

Customer lifetime value creation through customer engagement in social media: A conceptual framework

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Abstract: *In the age of digital media, concept of customer engagement has excited the marketers tremendously, and firms are now recognizing their most profitable customers who can co-create value for them. This paper is an attempt to find out the role of customer engagement in creating value through brand communities in social media, and since the firms want to maximize the customer lifetime value (CLV) of their consumers, this paper highlights the various challenges encountered by the firms in understanding and incorporating successful engagement strategies to maximize the CLV. This article proposes that customer engagement in social media enhances co-creation of value by virtue of contributions, perceptions, preferences, or expectations of consumers toward the brand or firm in the form of learning and sharing positive/negative word of mouth in social media.*

Keywords: Customer Engagement, Customer Lifetime Value, Social Media, Word of Mouth.

Introduction

Modern marketing logics suggest that consumer is exogenous to firm and so passively inherits the value creation efforts made by the brand because value originates in the brand (Deshpande, 1983). However, in present competitive scenario, a different point of view is emerging as the research studies conducted in existing literature from product advancement theory to service dominant logic theory (SD logic), and to consumer culture theory, these all theories suggest that consumers can co-create value, competitive strategies and contribute in the innovation process of the brand (Franke & Piller, 2004; Von Hippel, 2005; Prugl & Schreier, 2006; Etgar, 2008), and hence, consumers become endogenous to the brand (Prahalad & Ramaswamy, 2004; Jaworski & Kohli, 2006). Since, customer value is positively associated with satisfaction, loyalty and consumer purchase intention (Chang *et al.*, 2009; Zeithaml *et al.*, 1988; Bove *et al.*, 2002; Cronin *et al.*, 2000), it has become important for marketers to improve the customer lifetime value.

Measurement of customer value usually concentrated on customer acquisition, retention, and to increase expenditures of consumers with the firm over the period of time (Kumar *et al.*, 2008). Perspective of this measurement is based on sales transactions between customer and firm, either via repeated purchasing or cross-purchasing, to ultimately increase the CLV. However, there are many other different ways (for example, positive word of mouth, innovative product development ideas, etc.) through which consumers contribute to firms other than direct

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sales transactions. So, Firms are now emphasizing to develop collaborative relationships with customers since these relationships would foster interactions among consumers. These “active interactions of a customer with a firm, with prospects and with other customers, whether they are transactional or non-transactional in nature”, is called as the process of customer engagement as defined by Kumar *et al.* (2010). However, some other researchers included only non-transactional customer behavior. Van Doorn *et al.*, 2010 has defined customer engagement as “customer’s behavioral manifestation toward a brand or firm, beyond purchase, resulting from motivational drivers.”

Although there is no common consensus in the definitions of customer engagement, but marketers and researchers consider that high level of customer engagement is essential for the success of the firm because engaged consumers provide valuable feedbacks continuously about products and services offered by the firm, and similarly, low level of engagement among consumers is barrier to the growth of the firm as potential sales may be lost and also due to negative word of mouth (NWOM), (EIU survey, 2007). Hence, consumers can not only be engaged, they can also be disengaged with a brand as well.

In this regard, communication among consumers, specifically between unknown consumers has been greatly facilitated by social media platforms (Duan *et al.*, 2008). Godes *et al.*, 2004 suggested that these social media channels are not only cost-effective but also good medium to access and gather communication among consumers. Since, social media provides a platform for consumers to talk to millions of other connected consumers; firms are no longer the originator of brand communication. This interactive nature of establishing communication between consumers and firms through social media channels, and allow the customers to participate in the content generation in social media, has inspired the marketers to use the potential of social media and to serve customers and satisfy their needs. Further, 70 percent internet users participated in a survey admitted that they trust others consumers on these social media channels (Nielsen, 2009). Hence, companies are now realizing the need of engagement of customers through various social media channels, so that customers should involve and participate in content generation and co-creation of value.

Thus, this paper develops a conceptual framework, seeking the role of customer engagement in creation of customer lifetime value. Firstly, authors describe the theoretical background and put forward the propositions of conceptual framework. Secondly, they introduce the customer lifetime value model through customer engagement in social media and finally the managerial implications and future research is discussed at end.

