.3. What is Customer Engagement

The new marketing reality requires managers to analyze their customers not only in the latter's role as buyers, but also in their role as business partners. The partnership between the customers and the company is expressed in their contribution to the development of businesses as observers, promoters, participants and co-creators who interact not only with the brand, but also with other consumers and the media. This new view on customers and their behaviour is a consequence of the overall digitization, which requires businesses to seek ways to retain and engage both their actual customers and those who are followers and "friends" of the brand (Moran, Muzellec and Nolan 2014, 200-204). This approach improves the company's market performance and helps both to preserve and to increase its customer base. In this respect, the idea of customer engagement is of particular interest.

In marketing terms, customer engagement is seen in two ways: with a focus on the psychological engagement of the customer with the company and with a focus on consumer behaviour.

Some authors regard customer engagement as a specific psychological state (Gambetti, Graffigna & Biraghi (2012); Patterson, Yu, and De Ruyter (2006); Brodie et al. (2011); Calder, Malthouse and Schaedel (2009) and Mollen and Wilson (2010)). Hollebeek (2011, 780) defines customer engagement as a certain psychological state, motivated by the attitude towards the brand. According to Bowden (2009, 63-74), customer engagement is a psychological process which creates customer loyalty. Higgins and Scholer (2009, 102) outline this engagement as a state of preoccupation, participation, inclusion and involvement in something.

Some aspects of customer engagement are discussed in terms of behavioural manifestations of the consumers. Van Doorn et al. (2010, 254) focuses on the actions of customers with respect to the brand, beyond the relationships pertaining to the transaction itself. Similarly, Verhoef et al. (2010, 247) define customer engagement as a behavioural manifestation towards the brand or the company outside the purchase. Kumar et al. (2010, 297-310), in turn, support the views of Van Doorn, but consider the act of purchase as part of the essence of customer engagement. The authors also highlight other forms of engagement taking place after the purchase, which create value for the company: influence of customers on other consumers by sharing positive or negative opinions, attracting new customers through references and feedback provided to the company. On the other hand, Bijmolt et al. (2010) lay the emphasis specifically on three key behavioural manifestations of customer engagement: word of mouth (WOM) marketing, co-creation of products, and behaviour manifested in the filing of complaints against the company (such behaviour may occur at different stages of the customer life cycle).

Opinions exist which combine the psychological and behavioural perspectives in defining customer engagement. Vivek et al. (2012) focus on the customers' behaviour towards the company, but also recognize the emotional and cognitive elements of the engagement. Hollebeek et al. (2014, 154) define customer engagement as a positive relationship with the brand, expressed in the behavioural, affective and emotional activities of the customers in their interaction with the company.

This paper shares the view that customer engagement is a psychological state shaped by the brand, with has a behavioural expression. The behavioural expression of this engagement are all actions related to word of mouth marketing, references, feedback, search and dissemination of information about the brand/company, generation of product ideas, etc. The act of purchase is placed under the concept of customer equity, in terms of the financial benefits the customers bring to the company, and is excluded from the definition of customer engagement. This understanding of customer engagement aligns with the intangible benefits that customers generate for the company. This gives grounds to look for opportunities to manage and maximize customer by engaging customers with the company.

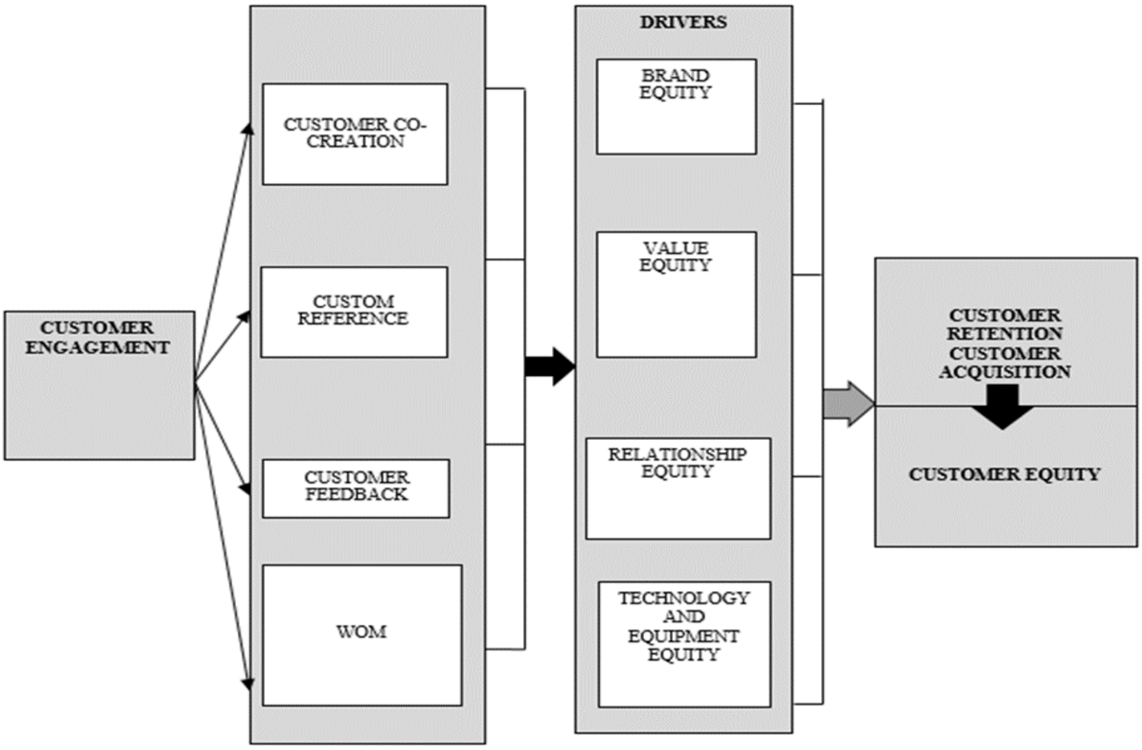
2.4. Maximising Customer Equity, an integrated framework

