Chapter 2

Theoretical Background

This chapter discusses about the theories that became the basis of this research, including the theoretical customer equity framework coined by Rust, Zeithaml and Lemon, supported by various theories taken from various sources such as research journals, books, and magazine articles.

2.1.Consumer Decision Process

This study focuses on the drivers that make consumers want to buy a product, which is in other words, the purchase intention phase.

The purchase intention phase along with the behavior of the consumers towards purchasing a product, however, lies within the consumer decision making process chain, which includes Need Recognition, Information Search, Pre-Purchase evaluation of Alternatives, Consumption, Post-Consumption Evaluation, and Divestment (Blackwell, D'Souza, Taghian, Miniard, & Engel, 2006). The diagram is shown in figure 2.1.

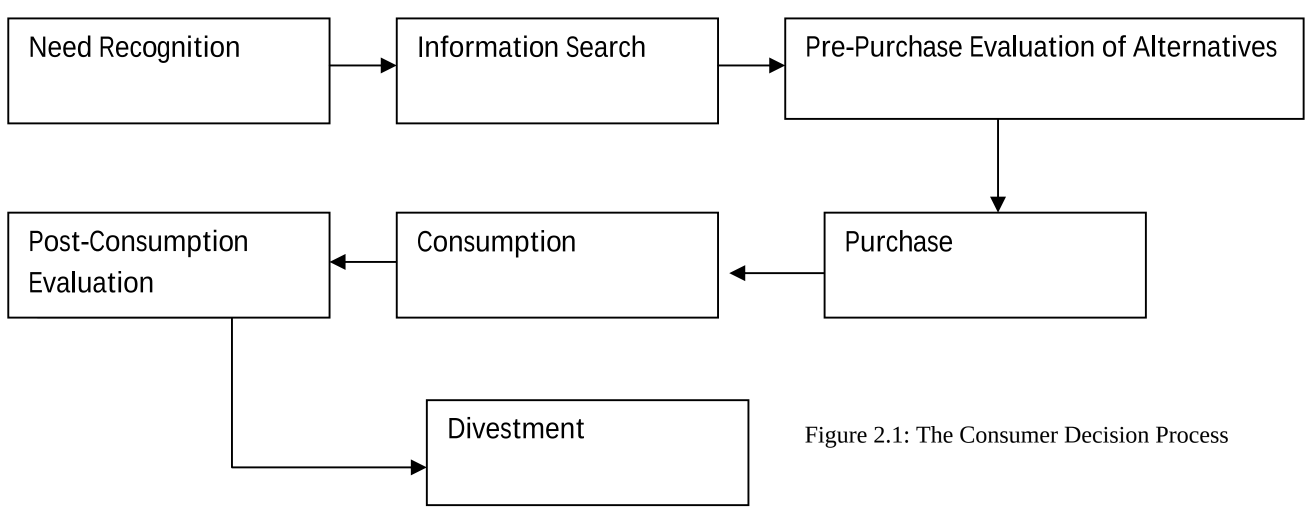


Figure 2.1: The Consumer Decision Process

2.1.1. Need Recognition

"Need recognition occurs when an individual senses a difference between what he or she perceives to be the ideal versus the actual state of affairs"(Blackwell, D'Souza, Taghian, Miniard, & Engel, 2006).

In other words, this is where the consumer realizes the situation where he or she has needs to fulfill, because this is where it all starts. The consumer buys a product because he believes that that product can fulfill that particular need.

For example, a reporter realizes that she requires a pen to fulfill the need to write interview reports, and this is when the consumer moves on to the second stage of the process.

2.1.2. Information Search.

After the consumer realizes a need that needs to fulfilled, he or she searches for information about the solution that might fulfill the needs (Blackwell, D'Souza, Taghian, Miniard, & Engel, 2006). This kind of information search involves internal and external search. Internal being memories of solutions that have solved needs, external being collecting information from friends, the market, reviews, internet, or family, anything outside of the consumer's own cognitive processing.

