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# IMPACT OF MARKETING FACTORS ON CUSTOMER EQUITY

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**Abstract.** This article examines marketing factors and elements that influence customer equity associated with building sustainable relationships with profitable clients, which are attracting increasing interest from marketers. Recently, consumers have acquired technical opportunities to influence brands more actively and traditional marketing methods and means often do not ensure the success of the company. In today's conditions, price competition and mass advertising are losing their power of influence, so companies are looking for new methods to fight for the customer attention. Building relationships between the company and the consumer and retaining existing consumers is of great importance. One of the most promising research areas in marketing is the development of customer equity. A basic assumption of customer equity is that a customer, like any other asset, is a financial asset. Customer equity is the total discounted lifetime value of all the company's customers. It helps measure the financial returns that can be made from all customers over the course of a relationship. This enables businesses to assess the value of their clients' assets and make sound financial decisions. By evaluating empirical studies and examining contemporary trends, the article provides both theoretical insights and practical guidance for marketers. The objective is to uncover the impact of marketing factors on customer equity, offering valuable resources for academics and practitioners. As a result of the article, the opinion of various factors and conceptual models influencing customer equity are summarized.

**Key words**: customer equity, customer loyalty, brand equity, value equity, relationship equity.

**JEL code**: M3

## Introduction

This article reviews saturation of markets for goods and services has led to the fact that the problems associated with building sustainable relationships with profitable customers attract an increase interest of marketers. Customers are the engine of any organization, because without them a company has no revenue, no profit, and also no market value. These days, the on-demand economy model is becoming more widespread. Technology platforms offering services and services based only on the trust and needs of customers are receiving more and more capital and growth. For example, Uber does not own vehicles, Facebook does not create content, Alibaba does not own inventory, and Airbnb does not own real estate. The on-demand economy model, when the company essentially does not have its own capital, and business is based on trust and relationships with the consumer, also affects the distribution and influence of such an indicator as customer equity. In today's conditions, price competition and mass advertising are losing their power of influence, so companies are looking for new methods to fight for the buyer's attention and ways to influence it. Building relationships between the company and the consumer and retaining existing consumers is very important. One of the most promising research areas in marketing is the development of customer equity. A basic assumption of customer equity is that a customer, like any other asset, is a financial asset. Customer equity is the total discounted lifetime value of all the company's customers. In today's market, customer equity is essential because it helps measure the financial returns that can be made from all customers over the course of a relationship. This enables businesses to assess the value of their clients' assets and make sound financial decisions. The value that a customer provides to a company is not limited to the profit from each transaction, but is the total profit that the customer can provide during the relationship with the company. In the current competitive market scenario, it is necessary to monitor customer equity as a key indicator of expected future behaviour.

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For literature review, the main keywords in platforms like the Web of Science, Science Direct, Sage Research and Research Gate were traced. The initial search comprised more than 40 English-language resources. Review article discuss the studies identified by presenting the customer equity theoretical contributions made, marketing factors influencing the customer equity and potential ways of researched for future.

The approach for the selection of review articles has certain implications. Firstly, the customer equity is very modern indication that only grows its popularity and application among big international companies and very small number of publications exist in other languages. This affects the number of articles founded. Also, there is a language limitation, as attention was paid only to English-language publications. English-language articles constitute a majority of the international research community. Nevertheless, it cannot be stated that publications made in other languages have only local focus and a lower level of trustworthiness. As also was mentioned, there are very small researches made in other language due to status that the indicator is only growing its application and studies.

In addition, the review article concentrates mostly on marketing field, not financial one. It can reveal more insights into how to satisfy customers, how to attract them and make long-term relationships, not how to measure the customer equity financially.

The objective of the research is to uncover the impact of marketing factors on customer equity, offering valuable resources for academics and practitioners. The article is based on a systematic compilation of key innovations in customer relationship models to identify factors influencing customer equity. First, the general trends of the impact of customer equity on business and the factors affecting customer equity are mapped. Second, suggestions for future research are provided.

