Toward a further understanding of drivers of customer loyalty across economic conditions, industries, firms, and customers

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Chapter 1

1 GENERAL INTRODUCTION

Customer loyalty is a customer-centric metric, indicating the extent to which firms manage customer retention and acquisition (Gupta and Lehmann 2003; Shah et al. 2006). In a hypercompetitive market, customer loyalty is often a key to success. Although critiques have been offered on the link between customer loyalty and profitability (Reinartz and Kumar 2002), empirical evidence has shown that loyal customers are less costly to serve (Shugan 2005), are willing to buy and pay more (Seiders et al. 2005), and engage in more positive word-of-mouth communication (Reichheld and Sasser 1990; Carroll and Ahuvia 2006). For example, research on European retail banks finds that loyal customers tend to build up a lifelong relationship with banks (Beaujean, Marc, Cremers, and Pereira 2005). These customers contribute 30% to 70% more value to banks than less loyal customers do. They put 78% of their wallet with the focal bank and 30% to 40% of them are less likely to have mortgage loans from or investment in another bank.

Hence, firms extensively adopt multiple strategies to improve customer loyalty. For example, one Dutch supermarket chain (Albert Heijn), in an effort to lessen the threat of hard discounters and maintain a market leader position in the Netherlands during recessions, places importance on providing value to customers. It decreased the prices of a large number of national brands and private-label brands in 2012, but still strived to maintain or even improve the service quality. Another example is Whole Food Market, an organic supermarket chain in North America. To appeal to potential customers, Whole Food Market uses an ad campaign describing its passion for and selectiveness in choosing the best food (Setter 2013), which gives the company a strong brand image centered on quality and wholesomeness. Yet another example is Starbucks, which is, for many customers, more than simply drinking a cup of coffee. The CEO of Starbucks, Howard Schultz, mentioned, “While we are a coffee company at heart, Starbucks provides much more than the best cup of coffee—we offer a community gathering place where people come together to connect and discover new things.” The inviting environment aims to build up solid relationships with customers (ConnXN 2013).

While these loyalty strategies are broadly adopted and can effectively improve customer loyalty, firms should be cautious about choosing appropriate strategies, as customer loyalty is easily influenced by contextual situations (Oliver 1999). That is, loyalty strategies may not be universally effective. Firms should clearly identify which contextual situations significantly influence the impact of loyalty strategies on customer loyalty. In this dissertation, we will examine some crucial but untested contextual situations in the customer loyalty literature, which include economic conditions and characteristics of industries, firms, and customers.

1.1 Customer Loyalty: Customer-Centric Metric

Customer loyalty is a customer-centric metric. Customer-centricity is meant to play a win-win game that creates value not only for firms but also for customers (Verhoef 2012). Customer-centric management has gained a strong research interest, particularly in the banking industry after the recent financial crisis (Deloitte 2011). This concept is especially important in the era of the rapid proliferation of (social) media and channels because these new outlets empower customers by allowing them to communicate with each other and widely spread their opinions. Hence, firms cannot ignore customers. The CEO of Kraft Foods, Roger K. Deromedi, realizes the importance of customer-centricity, saying, “Our relationship with consumers is about trust. If you don’t align with society and you get out of step with that, then you’re going to destroy shareholder value.” (Charon 2006). As a demonstration of its interest in consumer health and trust, Kraft Foods has stopped advertising junk food to children. The marketing literature has provided evidence that customer-centric firms generally perform well (Kirca, Jayachandran, and Bearden 2005; Ramani and Kumar 2008; Verhoef and Leeflang 2009). These firms constantly monitor the voice of customers. Being aware of customers’ attitudes and preferences enables firms to effectively allocate resources and generally adapt more fluidly to change. As a result, customer-centric firms are better able to maximize the return on marketing investment and thus compete better in the long-run (e.g., Rust, Zeithaml, and Lemon 2000).