2.1.3. The Pre-Purchase Evaluation of Alternative

According to Blackwell, D’Souza, Taghian, Miniard, & Engel, this stage is where customers will start looking at options and evaluating each of them to find out the best one to fulfill their needs. There are attributes to be considered while in this stage, one of which is the salient attribute, which are “potentially the most important attributes a consumer considers when making a choice between purchase alternatives”. Such attributes may include price, reliability, and quality. Other factors that might determine the final decision of the consumers is brand and value of each of the alternatives.

2.1.4. Purchase

This is where the consumer, after having decided the best solution to fulfill their needs, finally conducts a purchase through different channels (online or offline). Final decision of purchasing at this point can also be influenced by other factors like sales people in the retailers, or even the convenience or ease in searching for the alternative in a store, hence changing the decision at the last minute before purchase. After purchasing the product, obviously, the consumer will then consume the product in various ways, depending on the type of product (perishable or non-perishable goods)

2.1.5. Consumption

It is here that the product serves to supposedly fulfill the needs of the consumers. Consumption, according to Blackwell, D'Souza, Taghian, Miniard, & Engel, can be undergone immediately or delayed. An example is that when a customer sees a buy 1 get 1 promotion in stores for cooking oil, the customer may buy more packages of the cooking oil and stock the product up for a long term. It is here that the product is tested whether or not it can fulfill the needs of the consumers, and the consumer will decide how well the product does its job in the next step of the decision process.

2.1.6. Post-consumption Evaluation

This, as the name suggest, is where the customer finally evaluates the product after consuming it. Does it meet the consumer's expectations well? If so, then the product brings satisfaction. If the performance of the product is lower than the consumer's expectations, then dissatisfaction occurs, or in other words, the product has failed to fulfill the consumer's need, and this will bring regret to the consumer. This is called post-purchase regret, and will make the consumer lose interest in repeating a purchase.

2.1.7. Divestment

This last stage is how the customer wants to do with the product after it has been consumed. The customer can recycle a product (milk box being cut and turned into bookmarks), dispose of it and throw it away, or remarket it (a second hand car).

Having considered all of the basic steps of the consumer decision process, it can be observed that this process can be linked with the consumer equity framework that will be the basis of this study, which takes place in the ‘pre-purchase evaluation of alternative’ step. It is in this step that the framework proposed by Rust, Zeithaml and Lemon elaborates how drivers of value and brand equity determine a customer when trying to choose a product/brand to fulfill the needs, before purchasing.

2.2.Customer Equity

Customer equity is defined as the total lifetime values of all of a firm’s customers(Blattberg & Deighton, 1996), or the total combined value of the current and potential customers(Hogan, Lemon, & Rust, 2002), and by potential customers, the researchers mean those who are currently not yet the customers of the firm but may be in the future.

The framework of customer equity, according to Rust, Zeithaml and Lemon, is driven by three factors, which are value equity, brand equity, and retention equity, but as has been explained in the earlier parts of this thesis the retention equity will be excluded and this thesis will focus mainly on value and brand equity.

The value and brand equity themselves have their own drivers that determine them. For Value equity, the drivers are price-prestige relationship, quality, and convenience, while brand equity are driven bybrand awareness, brand attitude, and company attitude (all of which will be explained in detail in the following sections).