The article seeks to answer the following research questions.

1) What are the main factors that affect customer equity?
2) Which relevant topics in customer equity research remain underexplored, and what are the implications of the current findings for future research?

**Research results and discussion**

Customer equity is the sum of the discounted lifetime values of all of a company's customers, and customer equity modelling involves understanding how customer lifetime values can be accurately estimated (Martin, 2015). The goal of customer equity is to get the most out of customers during their relationship with the company. One of the major obstacles to accurately measuring customer equity is the fact that consumers are switching brands, and this switching makes measuring customer lifetime values very difficult (Blattberg et al., 2001).

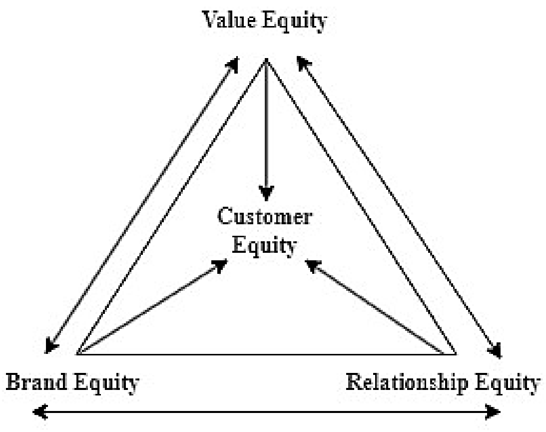
From the budgeting perspective customer equity is the present value of the anticipated lifetime revenue the company's customers will generate, minus company's acquisition and retention costs (Hanssens et al., 2008). Acknowledging the increase of customer equity as a main company's goal leads that a marketing tactic that boosts sales in the short term can have a negative effect on customer lifetime value. Customer equity purpose is to determine the optimal balance between acquisition and retention for particular companies (Blattberg and Deighton, 1996). Blattberg and Deighton also determine that the optimal balance of customer equity is when a customer equity is at its maximum amount. This is the calculation of customer's expected contribution toward offsetting the company's fixed costs over the expected life of that customer.

Customer equity is directly related to the finances and value of an enterprise. Since customers are the main buyers who generate profits, they are a very important resource for the company. A company's financial performance and value are also linked to brand equity and reputation, which is how customers perceive the brand. To develop a brand, positively influence customers and develop long-term relationships, companies need to invest. Therefore, the stable financial position of the company directly affects the allocation of the budget for attracting customers, and also provides an opportunity to enter new markets and platforms (Saksonova and Katalkina, 2022). Furthermore, the ability to buy customers depends on the economic situation as a whole the major macroeconomic indicators – turnover, value added, employment, and investment in fixed assets (Saksonova and Papiashvil, 2019).

Customer equity is also defined as a composite of value equity, relationship equity, that established between service provider and consumer, and brand equity, the additional value that the customer attributes to the underlying product as a result of branding efforts (Rust et al., 2014) (Figure 1).

The three main components of brand equity are the consumer's perception of the brand, their feelings about it, and the efficiency of the company's customer service (Bhadra et al., 2019). By definition, brand equity is a collection of brand-related assets and liabilities that increase or decrease the value that a business offers its clients through a product or service (Gani et al., 2014). Customer-based brand equity is an alternative definition of brand equity that refers to the variations in consumer reactions to a brand depending on their level of familiarity with it. Sources of brand equity influence consumers' behaviours including attention, interest, desire, and purchases, brand awareness and brand image are crucial. A view of brand equity suggests that its value arises from the incremental discounted cash flow from the sale of a set of products or services, as a result of the brand being associated with those products or services (Rust et al., 2004). Strong brand equity influences consumer behaviour in a number of ways, including increased profitability, reduced susceptibility to rival marketing campaigns, increased loyalty, and more adaptable consumer reactions to price adjustments through brand extensions.