Review of Literature

Customer Engagement

Researchers like (Hollebeek *et al.*, 2011; Sprout *et al.*, 2009), suggested that “engagement represents an individual-specific, motivational, and context-dependent mutable emergent from two-way connections among relevant engagement subject(s) and object(s)”. Students (London *et al.*, 2007), employees (Sakset *et al.*, 2006), and customers (Brodie *et al.*, 2011), are the engagement subjects, however, schools (Norris *et al.*, 2003), other co-workers and employers (Saks, 2006), fellow students (Bryson *et al.*, 2007) and customers having similar interest and brands (Hollebeek *et al.*, 2011), can be considered as engagement objects.

Table 1: Important Definitions of Customer Engagement are given in

Author	Definition
Bowden <i>et al.</i>,2009	A psychological process that models the underlying mechanisms by which customer loyalty forms for new customers of a service brand as well as the mechanisms by which loyalty may be maintained for repeat purchase customers of a service brand.
Mollen <i>et al.</i>,2010	A cognitive and affective commitment to an active relationship with the brand as personified by the website or other computer-mediated entities designed to communicate brand value.
Kumar <i>et al.</i>,2010	Active interactions of a customer with a firm, with prospects and with other customers, whether they are transactional or non-transactional in nature.
Van Doorn <i>et al.</i>,2010	Customer's behavioral manifestations that have a brand or firm focus, beyond purchase, resulting from motivational drivers.
Verhoef <i>et al.</i>,2010	A behavioral manifestation toward the brand or firm that goes beyond transactions.
Brodie <i>et al.</i>,2011	A psychological state that occurs by virtue of interactive, co-creative customer experiences with a focal agent/object (e.g., a brand) in focal service relationships.
Vivek <i>et al.</i>,2012	The intensity of an individual's participation in and connection with an organization's offerings and/or organizational activities, which either the customer or the organization initiate.
Brodie <i>et al.</i>,2013	A multidimensional concept comprising cognitive, emotional, and/or behavioral dimensions, and plays a central role in the process of relational exchange where other relational concepts are engagement antecedents and/or consequences in iterative engagement processes within the brand community.”
Hollebeek <i>et al.</i>,2014	“A consumer's positively valence brand-related cognitive, emotional and behavioral activity during or related to focal consumer/brand interactions.

Customer Lifetime Value (CLV)

Customer lifetime value has been discussed in the existing literature under different labels such as customer equity, life time value (LTV), customer profitability and customer value (Kahreh *et al.*, 2014). Early researchers defined customer value as “a consumer’s overall assessment of the efficacy of a product/service established on perceptions of what is received and what is given” (Zeithaml *et al.*, 1988). Kotler *et al.*, (2000), suggested that customer value is the outcome of customers’ valuation in calculating the benefits against the costs they are expected to incur in evaluating, obtaining, and using the brand. Lariviere *et al.*, (2013), defined value from the outlook of consumers as well as firms and termed it as value fusion. They defined it as a value that can be attained for the whole linkage of customers and firms concurrently through social media network. It can be achieved from both manufacturers and customers (a) in individual or collective way (b) in active and passive ways (c) concurrently (d) in an interactive way (e) in real-time and (f) just-in-time. Mathematically, customer lifetime value can be explained as the total of all profits achieved from total transactions in the lifetime of customers of the firm after deducting the total cost incurred in attracting, selling and servicing these customers, along with

taking the value of time factor in terms of money into consideration (Hwang et al., 2004). For the calculation of CLV for a customer i at time t for a finite time horizon T formula can be given as (Berger et al., 1998; Kahreh et al., 2014).

Kumar et al., (2007), defined customer lifetime value (CLV) as an estimate of how much customers would spend on product and services offered by the firm if they continue their purchase with the firm at the present rate for certain period in future, deducting the expenditures of marketing to these customers. CLV define as “the present value of the future cash flows attributed to the customer relationship” (Farris et al., 2006). CLV is used as a metric to decide whether customers in a particular group are worthy to acquire (Blattberg et al., 2008), to estimate the value of customers for the company (Gupta et al., 2004), or as a factor to be managed (e.g., Khan et al., 2009). In the existing literature, research has been conducted to calculate the financial value of customers (Hogan et al., 2002; 2003) and its determining factors i.e. marketing actions (Rust et al., 2004; Venkatesan et al., 2004). From marketing perspective, Kumar et al., 2010 proposed that the total value that accumulates to firm from customer engagement can be referred as “total customer engagement value (CEV)” and identified four types of Customer Engagement Value (CEV) as Customer Lifetime Value (CLV), Customer Referral Value (CRV), Customer Knowledge Value (CKV), and Customer Influencer Value (CIV).