1.2 Customer Loyalty and Customer Equity Drivers

Customer equity drivers (CEDs) provide a mechanism for understanding what motivates customers to (continuously) do business with firms (Rust, Zeithaml, and Lemon 2000). Existing research has identified three CEDs that drive customer loyalty (Rust, Zeithaml, and Lemon 2000; Rust, Lemon, and Zeithaml 2004; Vogel, Evanschitzky, and Ramaseshan 2008): value equity, brand equity, and relationship equity. It has been generally found that CEDs are positively related to customer loyalty (Rust, Lemon, and Zeithaml 2004; Vogel, Evanschitzky, and Ramaseshan 2008). Value equity is defined as customers’ objective assessment of the utility of services based on perceptions of “what is given up” for “what is received.” Value equity reflects customers’ perceptions about the price and quality of services. Quality is defined broadly here: it involves the quality of services as well as the convenience in using and buying. When value equity is perceived as high, customers are more satisfied with the firm’s offerings, thereby leading to higher customer loyalty. Above these value perceptions, brand equity reflects customers' subjective and intangible assessment of the image of the brand. For customers, brands perceived to be strong reduce the perceived performance risk of services and lead to higher intentions to stay loyal. Relationship equity is defined as customers' assessments of interactions with the firm. This depends on customers' relationships with sales- and servicepersons, loyalty programs, and so forth. If perceived relationship equity is high, customers believe that they are well-treated and feel a strong connection with the firm, which has a positive effect on loyalty intentions.

However, as noted, customer loyalty is easily influenced by contextual situations, implying that boundary conditions exist between the positive link of CEDs and customer loyalty. We aim to examine some crucial but untested boundary conditions in the customer loyalty literature, namely (1) economic conditions, (2) industry characteristics, (3) firm characteristics, and (4) customer emotions (see Figure 1.1). First, because firms have been encountering reduced customer loyalty during recessions (Lamey et al. 2007), it is crucial for firms to understand which loyalty strategy would be effective during recessions. To this end, we use consumer confidence as a proxy representing economic conditions in Chapter 2. In addition, it has been speculated that the effectiveness of CED strategies may vary across industries and firms (Anderson and Sullivan 1993; Gupta and Zeithaml 2006; Rust, Zeithaml, and Lemon 2000). However, empirical evidence for these speculations is sparse and little is known about the reasons explaining the variance. To fill the research gap, Chapter 3 integrates theoretically argued industry- and firm characteristics to explain the cross-industry and cross-firm variance of the positive CEDs-loyalty link. Finally, while studies have identified a large number of customer characteristics as moderators explaining the CEDs-loyalty link, such as demographic and situational factors, such as expertise, relationship length, or switching costs (Bell, Auh, and Smalley 2005; Cooil et al. 2007; Seiders et al. 2005), customer characteristics are not limited to these frequently examined variables. In this regard, we test the moderating role of customer emotions, as customer emotions have recently become popular considerations in marketing strategies (e.g., BBC 2011; Forbes 2012; NBC 2005).

Table 1.1 summarizes these boundary conditions and the relevant measures studied in Chapters 2, 3, and 4. Subsequently, we will discuss these boundary conditions in more detail.

Table 1.1 Boundary Conditions and Measures in Chapter 2, 3, and 4

Chapter	**Boundary Condition**	**Measure**
2	Economic conditions	Consumer confidence
3	Industry characteristics	Market environment Types of services & transactions
	Firm characteristics	Innovation Market position
4	Customer characteristics	Customer emotions

1.3 Boundary Conditions of the CEDs-Loyalty Link

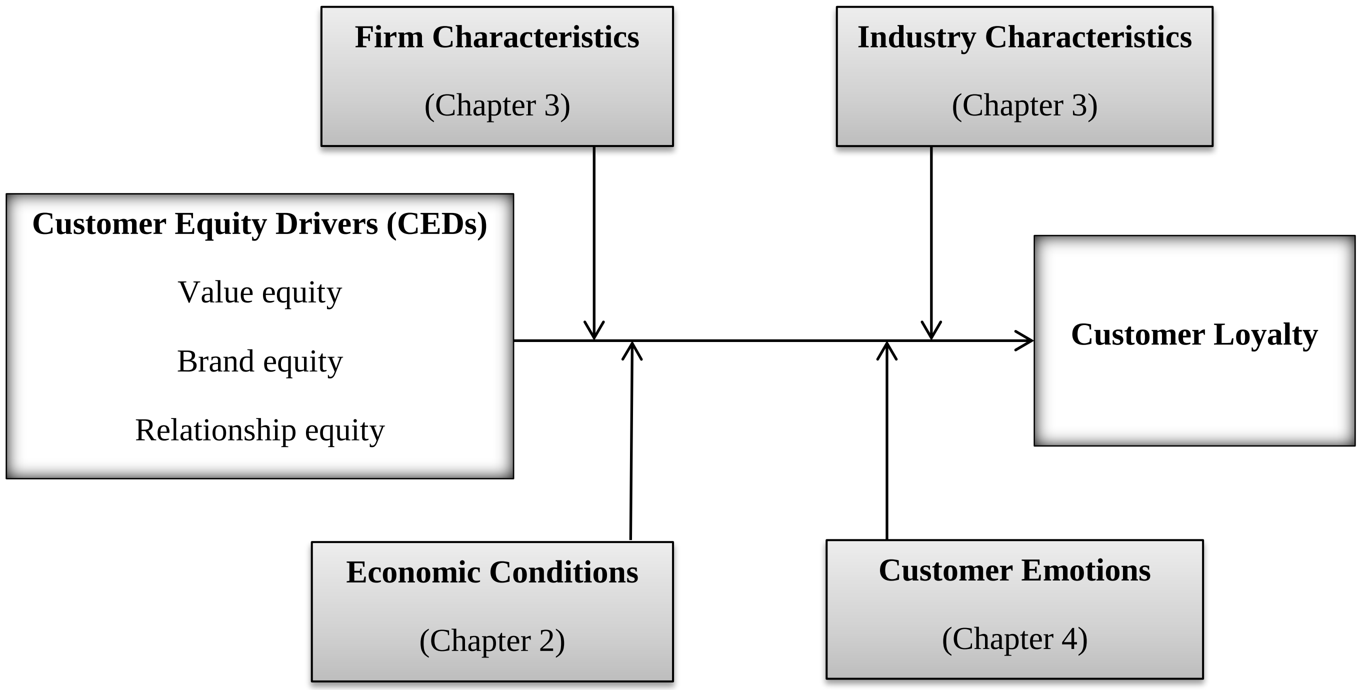
1.3.1 Economic conditions: consumer confidence