Value equity is the objective assessment of an offer's utility based on the advantages it is thought to have in comparison to its costs (Hajipour et al., 2013). A combination of price, convenience, quality, and service makes up the core value. Innovation is a tactic for generating, distributing, upholding, and continually enhancing consumer value (Mane, 2016). If a customer thinks a brand is innovative, this could imply that the client has a dispassionate opinion on the products the brand offers. Therefore, a key element of perceived brand innovation may be also the value equity.




***Source: Aravindakshan, A., Rust, R., Lemon, K.,Zeithaml, V. (2014). Customer equity: Making marketing strategy financially accountable, Journal of Systems Science and Systems Engineering, 13(4), p. 405-422.***

Fig. 1. **Three dimensions of customer equity**

Perceived justice, customer pleasure, and brand loyalty are all included in relationship equity. Relationship equity looks at the link between consumers and brand equity as well as how well marketing campaigns work to build a rapport between target consumers and brand equity (Bhadra and Rego, 2019). Millions of people, for instance, update their status on social media every day to share the events in their lives. They use the chat feature to communicate, post on their walls to share ideas and opinions, send photos and videos, and write personal notes and comments on other people's notes.

It's evident that consumers' reactions to marketing initiatives are changing quickly. To send targeted messages to clients, this calls for a strategy framework that integrates numerous channels and multiple media. Individual customer preferences and interactions must be included and integrated with a consumer emphasis. In order to successfully execute marketing communications, businesses must put in place a multi-channel, multimedia consumer management system.

Customer Equity Management is a dynamic, integrated marketing system that uses information about consumer behaviour and techniques for financial evaluation. Thus, the purpose of the customer equity is to obtain the highest benefit from customers during their relationship with the company (Hogan et al., 2002). To define this benefit, it is important to judge if new products and customer service initiatives will affect customer positive and will grow the customer equity (Blattberg and Deighton, 1996). This is a discussion on how companies should distribute resources across various channels focusing on marketing mix to reach loyal customer base and to attract new customers. Determining the factors that influence customers' decision-making regarding budget allocation for new product marketing and brand building assessing their impact.

The majority of sales are usually from repeat customers (Figure 2). Attracting a new customer is usually significantly more expensive than satisfying an existing one. Despite this, companies often place more emphasis on attracting new consumers than retaining existing ones. However, key customers form the basis of the company's success and the strengthening and increase of stable customer equity. It is important to note that the value of a consumer relationship is not only the ability to make a profit from the sale of goods. Satisfied customers spread positive word of mouth and allow the company to increase profits by attracting new consumers.

Customer equity management is based on regular measurement of indicators characterizing the profitability and degree of retention of existing and potential clients of the enterprise. For these purposes, customer surveys, analysis of sales statistics, and monitoring of customer behaviour are used. The attitude of customers towards the enterprise is reflected in their behaviour. Beneficial customer behaviour is manifested in the following: repeat purchases, recommending the company to acquaintances and friends, switching to more expensive products, purchasing additional goods from the company's range, weakening the reaction to price increases of the company, providing the company with information that allows it to increase the efficiency of its work. As a result of this behaviour of customers, the company achieves high and growing financial results. To ensure the stable development of customer equity, a certain part of the profit must be invested in strengthening relationships with profitable clients.

