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Customer Equity in the Marketplace

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This study aims to find out the results of CFA analysis of customer equity in the marketplace. The design of this study was cross-sectional. A descriptive approach was used with the explanatory survey method. Non-probability sampling selected 226 respondents. A questionnaire collected data from the respondents. The analysis technique used was Structural Equation Modelling (SEM). The results show that customer equity has a marginally feasible model, as a tool to confirm the established theory based on existing observations. The variance in this study lies in the object of the research, the time of research, the instruments, the literature and the theory used upon the results of research.

Key words: *Customer equity, marketplace.*

Introduction

The disruption of traditional economies by digital economies provides a greater opportunity for e-commerce to create a marketplace. The number of marketplaces in Indonesia has amplified business competition. Companies need to pay more attention to customer equity as one of the important aspects in facing that competition. They begin to utilise not only product management (Martin, 2015), but also customer management as their market-based assets (Rezaei & Abadi, 2013). Customer management makes the company not only focus on market share or sales, but also on profitability (Chahal & Bala, 2014) and allocate their marketing budget for long-term benefits (Villanueva & Hanssens, 2007). Customer equity was initially conceptualised by Blattberg and Deighton (1996) as the total customers' lifetime value (Chahal & Bala, 2014). Customer equity is a new approach to marketing strategies and marketing accountability that views customers as valuable assets for companies because it is difficult to attract and retain them (Yoo & Hanssens, 2005). As one of the company's long-term value determinants, customer equity encourages companies to consider customers as the main source of their current and potential cash flows (Villanueva, Yoo, & Hanssens, 2008). In line with previous research, customer equity is frequently referred to as a marketing tool that bridges the gap between two different divisions (marketing and finance) for most organizations (Pavlova, 2015). The customer equity concept is still a concern in marketing because of its customer-centred marketing strategies (Yoo &Hanssens, 2005) and customer equity still functions as a marketing system that helps companies make investment decisions by taking the assets of their customers into account (Martin, 2015).

Research on customer equity has been carried out in a number of industries, ranging from service industries such as banking (Nematizad & Dehghan, 2013) to the latest research conducted in the small and medium marketplace industry. They revealed that companies continue to improve customer equity growth significantly (Ho, Yong, & Yoon, 2016). The increase of customer equity in the marketplace industry was presented in research by Chinese e-business and the Lingtuan website (http://www.lingtuan.com). It showed that the newly developed marketplace has reached 6218 in 2013. Increased marketplace in Indonesia has increased business competition, such that customer equity is deemed as an important strategy in business competition (Kang & Park, 2016). However, many companies struggled to manage their relationship customer relationships, due to their environmental and social performance (Wang, Hoon, Ko, & Liu, 2016), although they have tried to facilitate customer access to technology and motivate online shopping (Haekal & Widjajanta, 2016).

The biggest problem for companies is constricted competition. Considerable failure in the marketplace industry has attracted researchers' attention. They believe that marketplaces should be able to maintain long-term relationships between traders and customers and sustain this mutual loyalty (Ko, Lee, Hoon Kim, Kim, & Mattila, 2014). This failure is illustrated in e-commerce research in 2014. There were at least more than 1500 marketplaces, but 85% experienced a failure in just 18 months. The impact of the low value of customer equity can affect the preparation of non-customer-based marketing strategies, decrease profits (Chahal & Bala, 2014), and result in companies lacking capacity to trace commodity preferences and trends (Lin, Kim, & Jin, 2016). Thus, the companies fail to improve their product promotions, marketing communications, pricing, or product display strategies (Kumar & Shah, 2009). Another impact of low customer equity is the decline of sustainability which reduces the purchase frequency for companies (Widyastuti, 2015). The purpose of this study was to determine the results of the CFA analysis of customer equity in the marketplace.

Method

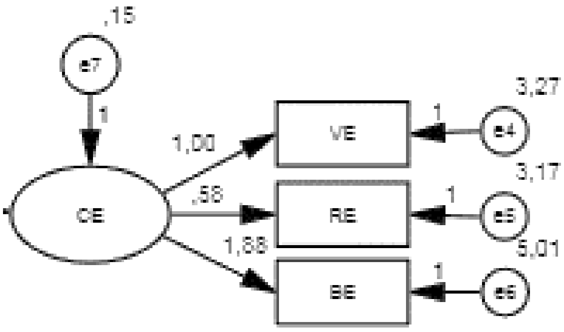
This study was conducted using an explanatory survey. This type of research discusses the influence of independent variables on the dependent variable, and tests the formulated hypotheses. The technique used is Probability Sampling, which uses accidental simple random sampling to provide equal opportunities for each member of the population to be selected as sample members. It chooses whoever happened to be present or encountered. Questionnaires were addressed to 226 respondents of selected marketplace consumers. Data analysis was performed using Structural Equation Modelling by means of the statistical software package AMOS.