Customers generate profits for companies in two ways: directly – through their purchases, and indirectly through other actions such as references made before other potential customers, influencing current and potential customers on social networks, or providing feedback. Identifying the right customers who create value for the company and managing the relationships with them are key to improved financial results. A number of authors have explored in depth the various ways to maximize the value from customers, created by their regular purchases from the company. The concept of customer equity pays little attention to the indirect benefits from existing customers. In this regard, the author attempts to interlink the engagement of existing customers with the factors influencing customer equity as a mechanism for its maximization (Figure 3).

Customer engagement is expressed through four dimensions: participation of the customer in the process of creating new products, reference, sharing information about the brand and the company's activity (WOM), feedback on products and services of the company. It is important to clarify such actions are the result of established relationships between customers and the company.

In the context of customer equity management, customers who are engaged with the brand through the actions described above, outside the purchasing behaviour, are an important source of value for the company. Customers who participate as part of the creative team of the company in the creation of new products or improvement of existing ones contribute directly to the market success of the company. Those who carry out marketing by word of mouth, attract new customers for the company, as the personal reference is one of the most successful tools to induce interest in the brand. Customers who provide feedback to the company with reviews of the product, staff, service, supply or information are a valuable corrective contributing to the performance of the company. Customers who share positive information about the economic and non-economic activities of the company induce favourable consumer attitudes towards the brand. Everything presented thus far gives us reason to believe that this consumer behaviour affects other consumer and helps attract new customers for the business. The acquisition of new customers increases the value of customer equity.

Figure 3



On the other hand, each of these actions directly corresponds to the four factors that determine the value of customer equity. Customer involvement in product development strengthens the influence of the brand equity, value equity, relationship equity and technology and equipment equity, as it engages the customer in each of these aspects. The desire for references, feedback and sharing information about the company is also conducive to the formation of these values for customers. The creation of brand equity, value equity, relationship equity and technology and equipment equity, whose direct expression is customer equity, affects directly the retention of customers. It can be summarized that the engagement of customers strengthens their relationship with the company, which leads to long-term relationships. Maintaining the customer-company relationships in the long term has a positive impact on customer equity.

Based on the proposed conceptual framework, the author draws the attention of managers not only to the analyses of the profitability from customers, but also to engagement of the entire customer base, regardless of its financial contribution to the well-being of the company. As a result, the intangible benefits from customers are regarded as an opportunity to increase the company's customer equity.

4. Conclusions

In conclusion, we can say that the survival of any business depends on its ability to retain and increase its customer base. In this context, the ability to manage the company's customer equity is crucial. However, focusing only on the financial benefits from customers may limit the possibilities for customer equity maximization. In this regard, special attention has been given to the generation of benefits for the company by customers through their consumer behaviour, beyond the purchases they make, expressed through customer engagement. From the review made above it became clear that customer engagement is a concept whose definition cannot be accepted equivocally. In this paper it has been examined in terms of its aspects of emotional and behavioural engagement with the brand beyond the making of purchases. The dimensions of engagement presented here are interconnected both with the acquisition of new customers and the factors determining the value of customer equity. Product ideas generation, references, dissemination of information and feedback from customers are defined as activities that improve both the company's performance and the retention and increase of its customer base. In this respect, customer engagement is regarded as an opportunity to increase customer equity.

The author takes into account that future research in the following areas is needed:

- Testing the strength of the links between customer engagement dimensions and customer equity factors;
- Opportunities to engage the customers;
- Applying metrics for the level of the customer engagement.

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