

Customer Equity: A New Approach to Marketing Management

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Abstract:

In the last few years, marketing managers at leading companies have begun to organize their marketing efforts around customers rather than product lines. In these firms, the product-oriented concept of brand equity is gradually being supplanted by customer-focused concept of customer equity. In the process, marketing expenditures that were once viewed as short-term expenses are now being viewed as investments in customer assets that create long-term value for the firm and its shareholders. This fundamental shift in perspective is causing many to question previously accepted paradigms and business practices to manage customer assets more effectively. This emerging management approach is known as Customer Equity Management. The shift toward customer equity management has been driven by several substantial and long-lasting changes in the marketplace. First, managers are under increasing pressure to be more accountable to shareholders.

Key Words: Investment, Fundamental, Information

Introduction

Increasing competition brought about by globalization and deregulation is forcing managers to seek the highest possible return on each investment or face swift response from more efficient competitors. Second, firms are confronted with a tidal wave of detailed customer information pertaining to attitudes, preferences, and shopping behaviors.

Massive investments in customer relationship management (CRM) technologies and data warehouses have outstripped the ability of managers to synthesize the data and, therefore, necessitate a new approach to strategic decision making. Finally, emerging technologies have enabled firms to personalize products, customer service, communications, and even pricing in ways that were undreamt of just a few years ago. In the rush to create systems capable of supporting individual-level marketing efforts, firms have inadvertently raised customer expectations.

The term equity originates in ethics and philosophy as a concept expressing fairness, and in law as a principle of justice. More recently, the term has also been used in accounting and finance to express the value of an organization's financial assets or shareholder value. While some marketing academics (e.g. Gundlach and Murphy, 1993; Ruyter and Wetzels, 2000) have used equity in a broader legal and ethical context, it is the financial use of the term that has been applied and popular in marketing.

The Financial Concept

With finance, the term "equity" has a specific meaning—the net of the assets and liabilities of the

business. “Equity value” for a financial audience is demonstrated by the ability of an asset to earn more than its cost of capital, thus contributing to the excess value of the assets of the business over its liabilities. There is a need for greater linkage between financial and marketing terms and concepts (Srivastava et al., 1998; Storbacka et al., 1999; Ambler, 2000; Doyle, 2000). Such a linkage has occurred in the last decade, where marketing academics and practitioners have used the term ‘equity’ to describe the financial value of brands and other marketing assets.

Use of the equity concept in branding

Brand equity has emerged as a notion in the marketing in the 1980s only. Advertising practitioners in the USA used the idea to counter emphasis on short-term results and consequent cuts in investment in brand advertising (Hayes and Abernathy, 1980). Although the exact origins of the term brand equity are unclear, it has been traced back to the mid-1980s (Feldwick, 1996). Since then definitions of brand equity are plenty (e.g. Tauber, 1988; Farquhar, 1990; Biel, 1992; Keller, 1993) as research on this subject. These researches have been based on four different perspectives that are: *consumer-based*, *financially-based*, *relationally based* and *network-based*.

The initial research on brand equity was consumer-based and draws on concepts from consumer behaviour. It describes equity in terms of the strength of consumers’ attachments to the brand and their associations and beliefs about the brand. Keller (1993) defines consumer-based equity as, ‘the differential effect of brand knowledge on consumer response to the marketing of the brand’. The second stream of research uses a more direct financial approach, where the emphasis is less on individual consumers and more on the overall financial value of the brand to the organization. The third emerging stream of research focuses on the value of relational and experiential aspects of branding. Finally the fourth stream of research examines brand equity, co-branding, brand alliances, and networks. (Brodie et al. 2002)

Consumer-based perspective- Various concepts have been used to develop consumer-based measures of brand equity including consumer preferences, price premiums, consumer perceptions, price trade-offs, residual intangible value, loyalty, awareness, perceived quality, brand knowledge, and consumer learning. It focuses on mass marketing and consumer-packaged goods. Its central concepts are consumer-based and include the consumers’ knowledge and attitudes about the brand and the resulting behavior.

Financially-based perspective - It scrutinizes market behavior and performance and the overall value of the brand to the organization. A variety of concepts have also been used to develop measures of the overall financial value of brands to an organization. These range from using share-market prices, indices based on various brand performance measures, to attempts to directly link brand value to profitability.

