

Analyzing the Effect of Customer Equity on Satisfaction

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Abstract

The purpose of this study was to investigate the impact of the three dimensions of customer equity (value, brand and relationship equity) on customer satisfaction, through a structural equation model. For the purposes of this study, questionnaires were distributed to a randomly selected group of 200 customers of Fast food unit of Kalleh Company that are divided into three groups included fast foods, restaurants and coffee shops in Isfahan city. A total of 185 responses were received. Of these, eight (8) responses had to be discarded due to invalid or incomplete data entries. Thus the sample comprising of a total of 177 respondents was used for analysis. The data was analyzed by AMOS software. Six hypotheses were derived and, based on data analysis, all six were supported. Value, brand, and relationship management were all confirmed to be important factors in enhancing customer satisfaction. Relationships among value equity, brand equity, and relationship equity were also identified. The results of this study are presented through marketing channels of the Fast Food unite limited Kalleh Company, as a private manufacturer and distributor of food product in Iran, as the case firm in this study. Managerial implications are discussed.

Keywords: Value equity, Brand equity, Relationship equity, Customer equity, Customer satisfaction

1.Introduction

In the current competitive marketing environment, customer equity as a measure of the expected future behavior of a firm's customers is a key strategic asset that must be monitored and nurtured by firms to maximize long-term performance. Customer equity (CE), usually defined as the discounted sum of customer lifetime values (CLV), is a paradigm that suggest a customer-focused marketing strategy. With the growing recognition that customers are market-based assets, research on linking operational marketing inputs to customer attitudes and customer equity has been gaining significance. In response to this, several conceptual

models have been proposed (Bolton, Lemon, and Verhoef 2004; Kamakura et al. 2002; Reinartz and Kumar 2000; Rust et al,2004). However, despite the recent advances in research, the results are still inconclusive as to the relationship among marketing inputs, customer attitudes, and customer behavior (Villanueva and Hanssens 2007). This research is motivated by the present gap, and it fills this literature void by investigating the effect of customer equity on customers satisfaction of fast food unit of kalleh company in Isfahan city. In developing this paper, we will begin with a brief review of customer equity and its dimensions and then we will explain customer satisfaction .Then we will clarify effect of the three dimensions of customer equity (value, brand and relationship equity) on customer satisfaction and the relationship among customer equity drivers. After that we will present our theoretical point of view and propositions and finally we will end up with contributions and conclusions of this research.

2.literature Review

2.1.Customer equity

The customer equity (CE) paradigm proposes that firms can achieve superior performance by changing their focus from delivering competitive products to building good customer relationships (Blattberg et al, 2001; Rust et al, 2000). In order to understand consumers' needs, each organization has to find the factors motivating its customers to start a transaction with the firm, and proceed doing business with that firm in the future. So in order to keep up with competitors, it is crucial for companies to pay enough attention to this field as a measure of the expected future behavior of a firm's customers. The value a customer brings to a firm is not limited to the profit from each transaction but is the total profit the customer may provide over the duration of the relationship with the firm (Kumar & George, 2007). Thus, customers are seen as the intangible assets a firm should wisely acquire, maintain, and maximize just like other financial assets (Blattberg et al., 2001). Customer equity, usually defined as the sum of the discounted lifetime values of all of its consumers, has been considered the most determinant of the long-term values of the firm (Kim et al, 2010; Lemon et al., 2001) . The concept of customer equity brings together customer value management, brand management, and relationship / retention management. It is viewed as the basis for a new strategic framework to build more powerful, customer-centered marketing programs that are financially accountable and measurable (Lemon et al, 2001). Also CE models emerge as powerful tools to maximize the return on marketing investments, and to guide the allocation of the marketing budget (Blattberg and Deighton, 1996, Rust et al, 2004).