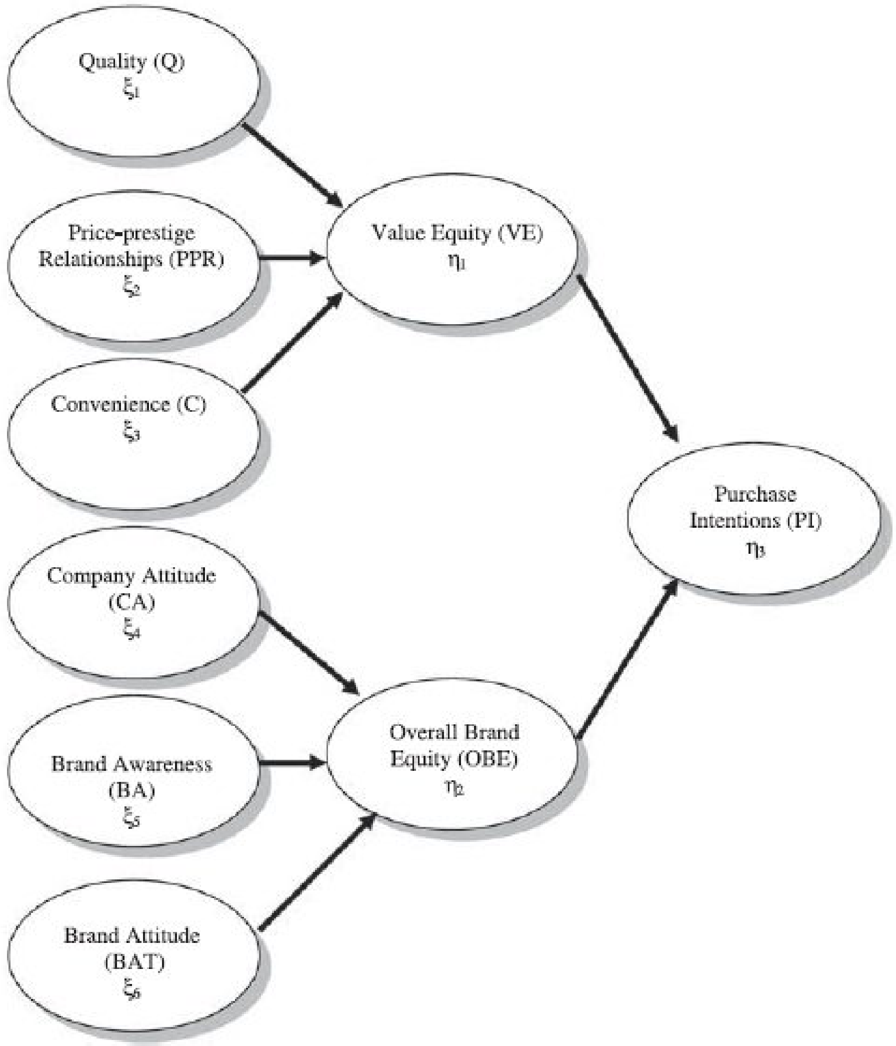
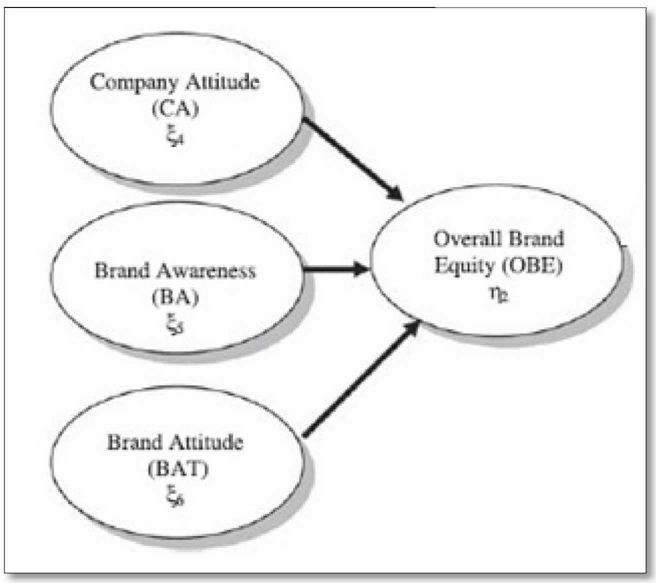
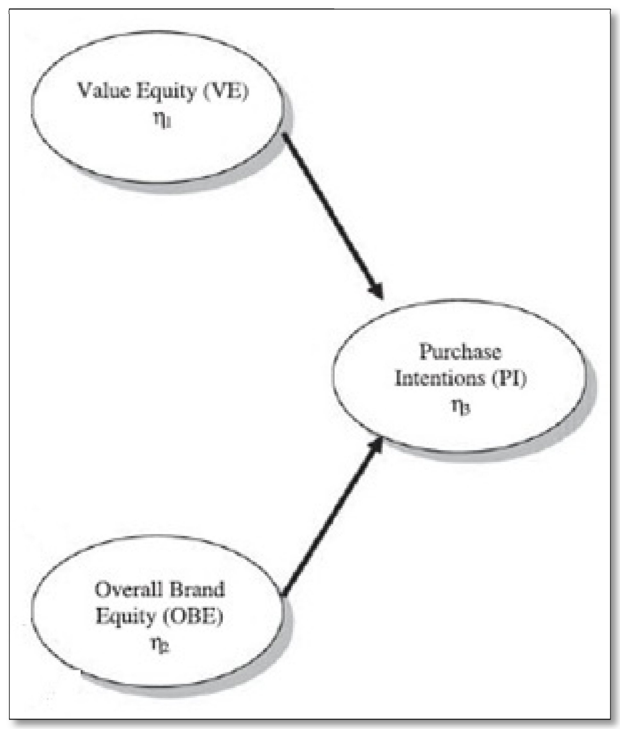