Relational perspective –It has recently emerged with the study of branding in services, business-to-business, and electronic commerce. Here the relational and experiential aspects of brand equity have been shown to play an important role. For these situations, understanding relationships and interactions between the marketing organization and its customers are central. Much of the initial research on brand equity was in response to the advertising industry’s need to understand the effects of advertising on building brand image and consumer loyalty for consumer-packaged goods. Thus the focus was on mass marketing and the one-way impact of marketing activity (especially advertising) on consumers. However recently there has been increased interest about the role of branding in other areas such as services, business-to-business, and electronic marketing. In these situations customers’ interactions and

relationships with the organization providing the goods and services play a more important role. In contrast to consumer-packaged goods marketing where the product is the determinant of brand equity, in the relational context the organization is the primary determinant of brand equity (Berry, 2000).

Network perspective –It recognizes that the equity of a brand is also influenced by co-branding and alliance activity with brands from other organizations. As with relational and experiential branding a conceptual framework is needed that accommodates thinking based on networks, relationships, and interactions.

Brand equity

Building a strong brand has been shown to provide numerous financial rewards to firms, and has become a top priority for many organizations (Keller 2001). Branding has been around for many years as a means to distinguish the goods of one producer from those of another. According to American Marketing Association (AMA), a brand is a “name, sign, symbol, or design or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition”. But many practicing managers refer to a brand as more than that – defining a brand in term of having actually created a certain amount of awareness, reputation, prominence and so on in the market place. So in some sense a distinction can be made between the ‘small-b- brand’ (*brand*)” (which is combination of brand elements such as name, sign and other components to identify and differentiate) and the ‘big-b-brand’ (*Brand*), which includes awareness, reputation and associations that are created in the market place (Keller 2003).

Building a strong brand provides a host of possible benefits to a firm, including greater customer loyalty and less vulnerability to competitive marketing actions and marketing crises , larger margins as well as more favorable customer response to price increases and decreases , greater trade or intermediary cooperation and support, increased marketing communication effectiveness , and licensing and brand extension opportunities (Keller 2001)

In the last fifteen to twenty years, most of the value and performance of companies have come from intangible assets (Lev 2001). Ambler (2003) argues that brand Equity in an organization’s most valuable assets, clearly a critical element in marketing metrics to monitor the effectiveness of marketing programmes.

Definitions of Brand Equity

Although viewed as a significant construct due to it helping a firm achieve more predictable sales (Aaker 1992), increased profits (Keller 2003), improved market capitalization value (Lassar, Mittal, and Sharma 1995), and competitive advantage (Kocak, Abimbola, and Ozer 2007), brand equity is a construct for which literature contains various definitions (Irmischer 1993) due to it being a vague and subjective concept (de Chernatony and Riley 1997). The variety of definitions is demonstrated by Aaker’s (1996) approach reflecting brand equity as a business asset, “Brand equity is a set of assets (and liabilities) linked to a brand name and symbol that adds to (or subtracts from) the value provided by a product or service to a firm and / or that firm’s customers.” (Aaker 1996; 7)

Kotler (2003: 422) defines Brand equity as, “the positive differential effect that knowing the brand name has on customer response to the product or service.” This leads to customers showing preferences for a brand when products are basically identical and are prepared to pay a price premium.

An alternative view is developed by Keller (1998), who proposes the concept of customer based brand

equity (CBBE), which he defines as “the differential effect that brand knowledge has on consumer or customer response to the marketing of that brand” (Keller 2003;64).

Ambler (2003: 46) defines this consumer Brand equity as “what is in people’s head about the brand”. The benefits of building strong brand and brand equity for consumers is that it aids in the evaluation and purchasing of products and hence provides a value that accrues to the consumer and for organizations, it provides a source of competitor advantage and hence a financial value that accrues to the company (Keller, 2003)

Models of Brand equity

Various models have been developed to explain the different sources of Brand equity that can be used to define these components, and to identify the outcomes of brand equity. The most commonly used model was derived by Aaker (1996).

In Aaker’s model of brand equity identification of four major assets have been done. First is Brand Name Awareness which is defined as, the strength of a brand’s presence in the consumer’s mind and is measured by recognition and recall. Second category, is Brand Loyalty explained as the willingness of customers to repurchase the same brand. Third is Perceived Quality as the reason –to- buy for many consumers, for which they are prepared to pay a price premium and last is Brand Associations defined as the attributes that are associated with a brand by the consumers. There is also a fifth category, of other proprietary assets which includes for completeness. But this category is planned to cover assets such as channel relationships and patents that are attached to the brand, which can build competitive advantage. Brand awareness is an essential sign for consumer consideration prior to evaluation and is the anchor to which other associations can be attached. It is measured according to the different ways in which consumer remember a brand. Under Brand awareness comes *Recognition* which is prior exposure to the brand and reflects familiarity and subsequently, liking for the brand. *Recall* can be explained as recollection of a brand by a consumer when its product class is mentioned. Third can be ‘*top of mind*’ which can be understood as the first brand recalled. Last can be *Dominant* which is the only brand recalled (Aaker 1996).