Results and Discussion

Endogenous Construct of *Customer Equity* (CE)

Figure 1 shows that the overall model can be said to be fit even though the value of P value = 0.009 <0.05 and the value of RMSEA is 0.103> 0.008 but it has a GFI and AGFI value that is greater than 0.9.

Figure 1. Endogenous Construct Customer Equity (CE) Measurement Model



Source: Data Processing Results, 2018 (Using AMOS 19 *for windows*)
The validity and reliability tests for the model are presented in the following table.

Table 1: Endogenous Construct Customer Equity Measurement Model

			Estimate		***S.E.***	***C.R.***	***P***	***Construct Reliability (≥0.70)***	***Variance Extract (≥0.50)***
			RW	***SRW***					
VE	<---	CE	1.000	.773				0.979	0.887
RE	<---	CE	1.120	.893	.095	11.731	***		
BE	<---	CE	1.565	.936	.125	12.495	***		

(Source: Data processing results)

Table 1 provides a Measurement Model of Endogenous Construct Customer Equity (CE). It identifies that all standardised loading factor (SRW) values for each indicator are more than 0.5. Therefore value equity, relationship equity, brand equity, brand judgment and brand resonance have decent validity in measuring Customer Equity (CE) variables. Table 1 also shows that the value of CR = 0.979 ≥ 0.70 and the value of VE = 0.887 ≥ 0.50. Therefore the construct has good reliability. The following is a calculation of construct reliability (CR) and variance extract (VE) found in Table 1.

$$Variance\ Extracted = \frac{\sum Std.Loading^2}{\sum Std.Loading^2 + \sum \varepsilon j}$$
$$= \frac{4{,}605}{4{,}605 + 0{,}588} = \frac{4{,}605}{5{,}193} = 0{,}887$$

$$Construct\ Reliability = \frac{(\sum Std.Loading)^2}{(\sum Std.Loading)^2 + \sum \varepsilon j}$$
$$= \frac{27{,}489}{27{,}489 + 0{,}526} = \frac{27{,}489}{28{,}077} = 0{,}979$$

Note:
∑*Std. Loading* = *standardised loading* for every indicators (SRW)
∑εj = *measurement error* from each indicators (SE)

The Overall Model Fit test evaluated the compatibility or goodness of fit. The Goodness of Fit test can be based on experts' opinions. The Goodness of Fit indicator and the cut-off value used in this model were adopted from Yvonne & Robert (2013: 182). In Table 1, the Goodness of Fit test shows that although not all Goodness of Fit sizes accord with the recommendations and are greater than the cut-off value, the overall model is fit because the RMSEA value is 0.075 ≤ 0.08 (good fit), AGFI value 0.869 ≥ 0.90 (not fit), TLI 0.974 ≥ 0.90 (good fit). In this study's test of the Goodness of Fit, a criterion value met the requirements by having a good fit value. Therefore this model is marginally deemed feasible, as a tool in confirming the established theory based on existing observational data. In other words this model has been fit or acceptable.

The Customer Equity variable consists of three dimensions with 17 indicators. The first dimension is value equity, consisting of service convenience, service quality, satisfaction, price offered, and professionalism. The second dimension is relationship equity with personal ties, kinship, and membership motivation indicators. The third dimension is brand equity with design, popularity, reputation, preference, service expertise, trust, enthusiasm, comfort, and pride indicators. Based on the questionnaire distributed to 226 respondents, the Customer Equity in Indonesia tallied 24,101 or 89.01% of the ideal score of 26,894. The score is in a very good category with an interval between 23.601 and 26,894. In addition, viewed from its dimensions, the dimension of value equity gets the highest realisation percentage with an average score of 2,447 or 92.81% of the ideal score of 7.910. The relationship equity dimension gets the lowest realisation percentage, scoring 1,340.67 or 84.75% of the ideal score of 4,746. Additionally, based on the overall indicator of customer equity, the highest indicator is the price on the marketplace compared to other sites; scoring 1,675 or 105.88%. The lowest was found in items of kinship statements with the marketplace scoring 1,282 or 81.04%. The shows that value equity is an important dimension; a foundation for forming Customer Equity (Rust, Lemon, & Zeithaml, 2004). Customer equity can pass the 'option value' of the brand and its capacity to influence potential income and costs. Customer equity does not always take full account of competitors' overall movements, or the impact of social networks, and is endorsed by word of mouth and by customers to customers. Customer equity provides practical guidance for specific marketing activities (Kotler, 2016).

Conclusion

Based on the description of the theory and the results using Structural Equation Modelling on customer equity in the marketplace, the description of customer equity in the marketplace can be seen from its dimensions; value equity, relationship equity, and brand equity. The condition of customer equity in the marketplace has displayed good performance. The most highly valued dimension is value equity and the least valued dimension is relationship equity. To improve relationship equity, the marketplace must develop a marketing strategy through relationship marketing, wherein suggestions are made that the marketplace create programs that make its customers feel that they have a decent relationship with the company so as to increase their customer equity.

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