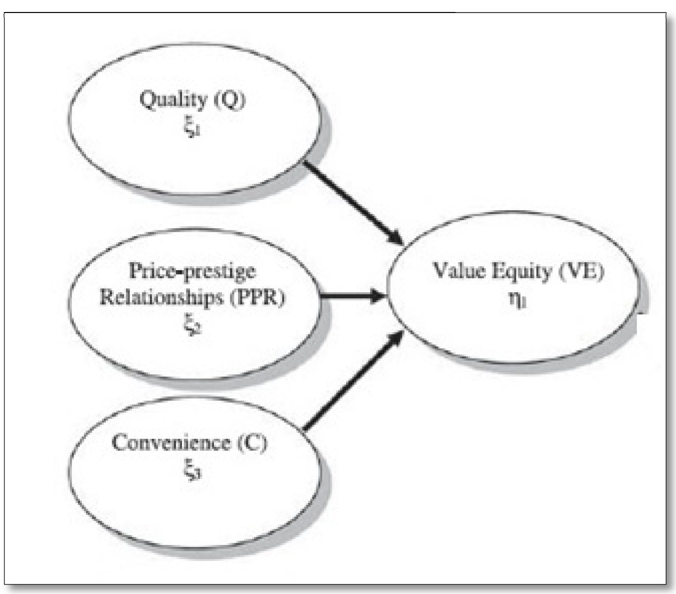
Figure 2.2: The Consumer Equity Framework.

Above is a conceptual model taken from the original journal, which is *"Examining the customer equity framework from a consumer perspective"*, explaining the relationships of each driver.

However, in the original research paper, SEM was used; hence all the variables and the associations can be analyzed all at once. But in this thesis, using the multiple regression technique instead, the above model would be separated into 3 parts that would be analyzed separately.







2.2.1. Value Equity

Value equity, in definition, is "a consumer's objective assessment of the utility of a brand, based on perceptions of what is given up for what is received." (Rust, Zeithaml, & Lemon, 2000), and according to Zeithaml (1988), value are often related to the price of the product, the quality, and the benefits that can be obtained when customers purchase the products.

According to Fishbein and Ajzen (1975), an individual would allow himself to be influenced by factors that will affect the purchasing behaviors, and these factors include tangible and intangible, and it was finally concluded by Holehonnur et al., that the final purchase behavior or intention are in the end, dependent on subjective and objective evaluation of the customer towards buying a product.

Hence, at the same time, the researcher hypothesized that Value equity will lead to purchase intention.

H1: The higher the consumer's value equity, the higher the consumer's purchase intention.