These customer engagement values can be further explained as:

Customer Referral Value (CRV): CRV is earned through referrals of new customers by existing customers as the outcome of incentivized referral programs initiated by the firms. These referrals are very important for the firms as referrals shrink the acquisition costs of customer and bring future revenues for the firm. CRV focuses on current customers and these customers get the reward to bring new customers from their social network. Since, these customers bring the new customers effectively and are considered as non-employee salespersons so, these customers get the commission from the sale (Kumar et al., 2010). Due to the rapid growth of social networking websites (i.e. Facebook and Twitter), CRV has become an essential part of customer engagement (Chauhan et al., 2013), because these sites provide a better platform to create and share the product related information easily and in a very attractive way.

Customer Knowledge Value (CKV): CKV encompasses customers’ knowledge about the product and services offered by firm and value in the form of feedbacks given by consumers to the firm regarding ideas for product innovation and service improvement (Kumar et al., 2010). Customers contribute value to the firm as they help to understand the preferences of customers and participate in knowledge improvement regarding products and services (Joshi & Sharma, 2004). This value co-creation by consumers is the central component of CKV and consumers become information source and co-developer for the firm (Fang, 2008). The growth of social media brand communities can be considered an extension of CKV because customers can discuss of service attributes and product usages in these communities (Morris & Martin, 2000).

$$CLV_{i,t} = \sum_{t=0}^T \frac{profit_{i,t}}{(1+d)^t}, \quad CLV_i = \sum_{t=1}^T \frac{Revenue_{i,t}}{(1+d)^t} - \sum_{t=1}^T \frac{Cost_{i,t}}{(1+d)^t}$$

Customer Influencer Value (CIV): CIV is generated when existing customers based on their intrinsic motivation influence other existing customers as well as prospects towards the firm. These customers convert the prospects into customers and encourage the existing customers to upsurge their purchase with the company, thereby transforming a mutual service experience, and assisting other consumers in the usage of services offered by the firm. Basically, intrinsic motivation of these customers is responsible to generate CIV as against extrinsic

motivational rewards in case of CRV. Hence, CRV targets only prospects, while CIV targets both prospective and existing customers (Kumar et al., 2010).

All these three customer engagement values i.e. CRV, CIV and CKV would increase the future purchase transactions of the firm; thereby these values are positively associated with customer lifetime value (CLV).

Relation between Social Media and Customer Lifetime Value

Rodriguez *et al.*, 2012 has identified through their empirical study that social media usage positively affects the firm's proficiency to generate opportunities for its customers and manage relationships with them. Hence, it would enhance the process of customer engagement and thereby enables value co-creation. Dutot *et al.*, 2013 also proposed that relationship between firm and its customers through social media channels assists in value co-creation. Rodriguez *et al.*, 2012 revealed that social media usage positively affects relationship sales performance of the firm.

Venkatesan *et al.*, (2004), showed that marketing actions (i.e. advertising, price, promotions, new products etc.) are positively associated with CLV and they also suggested that firm can increase the profits by designing marketing communications in a proper way that maximizes CLV. Hence, social media is an important platform for marketing communication to spread positive word of mouth and to maximize CLV. Schau *et al.*, (2009), also suggested that brand community practices in social media networks facilitate consumption opportunities and generate value for both customers and marketers. There may also be negative value fusion due differences between firms and consumers (Lariviere *et al.*, 2013), or dissatisfaction due to bad experience of the product/service etc., which would ultimately has negative effect on CLV. In this regard, social media channels have become very important to analyze these aspects in order to improve customer lifetime value (CLV).

Relation between the Customer Engagement Sub-Processes and Customer Value

Value can be created for the firm through the participation of consumers in the development process of new product, co-creation, and their readiness to give suggestions and feedbacks for the advancement in existing products (Kumar *et al.*, 2010). (Jaakkola *et al.*, 2014), conceptualized the role of CEB in value co-creation as "The customer provision of resources during non-transactional, combined value processes that occur in interaction with the focal firm and/or other stakeholders, thus affecting their individual value processes and outcomes."