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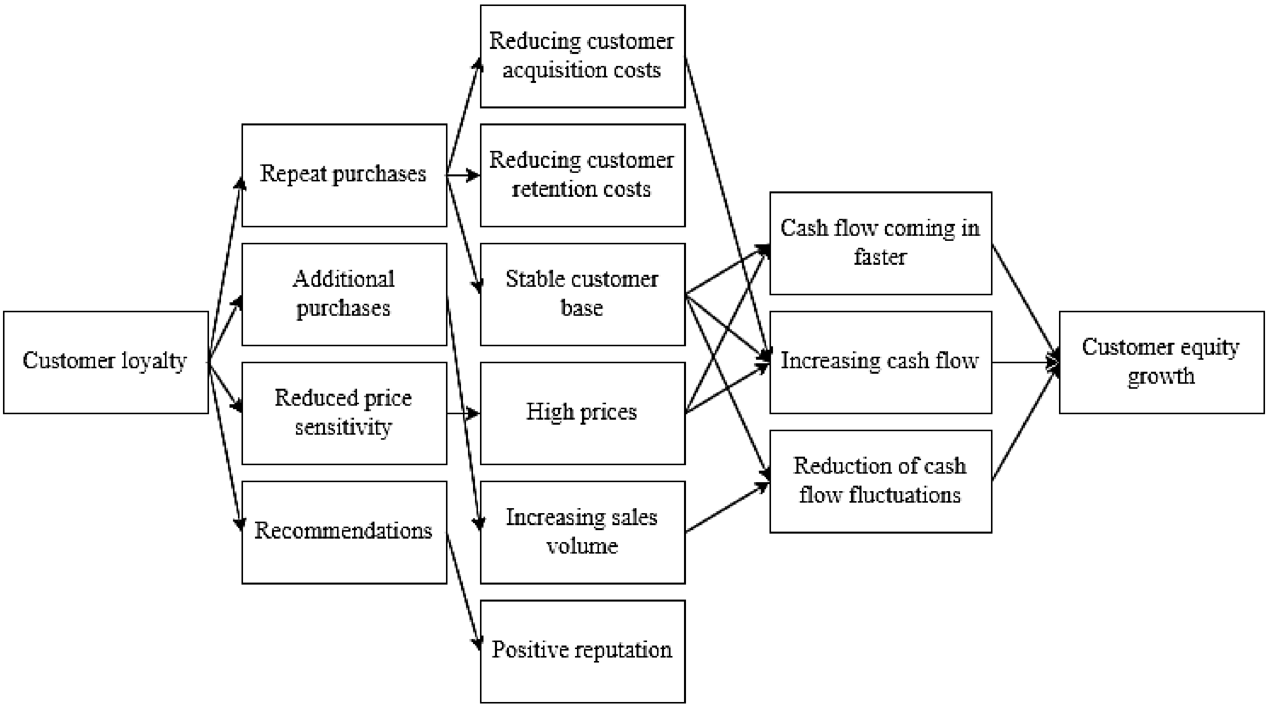


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Fig. 2. **The relationship between customer loyalty and customer equity**

The level of customer loyalty (repeat purchase rate, number of referrals, and volume of related purchases) depends on factors focusing on three dimensions and drivers of customer equity: value equity, brand equity, and relationship equity (Table 1).

Brand equity, unlike value equity, is a more subjective and emotional concept based on the consumer's image and opinion of the brand. Brand equity factors that influence customer loyalty and customer equity are: advertising of serviced or products, company's participation in social projects, brand reputation, brand image and brand association. The role of brand association is crucial for trust goods when it is difficult to assess quality before consumption. For many products and services, it is possible to try it before buying or to easily assess the quality of certain attributes before purchase (Rahman et al., 2023). However, other consumers need to use different quality metrics. This aspect of brand equity is particularly important to recognize the value of a strong brand identity as a key tool for attracting new consumers.

The brand-switching approach explicitly models the brand-switching pattern of individual customers using Markov switching matrices that represent brand-switching patterns in consumer packaged goods. For example, an approximate Markov switching matrix can indicate the probability that a consumer who previously purchased a new brand will repurchase other brands. We can then estimate future acquisition opportunities for all of his future purchases, given that the competitive situation remains unchanged (Rust et al., 2005). Of course, the company would like to change the competitive situation in a positive direction, which means that the company needs to understand what drives the exchange matrix and, therefore, the customer equity. In other words, the company tries to identify the attributes and factors that will influence customers. For example, for the banking sector, the behavioural costs of rebranding are not only detrimental to current profits, but also to future revenues. Existing customers not only use banking services, but will continue to use these services at higher rates. By losing existing customers, banks cannot take advantage of these benefits (Mohsin et al., 2012).