Brand loyalty is a key concern in building the value of a brand, as a highly loyal customer base generates future sales and profit streams. It generates future sales and profit streams. It also reduces marketing costs, as it is less costly to retain customers than attract new ones. In addition, the loyalty of existing customer represents a substantial entry barrier to competitors (Aaker, 1996).

Perceived quality is usually at the heart of what consumers are buying brands, and is often used to differentiate or position against others. It is also an important benefit, with tangible brand asset as, among all brand associations, only perceived quality has been shown to drive financial performance, through the price premium that consumers are prepared to pay (Aaker, 1996)

Brand associations can be linked to a product benefit, with tangible attributes, or organizational associations attached to the culture, people and skills of the organization, or a set of human characteristics associated with a given brand as identify by its brand personality. Brand associations help create positive attitudes and feelings towards a brand and hence build its brand equity (Aaker 1996).

Thus according to Aaker (1996), brand equity is a set of assets, which must be managed through investments to build them. Each brand equity asset creates value in a variety of different ways. Brand equity also creates value for the customer as well as the organization.

Second most popular model is Keller’s model (1998) which focuses on customer based brand equity

(CBBE). Keller has explained that the power of the brand lies in what resides in the minds of customers, as a result of their experiences over time. Brand Equity arises from differences in consumer response, which are as a result of consumer's knowledge of the brand and is reflected in their perceptions, preferences and behavior.

Brand equity is created from Brand Knowledge, which exists in the consumer's memory and which in turn, can be characterized in terms of two components. First is brand awareness which can be explained as the strength of the brand node in memory, as reflected by consumer's ability to identify brand under different conditions. Second is the brand image explained as the perceptions about a brand as reflected by the brand associations stored in consumer's memory. Brand awareness consists of brand recognition and brand recall performance.

Brand recognition relates to consumers' ability to confirm prior exposure to the brand when given the brand as a cue. In other words, brand recognition requires that consumers correctly discriminate the brand as having been seen or heard previously. *Brand recall* relates to consumers' ability to retrieve the brand when given the product category, the needs fulfilled by the category, or some other type of probe as a cue.

A positive Brand Image is created by marketing programmes that link strong favourable and unique associations to the brand in consumer's memory. The strength of associations depends on the consumer's brand experiences. The associations are manifested in brand attributes which are those descriptive features that characterize the product offering (which can be product or non product related). Brand benefits which are personal value and meaning that consumer attach to the product attributes (which can be functional, experiential or symbolic), and brand attitudes which are defined in terms of consumer's overall evaluations of a brand. Favourability of brand associations are determined by desirability (how relevant, distinctive and believable consumers find the brand associations), and deliverability (the performance of the product offering). Uniqueness of brand associations are determined by point of difference relative to competing brands (Keller 1993).

To build a strong brand, Keller (2003) recommends four building blocks to move the customer up the Brand equity Pyramid. First building block is Brand Identity (*Who are you?*). It can be realized during creating brand Salience or awareness with customers. Second block is Brand Meaning (*What are You?*). It can be attained through brand performance, customer experiences of the intrinsic properties of the brand to meet their functional needs. The second thing which helps to realize the Brand Meaning is Brand Imagery. This is explained as customers' perceptions of the extrinsic emotional responses to the brand properties of the brand to meet their psychological needs. The Third block is Brand Response (*What about You?*). This is determined through Brand Judgments, customer evaluations of the Brand e.g. Brand quality and Brand Feelings, customers' responses to the brand. Last block is Brand Relationship (*What about You and me?*) This is also determined by Brand Resonance, the nature, intensity and extent to which consumers engage or bond e.g. Brand Loyalty (Keller 2003).

However, the two models have been developed from different perspectives; the Aaker (1996) a focus on the benefits to the organization, whereas the Keller (1998) model focuses on the consumer benefits. Both the models have striking similarities with each other. Firstly, both have treated brand equity as the added value endowed to a product due to past investments in the marketing for the brand. Secondly, both rely on an associative network model of memory whereby the case of recalling favourable brand associations is a prime determinant of brand equity; Brand awareness and Brand associations are key components of brand assets (Keller 2002). Branding plays a special role in service companies because strong brands

increase customers' trust of the invisible purchase .

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