Hence, customer participation helps the manufacturers to accelerate the product development process and to improve product innovation, both of these are the main objectives for managers to decrease the costs of products and services and to increase the acceptance of these products and services in the market (Von Hippel, 1986; Athaide *et al.*, 1996; Chandy *et al.*, 1998; Henard *et al.*, 2001). So, willingness of customers to engage in conversations contributes to firm's value.

(Lariviere *et al.*, 2013), suggested that contributions of consumers in social media can be active, passive, interactive or aggregated. Li and Owyang *et al.*, 2010 suggested watching, sharing, commenting, producing and curating as the five stages of customer engagement in social media. Jaakkola *et al.*, 2014), identified four types of behaviors in the process of customer engagement as augmenting, influencing, co-developing and mobilizing. (Brodie *et al.*, 2013), also suggested sub-processes of customer engagement in online community as learning, sharing, advocating, socializing and co-developing. Here, we are linking these sub-processes given by

(Brodie *et al.*, 2013) with the customer engagement values proposed by Kumar *et al.*, 2010 i.e. Customer Lifetime Value (CLV), Customer Referral Value (CRV), Customer Influencer Value (CIV) and Customer Knowledge Value (CKV), and here, we are assuming it to be applicable in social media. Since, Hollebeek *et al.*, 2012 found that higher CE may add higher CV positively up to a specific optimum point with a curvilinear relationship between CE and CV, hence, customer value varies conferring to the nature and strength of “customer engagement” with the brand and its products and services. Hence, depending on the level of engagement, sub-processes i.e., learning, socializing, sharing, advocating and co-developing (Brodie *et al.*, 2013), can be linked with customer engagement values given by Kumar *et al.*, 2010.

We have considered sharing, co-developing and advocating as a part of positive word of mouth (PWOM), and these behavioural manifestations (i.e., sharing, co-creating, advocating) generates CRV, CKV and CIV respectively.

1. Proposition 1: Sharing in social media would generate customer referral value (CRV).
2. Proposition 2: Co-developing through social media would generate customer knowledge value (CKV).
3. Proposition 3: Advocating in social media would generate customer influencer value (CIV).

Perceived Value

Lariviere *et al.*, 2013, suggested that value is not only created by active engagement of a customer with a brand but also created by passive engagement (consumption of content developed by other consumers) of many participants in the social network without brand or firm focus, just-in-time and in real-time also. This co-created value can be defined as the fraction of perceived value created in the mind of customer arising from interactive, combined and customized activities for and with stakeholders (Prahalad *et al.*, 2004). Hence, passive engagement (learning & socializing) in social media will generate perceived value.

Proposition 4: Learning and Socializing in social media generate perceived value in customers mind.

Impact of Perceived Value on CLV

(Bijmolt *et al.*, 2010), highlighted three common expressions of customer engagement as word of mouth by customer, complaining behavior and co-creation; all of these activities affect the firm in the ways other than purchase. It is necessary to include the word of mouth in the calculation of CLV otherwise it may result in underestimation of the CLV by 40% (Wangenheim *et al.*, 2007). Hence, word of mouth in social media is also positively associated with CLV. Perceived value is created in consumers’ mind due to learning, socializing and interacting with other consumers and these consumers are opinionated by WOM in social media which increase the chances of future transactions, thereby it will increase the CLV.

Proposition 5: Perceived Value generated in social media has a positive impact on CLV.

Relation between Negative Word of Mouth (Disengagement) and Negative Value Fusion and its impact on CLV

Customers who had a bad experience can also be disengaged with the firm (Bowden *et al.*, 2015) and may share negative feelings in brand community in social media, seek legal action or monetary relief, and it may result in long-term changes in an industry (Van Doorn *et al.*, 2010). Lariviere *et al.*, 2013, also considered this negative value fusion as the outcome of negative