2.2. Drivers of customer equity

Lemon et al. (2001) defines three types of equity—value, brand, and relationship—as key drivers of overall customer equity. Each driver of CE consists of customer specific attributes referred to as “sub-drivers.” Identifying the drivers and sub-drivers specific to each industry is the first step in utilizing CE as a marketing tool. Since, sub-drivers may change from one industry to another (Blattberg and Deighton, 1996; Rust et al, 2000); the sub-drivers should be established on an industry by industry basis. First, “value equity” is the customer's objective

assessment of the utility of a brand, based on perceptions of what is given up for what is received (Zeithaml, 1988, Rust et al, 2004; and Vogel et al., 2008). Three key influences on value equity are quality, price, and convenience (Gale, 1994; Parasuraman, 1997; Woodruff, 1997; Zeithaml, 1988; and Lemon et al., 2001). Second, relationship equity expresses the tendency of customers to stay in a relationship with a brand, going beyond objective and subjective assessments of it. In other words, relationship equity represents a customer's response to corporate initiatives which strive to build and maintain a base of committed customers for the organization (Zeithaml et al, 2006). If the perceived relationship equity is high, the consumers will feel well treated and handled with special care (Kristof et al, 2001). Then, the consumers will be satisfied and it would lead to repurchase (Rust et al, 2001). Usually, loyalty programs under a firm's control may enhance relationship equity; however, loyalty toward a certain brand grows weaker than yesterday as a variety of alternatives are offered to customers. What is necessary is to build strong customer relationship through special treatment or recognition, and community programs can be an efficient way to boost relationship equity. Third, brand equity is a customer's subjective and intangible assessment of the brand over and above its value (Kim et al., 2008; Lemon et al., 2001). Compared with value equity, brand equity is a more subjective, emotional, and experiential appraisal of a corporation or a brand (Lovelock and Wirtz, 2007) The key actionable levers of brand equity are brand awareness, attitude toward the brand, and corporate ethics (Lemon et al., 2001).

2.3.customer satisfaction

The topic of 'customer satisfaction' has held a significant position in the marketing literature over from decades since satisfied customers can generate long-term benefits for companies, including customer loyalty and sustained profitability. (Wu and Batmunkh, 2010) .Customer satisfaction is defined as the degree of overall pleasure or contentment felt by the customer, resulting from the ability of the service to fulfill the customer's desires, expectations and needs in relation to the service.(Hellier et al, 2003). Wang, Lo, and Yang (2004) noted that satisfaction is more fundamental and useful in predicting consumer behaviors and organizational performance than transaction-specific consumer satisfaction because cumulative customer satisfaction motivates a firm's investment in customer satisfaction.

2.5.Customer Equity and customer satisfaction

When a firm delivers superior perceived as compared to competitive offerings (Parasuraman and Grewal, 2000), it leads to enhanced customer-satisfaction and higher repurchase intentions (Eggert and Ulaga, 2002). Furthermore, researchers pointed out that value equity has an impact on a customer's switching propensity, a measure similar to satisfaction and loyalty intentions (Lemon et al, 2000). Brand equity is one of the most widely researched areas of marketing. There is evidence in the literature that brand equity reinforces consumers' attitudinal and behavioral loyalty at the individual consumer level (Boone, Kochunny, and Wilkins, 1994; Chaudhuri and Holbrook, 2001; Cobb, Ruble, and Donthu, 1995; Keller, 2003; Rust et al, 2000). Rust (2000) states that brand equity is hopefully to influence customer willingness staying, considering repurchases, or to recommend the brand. Relationship equity has become a visible

construct in the marketing literature because of the introduction of loyalty programs, a type of marketing program that helps loyal consumers to connect with the firm by offering additional incentives. Existing favorable relationship equity enables consumers to anticipate future favorable interactions with a brand (Crosby et al, 1990), and hence derive psychological benefits (Dwyer et al, 1987). Derivation of such benefits in turn leads consumers to continue or strengthen existing relationships (Crosby et al, 1990). If the perceived relationship equity is high, the consumers will feel well treated and handled with special care and then the customer will be satisfied and it would lead to repurchase (Rust et al, 2001; Kristof et al, 2001).

3. Research framework

Figure 1 shows the theoretical framework of this paper. The Rust’s model (2001) serves as the main framework for the current study because each driver of that is comparable with existing marketing frameworks and can be assessed separately by a company’s requirement. An additional benefit is that managers can now devise strategies along the three equities instead of focusing on a multitude of factors, as indicated in the retailing literature (e.g., Pan and Zinkhan, 2006; Walsh and Beatty, 2007). Marketers and practitioners do not have to design new marketing plans and collect additional data. In addition, this model allows marketers to manage the drivers in order to maximize the firm profitability. By analyzing customer data, marketers are able to figure out which driver (value, brand, or relationship equity) they have to focus on. Nearly all current customer data are usable in the Rust et al customer equity framework. Thus, it helps improve the budget allocation of the marketing spending (Rust et al, 2004).