In light of the great economic crisis of the last few years, firms have been encountering reduced customer loyalty (Lamey et al. 2007). How can firms retain customers in turbulent times? This is a crucial question without a definite answer yet. A number of speculations suggesting effective marketing strategies during recessions have appeared, but these speculations do not provide clear guidance for firms. For example, some propose that service value is of importance (e.g., The Independent 2010), some claim that good brands are recession-proof (e.g., Knowledge@Wharton 2010), and others suggest that customer relationship management is a useful loyalty tool (e.g., Knowledge@Wharton 2010). To initially answer the question, we use consumer confidence (CC) as a proxy representing economic conditions because CC and economic conditions are tightly related to each other (Katona 1979). CC becomes relatively lower during recessions, but higher during prosperity. Consumer confidence is a psychological construct that measures customers' perceptions about their recent and future financial situation and economic climate (Curtin 2007; Katona 1974; Lemmens, Croux, and DeKimpe 2007). CC reflects different customer preferences (e.g., Allenby, Jen, and Leone 1996; Katona 1968). In this sense, CC may help in explaining which loyalty strategies are more effective (i.e., preferred by customers) in turbulent times. We find that value equity is more effective at increasing customer loyalty for lower-CC customers across all studied service industries. In addition, since the moderating role of CC varies across industries, we initially find that value equity and brand equity have more impact on customer loyalty for lower-CC customers in non-contractual settings than those in contractual settings.

1.3.2 Industry- and firm characteristics

Researchers have been discussing the potential variation of the positive CEDs-loyalty link across industries and firms (Anderson and Sullivan 1993; Gupta and Zeithaml 2006; Rust, Zeithaml, and Lemon 2000). However, systematic research about the reasons for this variation is sparse and speculative. We hence empirically examine whether, how much, and why the CEDs-loyalty

Figure 1.1 Conceptual Model of the Dissertation



link varies across industries and firms. In doing so, we integrate theoretically argued industry- and firm characteristics to explain the concerned variance at the firm- and industry levels. In terms of industry characteristics, we first include the market environment (i.e., environmental turbulence and industry advertising intensity) because the industrial organization literature assumes that the market environment adds uncertainties to the implementation of strategies (e.g., Gatingnon 1984). We also consider types of services and transactions (i.e., product visibility and contractual settings) because different types of products and services would shape idiosyncratic customer perceptions and lead to customer preferences for different strategies (Brouthers, Brouthersm and Werner 2008; Powell 1996). Concerning firm characteristics, we include innovativeness and market position. These two firm characteristics are firms' core resource and crucial for firms to maintain competitive advantages in the market (Atuahene-Gima 1996; Mizik and Jacobson 2003). Since it is difficult for firms to change their core resource, they tend to adapt strategies to core resource. Hence, it is necessary to know whether CEDs fit these two firm characteristics and create a strategic synergy together. We test 18 moderating effects (3 CEDs × 6 moderators) in total. Nine out of the 18 effects are significant. For example, at the industry level, we find a strategic fit that the effects of CEDs are stronger in contractual settings. However, at the firm level, there is no strategic synergy between innovativeness and relationship equity as well as between strong brands and brand equity.