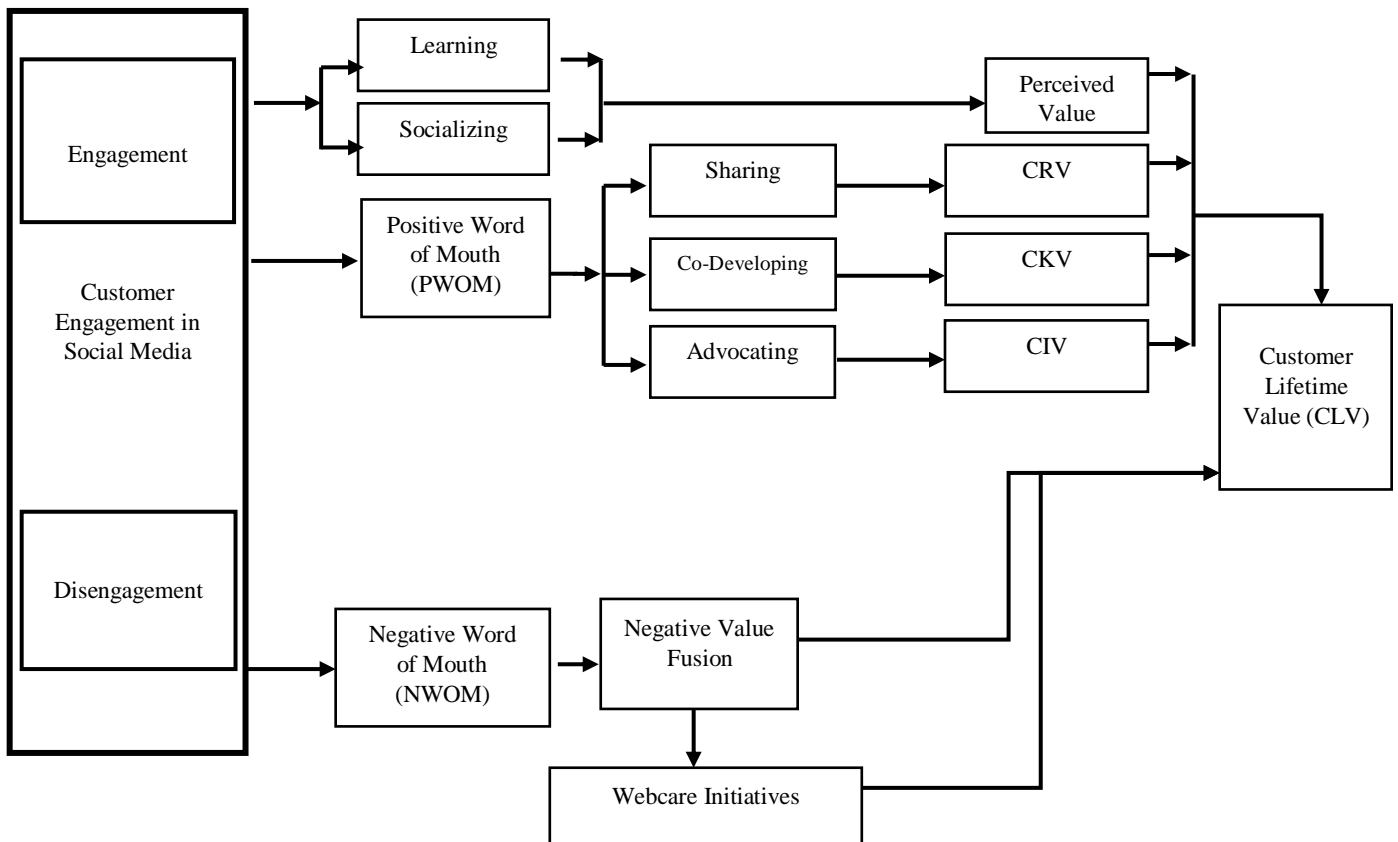
consequences experienced by consumers. Customers may tweet about a negative service experience without putting forward their complaints to the firm itself. Hence, negative word of mouth in social media would create negative value fusion. This negative value fusion would decrease the future transactions, so, we propose that it is negatively associated with CLV.