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Table 1

**Factors affecting consumer behaviour and customer equity formation**

| Dimension groups of customer equity | Factors |
|---|---|
| **Brand equity** | Company reputation |
| | Advertising of services/products |
| | Company's participation in social projects |
| | Brand image |
| | Brand associations |
| **Value equity** | Value added services |
| | The variety of products and services |
| | Location and environment (technical capabilities, visual appeal etc.) |
| | Buying security, guarantees |
| | The quality of services/products |
| | Cost of service/product |
| | Speed of service |
| | Ease of obtaining information |
| | Ease of use of website and online shopping |
| | Quality of customer service (customer attention, personalized services, no queues etc.) |
| | Qualification and professionalism of employees |
| **Relationship equity** | Reviews on the Internet |
| | Word of mouth recommendations |
| | Previous experience |

***Source: created by the authors based on theory sources***

The biggest number of factors are detected from value equity. It is important to define how much a customer is willing to pay for a product or a service over and above its selling price. So, it could be said that value equity factors are all factors that directly affects customer buying experience. Customer service quality is an important strategic indicator. To ensure growth and future sales, it is important to make the customer experience with the brand as pleasant as possible. Satisfied customers will tell their friends and acquaintances about the brand, which remains the most effective and reliable advertising, despite all technological advances. So, value equity strongly affects relationship equity and brand equity overall. It is important to create surveys and ratings to track customer perceptions of service quality across multiple touchpoints, adjusting strategic and tactical activities based on customer desire to purchase the product.

Promotion of discounts has a positive and significant effect on purchase decisions. Although effectiveness is not easy to measure, the promotional tool has a huge impact on marketing performance. Promotion is defined as communication that informs potential consumers about a product that can satisfy consumer needs and wants and encourage them to buy (Prianggoro, 2019). The purpose of promotion is to reach target consumers and persuade them to buy. They help consumers increase the utility of obtaining a purchase and improve the shopping experience. Non-monetary offers (such as contests, sweepstakes, free gifts, loyalty programs) are associated with benefits, experiences and emotional nature because they are inherently rewarding and associated with experienced emotions, pleasure and self-esteem.

In the current fast-paced business world, companies require adaptable and strategic business practices to adjust to market changes caused by evolving consumer preferences, improved manufacturing techniques, and advancements in technology. Effective product and service delivery timelines are crucial

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for success in this competitive environment, where consumer satisfaction plays a key role in fostering customer loyalty through value.

The faster the customer can get the desired product and satisfy his wants and needs, the more satisfied he will be. Often, customers make impulse purchases during times of high emotion. If they receive the item at that exact moment, they are most satisfied and are more likely to leave a very good review. It is important to release products faster than the competitors in order to be the first to meet the needs of the consumer and make him satisfied. Taking into account that a lot of enterprises work remotely, there is an increasing demand for skilled professionals in the information and communication technology (ICT) sector in both Latvia and globally, that are important to provide amazing customer service even when the employee is not at the office and to attract potential customers (Cekuls et al., 2017).

The increased importance of communications in modern business raises the issue of conceptualizing a new form of relationship model with customers and determining the content of the concept of relationship equity. In the process of digitalization, new environments for information interaction are created, new technologies for the communication process are introduced, resulting in numerous effects, including those related to the economic and financial achievements of firms, and the growth of business capitalization. It is no longer enough for communications to be considered as an auxiliary element that performs infrastructural functions and is considered more as an object of expenditure. Communication costs and the relationship equity of product sales have already become for many enterprises an integral condition for market success, obtaining key competencies and income. Relationship equity factors affecting customer loyalty and customer equity are positive experience with this brand before, word of mouth feedback and recommendations and reviews on the Internet.

Providing a strong consumer experience is crucial to keeping audience's attention and can give them the confidence they need to look away and stay with the particular brand. It is important to value the experience based on the brand and not just the consumer's perspective, as a unique brand experience will serve as a sustainable competitive advantage. It is crucial when organizations can improve the speed and quality of the decision making by paying more attention to the process approach that will drive faster and better customer service (Cekuls, 2018). Furthermore, brand experience has a positive relationship with loyalty where it drives profits. This is because consumers who are more satisfied with the product will buy more next time.