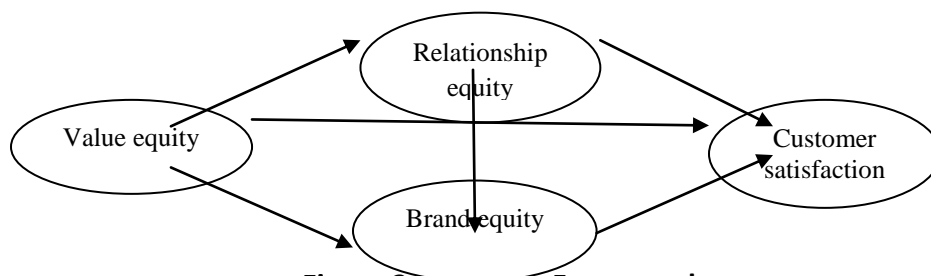


Figure 3: Research Framework

In the following the hypothesis are presented:

- H1:** Relationship equity has a positive impact to customer satisfaction.
- H2:** Value equity has a positive impact to customer satisfaction.
- H3:** Brand equity has a positive impact to customer satisfaction.
- H4:** Value equity has a positive impact to relationship equity.
- H5:** Value equity has a positive impact to brand equity.
- H6:** Relationship equity has a positive impact to brand equity.

3. Methodology

3.1. Research Population and Sample

This research, from the viewpoints of practical purposes and methods of data collection is a descriptive survey research. The objective of this study is to analyzing the effect of the three

divers of customer equity on customer satisfaction. A determination of sample size in terms of a ratio to the number of measured variables being analyzed (Cliff and Hamburger, 1967; Gorsuch, 1983; Hatcher, 1998; Nunally, 1978). Minimum recommendations for a satisfactory sample size when constructing structural equation models range from between 100 and 150 (Anderson and Gerbing, 1988) to a minimum of 400 (Boomsma, 1983). The rules of thumb for a determination of sample size in relation to the number of measured variables being analyzed, typically ranges from 5 to 25 subjects per variable. This study suggested a ratio of 10 subjects per measured variable. In recent research Gagne and Hancock (2006) reported that sample size recommendations in confirmatory factor analysis (CFA) have shifted away from observations per variable or per parameter toward consideration of model quality. Following the results of the reliability analysis and CFA, 16 items remained in the model. Thus, the minimum number of subjects in the sample should total no less than $n = 160$. For the purposes of this study, questionnaires were distributed to a randomly selected group of 200 customers of Fast food unit of Kalleh Company that are divided into three groups included fast foods, restaurants and coffee shops in Isfahan city. A total of 185 responses were received. Of these, eight (8) responses had to be discarded due to invalid or incomplete data entries. Thus the sample comprising of a total of 177 respondents was used for analysis.

3.2. Research Variables Measurement

Content validity of this questionnaire was approved by Isfahan University authorities and professors. Cronbach's alpha was used to determine the reliability of the test. For this purpose, an initial sample of 60 questionnaires was distributed. By using obtained data, Cronbach's alpha was calculated. Cronbach's alpha for all the questions related to the variables in the research analytical model was calculated as 0.937% which is acceptable. This study assessed the value, brand and relationship –related drivers of customer equity with items developed by Rust et al (2004), and Vogel et al (2008); however this study made some changes so that the items were appropriate for Fast Food Unit of Kalleh. Therefore the research model decomposes the value equity into price, and quality, the brand equity component into brand awareness, and attitude toward the brand, and relationship equity component into personnel, responsiveness, and special treatment. Five-items measure value equity, three- items measure brand equity; and three-items measure relationship equity. The final scale to measure consumer satisfaction comprise five representative items were adapted from Oliver (1980, 1981), Tsiros and Mittal (2000), and Tsiros et al. (2004). For the purpose of this study, All items were measured using a five-point Likert-type scale with anchors ranging from "strongly agree" to "strongly disagree".

4. Findings

4.1. Analytical findings of the research conceptual model

In the first step, measurement models get fitted. Models' fit indexes are listed in Table 1:

Table 1: overall indexes of fit in measurement models

	Value equity	Brand equity	Relationship equity	Satisfaction
CMIN/DF	2.8547	-	-	1.710
RMR	0.011	0.000	0.000	0.010
GFI	0.992	1.000	1.000	0.983
AGFI	0.988	-	-	0.984
IFI	0.997	1.000	1.000	0.994
NFI	0.995	1.000	1.000	0.985
CFI	0.997	1.000	1.000	0.987

Measurement models have a good fit, in other words, overall indexes confirm that models are clearly supported by data.