(Goel *et al.*, 2013), suggested that there is a need to identify the negative tweets and comments spread by unsatisfied customers on social media in a fast manner and prioritize the appropriate actions to prevent the harmful effect on sales and the brand. Hence, firms should actively engage with customers in social media, solve their problems at the right time before they start negative word of mouth. It is hard to get the client but it is even harder to get it back to the firm from competitor. Negative feedback can also be vital to enhance the performance of the firm if both formal and informal negative comments would be recorded to assess customers' opinions and to improve the firm's efficiency to deal the customers (Morgan *et al.*, 2005). So, paying attention to customers' negative feedbacks and complaints can generate also CLV for the company (Fornell & Westbrook, 1984). Hence, some firms have started "Webcare" initiatives to track and respond harmful feedback (Van Noort *et al.*, 2012).

1. Proposition 6: Negative word of mouth in social media would generate negative value.
2. Proposition 7: Negative value fusion in social media has a negative influence on CLV.
3. Proposition 8: Webcare initiatives in social media have a positive impact on CLV.

Conclusion

This study highlights the concept of customer lifetime value through customer engagement in social media and explains how customer engagement values are related with the sub-processes of customer engagement in social media in a conceptual framework (Figure 1).



Thus, extending to the formula given by Berger and Nasr (1998), our conceptual framework derived a new formula for calculating customer lifetime value in social media as:

$$CLV = \sum \text{Revenue} - \sum \text{Cost} + (\text{Perceived Value} - \text{Lost Potential Customer Value})$$

Here lost potential customer value can be defined as the lost future transactions due to negative word of mouth in social media spread by the unsatisfied customers. This 'Lost Potential Customer Value' can be reduced by taking some web care initiatives (Van Noort *et al.*, 2012) in the form of refunds, replacements etc. Researchers and marketers can draw a number of theoretical as well as managerial implications from our study.

Theoretical Contributions

This study contributes important addition to current literature by enhance the understanding of the concept of customer lifetime value through customer engagement in social media as conceptual framework connects the sub-processes of customer engagement with customer engagement values and customer lifetime value generated in social media networks, which no other study related till date. Moreover, previous studies on CLV were mostly based on traditional media for example TV, Newspaper, radio, magazines etc., and Bruhn *et al.*(2012) left the scope for future researchers to link it with value creation, so our study resolves this research gap while linking it with the customer lifetime value in social media. Similarly, Schau *et al.*, 2009) suggested that brand community practices in social media networks enhance consumption opportunities and produce CLV for both marketers and consumers, but we have explained in our conceptual framework how brand community practices in social media create customer lifetime value (CLV). Moreover, this study also highlighted the negative aspect of customer engagement i.e. disengagement (Bowden *et al.*, 2015) and negative word of mouth in social media and linked it with negative value fusion and CLV.

Managerial Implications

In addition to theoretical contributions, this study also draws a number of managerial implications. First, by providing a conceptual framework for customer lifetime value through customer engagement in social media, it helps the marketing managers in the formulation and design of focused strategies and tactics of customer engagement in social media in order to improve the CLV. Negative word of mouth in social media would also create negative brand equity and marketing disadvantage is associated with the brand due to negative brand equity (Berry *et al.*, 2000) due to which firms even need to rebrand or rename themselves to erase negative brand equity (Muzellec *et al.*, 2006). Hence, managers should give due consideration to negative word of mouth in social media and apply some webcare initiatives (Van Noort *et al.*, 2012) in the form of refunds, replacements etc. in order to avoid negative value fusion.

Further Research

We have developed an integrated model for creating customer lifetime value through customer engagement in social media. Qualitative analysis and empirical research is now needed for ontological adequacy of propositions. Researchers may also wish to investigate the relationship between the sub-processes of customer engagement (Brodie *et al.*, 2013) suggested five sub-process of customer engagement as learning, socializing, sharing, c-creating and advocating) and the dimensions of brand equity. Further, Kumar *et al.*, 2010, suggested four components of customer's engagement value as CRV, CIV, CKV and CLV; so, researchers may also wish to investigate the relationship between these components and the dimensions of brand equity.

Since, existing literature suggests that customer engagement is a cyclic process (Brodie *et al.*, 2011, Sashi *et al.*, 2012), so, further research can also be conducted to find out the cyclic relationship between these customer values and customer engagement and the dimensions of brand equity systematically in a cyclic process. Since, (Kumar *et al.*, 2010) included transactional behavior as the part of customer engagement, so, further research can also be conducted to connect it with purchase decision and post-purchase constructs i.e. satisfaction, delight, trust, commitment and loyalty in a cyclic process.

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