Positive recommendations allow companies to successfully promote their products, building long-term relationships with customers and making them more profitable. Thus, it can be said that positive word-of-mouth recommendation is a significant predictor of trust and consumer repurchase behaviour.

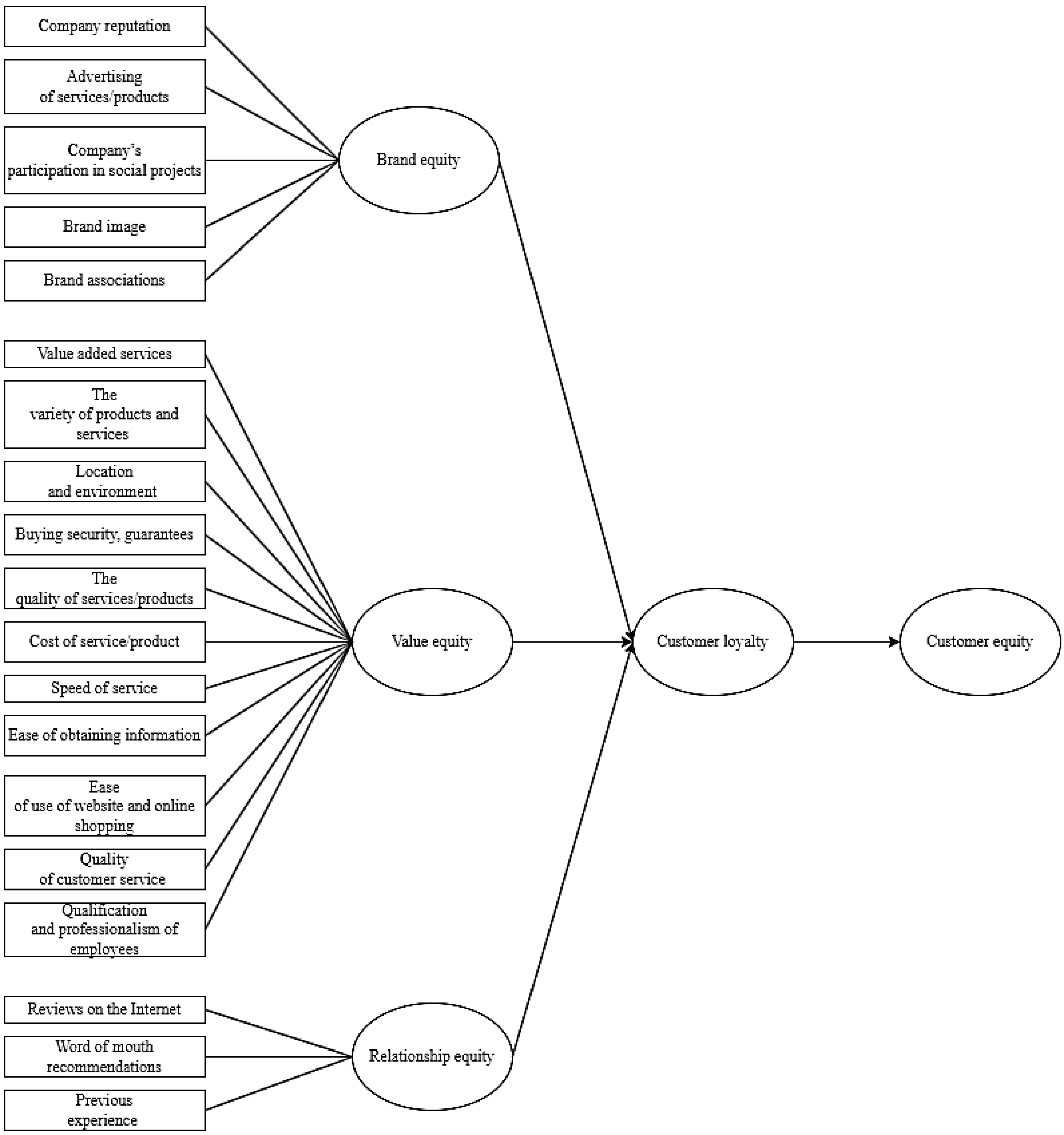
For marketers, often the most difficult decisions involve the marketing mix, or how resources should be allocated across all possible ways to reach and serve potential and existing consumers. Often the choice here is whether to focus more on customer service improvements and less on sales promotion. However, the marketing mix and the choice of factor combinations shape the impact of different levels of spending on customer equity.