1.3.3 Customer characteristics: customer emotions

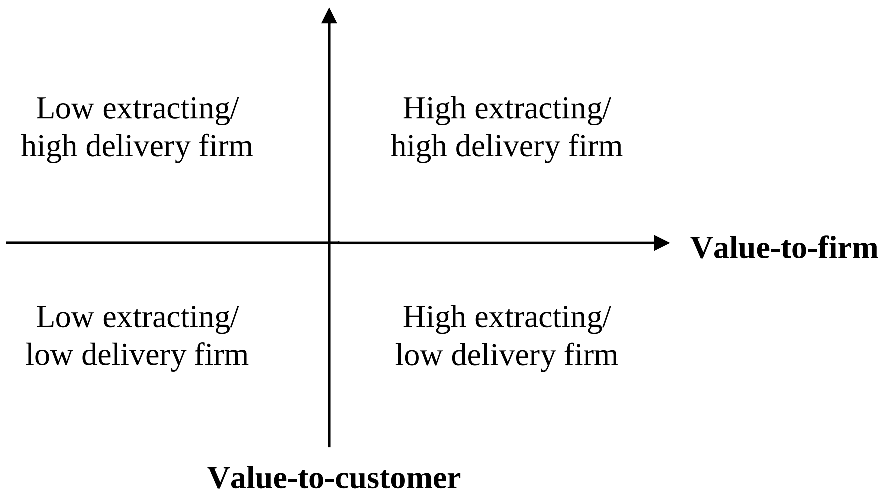
Managing customer emotions is becoming popular, which has been extensively discussed in media and adopted by firms (e.g., BBC 2011; Forbes 2012; NBC 2005). A reliance on managing customer emotions is thought to act as a competing strategy to existing and commonly used strategies, such as CEDs. However, little is known about whether managing both customer emotions and CEDs will lead to strategic synergy. This is not only an important theoretical issue as stated by Bagozzi, Gopinath, and Nyer (1999), but also an important strategic issue for managers. The reason is that marketing activities are tightly interconnected with each other. With increasing usage of emotional strategies, it is crucial for firms to gain more understanding of whether emotions would complement or substitute for CEDs strategies (Siggelkow 2002). Misperceiving the interactions of strategies is critically related to the effectiveness of resource allocation. Thus, we study two important types of customer emotions in decision-making: type I and type II emotions (Goldstein and Strube 1994; Pham 2004; Warr, Barter, and Brownbridge 1983; Watson and Tellegen 1985). Type I emotions are influenced and managed by firms. This type of emotion is evoked from any episodes related to firms/ brands. For example, customers feel elated when receiving a small gift from firms or feel angry when interacting with unfriendly front-desk staff. Elation and anger here are type I emotions. In contrast, type II emotions are not influenced by firms and hence less relevant to firms. This type of emotion originates from everywhere except from firms. For example, customers feel happy on a sunny day or feel sad when his/ her favorite soccer team is defeated. Happiness and sadness here are type II emotions. Type II emotions are less relevant to firms, but they are often misattributed by customers and carried over to purchase decisions (Lerner, Small, and Loewenstein 2004). We find the moderating impact of type I emotions, but not type II emotions. Specifically, the effects of CEDs are weakened by positive valence of type I emotions, but strengthened by negative valence of type I emotions. In addition, we also re-examine the main effect of type I emotions on customer loyalty in a broader sense, including value equity, brand equity, and relationship equity. Our result illustrates the salient effects of type I emotions for creating loyalty when CEDs are simultaneously taken into account.

1.4 Research Aims and Contributions

This dissertation aims to identify some crucial but untested boundary conditions of the CEDs-loyalty link. We focus the boundary conditions on economic conditions, industry characteristics, firm characteristics, and customer emotions. Beyond this, we also aim to generalize the CEDs-loyalty link across multiple industries and firms. To this end, we use the Dutch Customer Performance Index (DCPI), which collects customer data from a large number of industries and firms in the Netherlands. The DCPI started data collection in 2010 onward and is developed by the Customer Insights Center of the University of Groningen, MetrixLab, and MIcompany (Bouma et al. 2010). The respondents are MetrixLab's Dutch Consumer Panel, who are recruited from different sources (e.g., different websites) based on socio-demographic variables and internet behavior (MetrixLab 2014). This is to create a representativeness of the Dutch population and also to avoid respondents with similar behavior. With the surveys implemented by MetrixLab, the response rates are on average more than 40% and the completion rates are more than 90% (MetrixLab 2014).