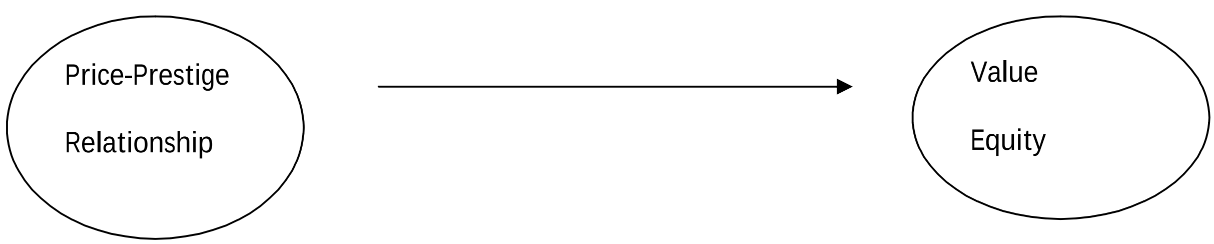
There are three drivers of value, which are price-prestige-relationship, quality, and convenience (Zeithaml, 1988). The following sections will explain each of them.

2.2.1.1.Price-Prestige Relationships

The price of a product, one of the main drivers of the value equity concept, is frequently viewed by customers as a sacrifice that they have to take in order to obtain the product, or may even be a factor that indicates quality(Monroe & Krishnan, 1985). Monroe and Krishnan states that price may also an “external objective stimulus” when trying to examine the relationships between perceived value perceived quality, price, and willingness to buy.

Hence, we hypothesize that price-prestige relationship would affect the value equity of the customer.

H2: The more the consumer perceives a favorable price-prestige relationship of any product, the higher the consumer’s value equity.



2.2.1.2.Quality

Perceived Quality is defined as the ability of a product to provide satisfaction compared to other substitutes (Monroe & Krishnan, 1985) or the "consumer's judgment about the superiority or excellence of a product" (Zeithaml, 1988), and this is different from objective quality, which is the "technical superiority of a product" (Zeithaml, 1988), and higher perceived quality has been shown to contribute higher perceived value(Olson, 1977).

Hence, since this study focuses on the consumer's perception , the technical elements of products (objective quality) in the market will be not be assessed or studied, but instead the researcher will study about how the customer's perceive the quality of the products or how much, in the customer's point of view, the products can bring satisfaction.

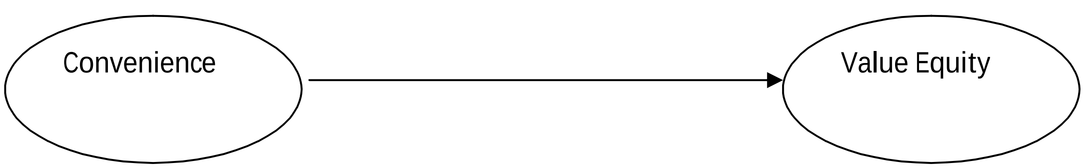
H3: The higher the perceived quality of the product, the higher the consumer's value equity.

2.2.1.3.Convenience

How easy or convenient is it for the customers to obtain the product? This also affects the consumers' perception of the overall value of products.

in other words, simply said, convenience refer to the sacrifice that the customers make for the purchase, and this sacrifice does not only include the price, but also other factors such as location, time, the ease of use of the product, and other efforts (Rust, Zeithaml, & Lemon, 2000) and this shows that the more convenient it is for the customer to obtain the product, or use the product, the less sacrifice the customers need to make, and this hypothetically would help increase the positiveness of the perception of value.Therefore, we make the following hypothesis.

H4: The higher the perceived convenience of purchasing a product, the higher the consumer's value equity.