4.2. The results of structural equation modeling analysis

After evaluating and verifying the measurement models in the first step, in the second step, to test hypotheses, structural equation model is fitted and analyzed. Overall indexes of model fitness are presented in Table 2.

Table 2: model fitness indexes

RMR	IFI	CFI	NFI	AGFI	GFI	RMSEA	CMIN/df	df	CMIN
0.022	0.979	0.978	0.983	0.98	0.983	0.052	2.6	36	89.945
Close to zero	0.90>	0.90>	0.90>	0.90>	0.90>	0.08<	1> 3<		Reception area

Results obtained from the information provided in Table 2 are as follow:

Amos output results in estimating the standard model indicates that path analysis model is an appropriate model. The normal Chi-square value is 2.6 which stands between two values of 1 and 3. RMSEA value is 0.052 which is appropriate, also the values of GFI, AGFI, NFI, CFI and IFI are all above 90%; and finally RMR value is close to zero. All the values of model fitness indexes are in the reception area and these indexes indicate that model has a goodness-of-fit which is obtained by data and model is well supported by collected data. Hypotheses and regression coefficients as well as partial indexes values for each hypothesis are shown in table 3.

Table3: hypotheses testing results

Hypotheses	Sample size	Significance number	Corroboration coefficient	Critical ratio	Test result
Value equity → Relationship equity	177	0.000	0.36	7.912	accepted
Value equity → Brand equity	177	0.000	0.15	5.162	accepted
Relationship equity → Brand equity	177	0.000	0.85	21.57	accepted
Relationship equity → Customer satisfaction	177	0.000	0.28	1.67	accepted
Value equity → Customer satisfaction	177	0.000	0.043	10.393	accepted
Brand equity → Customer satisfaction	177	0.000	0.32	4.418	accepted

In the significance level of 0.05, if the table's significance number is smaller than 0.05, relationship between each pair of variables is confirmed

5. Discussion , conclusion and limitations

The current study empirically investigates the impact of the three dimensions of customer equity (value, brand and relationship equity) on customer satisfaction. The results show that of the six hypotheses tested, all of them were supported. Data analysis indicates that value equity positively influences brand equity and relationship equity directly. In this study, the data analysis also indicated that relationship equity positively influences brand equity .Therefore, relationship equity partially mediated the effect of value equity on brand equity. In other words, value equity directly influences brand equity and also indirectly influences via relationship equity. Therefore, value is a basic requirement that should be satisfied. If the objective value of a restaurant is bad, it is not possible then to build a good relationship with customers (Lemon et al., 2001) and brand can't provide a company with credibility. In conclusion, for Kalleh Company to enhance customer satisfaction, value, brand, and relationship management are all important factors. This study confirmed that value equity is important in company management, but found that managing brand and relationship have stronger effects for Kalleh. for many businesses like distribution companies, managers and marketers with better strategic insights to increase customer equity to yield higher consumer satisfaction, this study provides the following Recommendations: Branding has stronger effect on customer equity than any other dimensions have. Therefore, considering that they have a limited amount of capital, many businesses like distribution companies need to focus their investment more on their branding strategies than into other

strategies. To this end, many successful distribution companies invest expenditure into advertising. Relationship equity is the second most important influence on customer satisfaction. Thus, many businesses like distribution companies should invest the second largest portion of capital in relationship marketing. In this regard, these companies should invest expenditure into loyalty programs to build relationship with customers. Another way to foster relationships with customers is via personnel. It would be wise to regularly train personnel at customer-service skills. Lastly, value related items, such as pricing strategy, design and quality improvement strategies should also be considered to enhance customer satisfaction. But these investments can be smaller because branding and relationship marketing are more related to long-term marketing success.

There are several limitations evidenced in this study. These limitations should be considered for future research and improvement. Firstly, the effect of moderators variables such as previous experience on satisfaction was not intensively explored. Secondly, the measures of constructs are collected at the same point of time in this study. Therefore, individuals' satisfaction may change over time as an unremitting process due to greater experience for the time being. As a result, it is recommended to conduct a longitudinal research to examine the satisfaction at multiple points of time during decision adoption process.

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