The DCPI data are mainly cross-sectional, but there are panel data, namely, 419 respondents observed over two years (2011, 2012). In alignment with the customer-centric concept, the DCPI provides information of value-to-customer (V2C) and value-to-firm (V2F), which constitute two axes of a DCPI-matrix (see Figure 1.2). By using the DCPI-matrix, firms are aware of the extent to which they deliver value to customers and also the extent to which they create value to themselves. For example, scoring high in both V2C and V2F indicates that firms have successfully created the value for both customers and themselves, becoming a "high extracting/ high delivery firm' in the DCPI-matrix. Subsequently, we will specify the aims and contributions of examining the concerned boundary conditions in Chapters 2, 3, and 4, which are the core of this dissertation.

Figure 1.2 DCPI-Matrix (Bouma et al. 2010)



To examine the impact of economic conditions, we adopt CC as a moderator in the CEDs-loyalty link and answer how firms can retain customers in turbulent times in Chapter 2. We use the DCPI data in 2010, including 95 firms from 13 service industries, to test the hypotheses. By doing so, we provide a more nuanced understanding of how firms in different service industries need to adapt their marketing communication strategies for creating loyalty among customers with different levels of CC.

In Chapter 3, we aim to explain the potential variation of the CEDs-loyalty link across industries and firms (Anderson and Sullivan 1993; Gupta and Zeithaml 2006; Rust, Zeithaml, and Lemon 2000). To collect data at different levels, we use three different data sources: (1) the DCPI data in 2011 (including 8,924 customers of 95 leading firms across 18 service industries), (2) an expert survey consisting of 558 responses from managers and business consultants, and (3) external sources including data from A.C. Nielsen on firms' annual advertising expenditures as well as from firms' annual reports on revenues. Taken together, we assist in gaining more generalizable and nuanced insights with respect to the CEDs-loyalty link. We are also able to recommend that managers develop context-specific strategies.

In Chapter 4, we aim to examine the interaction of customer emotions and CEDs on customer loyalty. We ask whether CEDs are differentially effective for creating customer loyalty, depending on customer emotions. In addition, we are interested in whether customer emotions and CEDs jointly contribute to explaining customer loyalty (i.e., main effect of emotions). We conduct three studies to test the hypotheses. In Study 1, we examine type I emotions by using the DCPI data in 2012. The data include 102 leading firms across 18 services industries. Study 2 is a mixed design. We manipulate type II emotions by watching videos (between subjects) and then manipulate CEDs and measure customer loyalty by a conjoin design (within subjects). In Study 3, to examine type I and type II emotions simultaneously, we use customer data in the lottery industry. The reason of choosing the lottery industry is that emotions are enormously experienced by customers/ players in the context (Mageau et al. 2005; Zeelenberg and Pieters 2004). We give guidance on how firms can combine customer emotions and CEDs for effectively creating customer loyalty.

In Chapter 5, we summarize our findings, provide managerial implications, and give directions for future research. Table 1.2 outlines the concerned boundary conditions and shows the data and methods used in Chapter 2, 3, and 4 respectively. The dissertation contributes to the customer loyalty literature by empirically examining crucial, untested boundary conditions of the positive link of CEDs and loyalty.

Table 1.2 Data and Methods of Each Chapter[1]

	Chapter 2	Chapter 3	Chapter 4
Boundary condition	Economic conditions _ consumer confidence	Industry characteristics Firm characteristics	Customer emotions
Data	DCPI 2010 DCPI panel data 2011-2012	DCPI 2011 Expert survey External sources	DCPI 2012 Experimental design Lottery industry
Sample size	DCPI 2010: 6,641 responses 71 firms 13 industries DCPI panel data: 419 responses	DCPI 2011: 8,924 responses 95 firms 18 industries Expert survey: 558 expert responses	DCPI 2012: 10,497 responses 102 firms 18 industries Experimental data: 183 respondents Lottery industry: 2,156 respondents 7 firms
Method	Multilevel analysis Meta-analysis Panel-data analysis	Multilevel analysis with random coefficients	Multilevel analysis Meta-analysis Experimental design

[1] The reason of using different DCPI datasets is twofold: (1) the starting timing and (2) specific need of each chapter. For example, only the DCPI 2010 was available when Chapter 2 started in 2010. Chapter 3 needs a larger number of firms and industries for examining the cross-firm and cross-industry variance. Hence, we use the DCPI 2011 for Chapter 3 because the DCPI 2011 collects more firms and industries than the DCPI 2010.