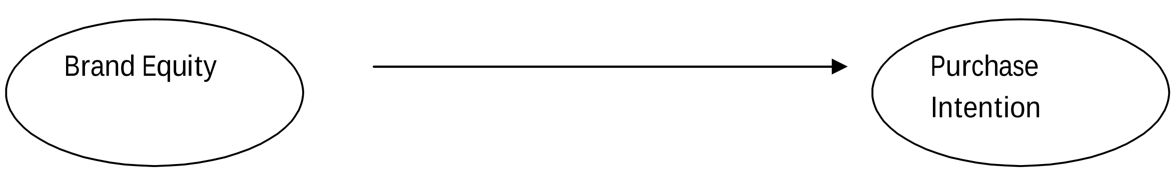


2.2.2. Brand Equity

According to Kotler et al, Brand equity is “the positive differential effect that knowing the brand name has on customer response to the product or sevice.”, therefore, making it a subjective variable, supporting Rust, Zeithaml and Lemon’s conclusion, that it is “the customer’s subjective and intangible evaluation of the brand”, “above and beyond its objectively perceived value.”

And as mentioned previously, the purchasing intention of customers may be determined by tangible and intangible factors, or as concluded by Holehnnur et al, objective and subjective evaluations of consumers, hence it at the same time includes Brand Equity as one of the drivers of Purchase Intention, and so the researcher tries to test this hypothesis.

H5: The higher the consumer’s brand equity, the higher the consumer’s purchase intention.



This subjective evaluations of the brand can be influenced by stimuli coming from the company, or even from other stimulus like peer pressure and word of mouth. These may include marketing activities done by the company, or even by experiences of the customers or friends of the customers while using the product. In short, it is how the customers perceive the brand.

Hence, while there are three drivers for the Value equity, there are the same number of drivers for Brand equity, and they are brand awareness, brand attitude (the consumers attitude towards the brand), and company attitude (the attitude of the consumers towards the company and its ethics) (Rust, Zeithaml, & Lemon, 2000) that will soon become the basis of our hypothesis. The following section explains why.

2.2.2.1.Brand Awareness

Brand awareness, which is the extent to which customers are aware of the brand in the customer's mind, in recognition, remembrance, and knowledge, and we hypothesize that this variable would in turn affect the overall brand equity.

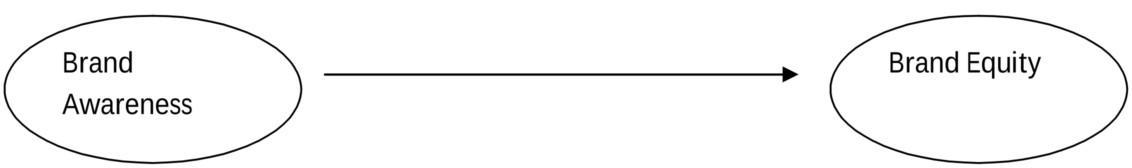
H6: The higher the brand awareness, the higher the consumer's brand equity.

2.2.2.2.Brand Attitude

Many factors, like marketing activities, or the products that the customers use and how satisfying the products are, how the customers perceive or feel about the brand, positive or negative, or in other words, the attitude of the customers towards the brand.

Hence, Rust, Zeithaml and Lemon have set Brand Attitude as one of the drivers of the consumer's overall brand equity.

H7: The more Positive the attitude toward the brand, the higher the consumer's brand equity.



2.2.2.3.Company Attitude (Ethics, Corporate citizenship and duties)

It has been discussed in this study about how consumers' attitude towards the brand has been determined by different factors, however, that is different from company attitude, which is the attitude of the consumers towards the brand, although they both, according to Rust, Zeithaml and Lemon, are considered as drivers of the brand equity.

Attitude of the customers towards the company can be viewed from different aspects, to mention a few: how reputable and trustable the company is, how established the company is, or even how the company undergoes the right ethics and duties (which can also be social).

Lately, companies have done several things to gain the customers' positive attitude towards them, and CSR, for example, is one of the programs that the companies use in order to gain reputability of the company (Kotler, Kartajaya, & Setiawan, Marketing 3.0, 2010) and it was believed that it could at the same time create a better brand equity in the consumer's perception.

With this being said, the researcher chose to also test the hypothesis:

H8: The more positive the attitude toward the company, the higher the consumer's brand equity.