In addition to the previously discussed factors, elements of environment and competition have frequently been shown to be important factors in marketing productivity. The firm's skill in adapting to the environment and competition can do no more than improve performance relative to what would otherwise be the case (Rust et al., 2004).

All the above factors indicate how strongly all dimensions influence customer loyalty and customer equity. Figure 3 also shows the importance of working on all dimensions simultaneously, considering Brand Equity, Relationship Equity and Value Equity.

All the factors together will give the best and strongest result and affect the consumer. The reason for this conclusion is that each of the three concepts is universally applicable. Consumers look for value in the products they buy, regardless of which region of the world they belong to. Likewise, consumers are more likely to value relationships regardless of their regional affiliation. Each group will have differences based on demographics such as age and education. Consumers in different regions are likely to have equal appeal for a given brand within a demographic range defined by age, income, and education.

The key question here is how much brand equity plays a significant role in driving loyalty. Emerging retail businesses typically do not attempt to build brand equity beyond building credibility and trust because of the high investment and lengthy onboarding process involved. Brand equity strategy is increasingly seen in established brands. The other two dimensions, value equity and relationship equity, are likely to be generalizable across both developing and developed brands.




***Source: created by the authors based on theory sources***

Fig. 3. **The influence of marketing factors on customer equity**

**Conclusions, proposals, recommendations**

1) Consumer response to marketing efforts is evolving rapidly. This requires a strategic framework that combines multiple channels and multiple media to deliver targeted messages to customers. A consumer focus is required to include and integrate individual consumer preferences and interactions.
2) Many companies face the problem of how to leverage customer equity and which driver to focus on first. To fully determine the model for determining customer equity, it is necessary to integrate all dimensions of customer equity such as value equity, brand equity and relationship equity, which develop and drive the size of customer equity.
3) Customer loyalty is the end result of customer brand equity in the customer equity concept. The research literature review provides important theoretical and practical implications as well as future research directions to identify factors that influence customer equity growth.
4) The value of loyal customers for a company lies primarily in repeat purchases, recommendations, and provision of valuable information.
5) It is important for companies to implement a multi-channel, multimedia consumer management system that will help companies effectively implement marketing communications.
6) The present study is very relevant for service organizations in evaluating different loyalty programs and also in segmenting customers depending on the amount of customer equity.
7) Customer Equity Management purpose is to obtain the highest benefit from the customer and decide on budget allocation on customer retention and customer acquisition.
8) Customer equity and it depending factors are important for the financial evaluation and budget allocation. Definition of factors' impact and importance for the customer helps of using marketing mix and decide whether invest more in new-product marketing or in brand building.

This study provides a universal set of factors that influence the size and development of customer equity. Further steps in the research could focus on identifying and testing specific factors in the context of customer loyalty. Different markets and consumer groups with different psychographic characteristics may have different loyalty attitudes and behaviours determined by different combinations of loyalty factors. It would be interesting to know the industry-specific set of factors that determine loyalty.

Furthermore, it is important to make quantitative research to measure the correlation and relationship between factors and customer equity to verify their validity. Customer equity is influenced by various factors to varying degrees. Significant consideration should be given to calculating their contribution to the overall evaluation of customer equity, as all of these factors are interconnected with other influencers. For example, ensuring a high level of product quality is frequently associated with achieving customer satisfaction.

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