# CHAPTER 3

RESEARCH FRAMEWORK

A purpose of this study is to develop a model of SOW based on the core notion of multi-brand relationship. This study focuses on drivers as antecedents of SOW. These drivers can be performed and controlled by firms. On the contrary, firms cannot control environmental factors. And outcomes should not have any effects on SOW. Although past studies about drivers of SOW are substantial, they are too diversified and not well conceptualization. After we reviewed in CRM and services literatures, we propose that there should be three drivers of SOW to better conceptualization. These drivers are non-brand driver (value superiority), brand driver (brand superiority), and relationship instruments. They are consistent with drivers of customer equity proposed by Rust et al. (2000), i.e., value equity, brand equity, and retention equity. Mixed results between non-brand and brand drivers have been found in past studies and the distinction between them are not clear. Although brand is a very important issue in this business environment but it also has not been studied enough in SOW field. Therefore, we clearly separate and propose non-brand and brand drivers of SOW, as well as relationship instruments.

Moreover, a core concept of SOW is a capability of one particular brand to compete with competitive brands for share of customer's financial resource. It is a capability of the brand to outperform over other competitive brands to increase brand's SOW. Therefore, superiority of competitive brands is compared. Normally, comparisons are performed to determine both similarities and differences between brands, and to determine which of the competitive brands is preferable. Common sense dictates that a comparison of two brands should be a straightforward and matter of comparing all of the features of one brand with all of the features of the others (Sanbonmatsu, Kardes, & Gibson, 1989). Thus, superiority of one brand over the others is applied to non-brand (value superiority) and brand (brand superiority) drivers. The conceptual framework of SOW is proposed in Figure 3.

FIGURE 3

SOW MODEL
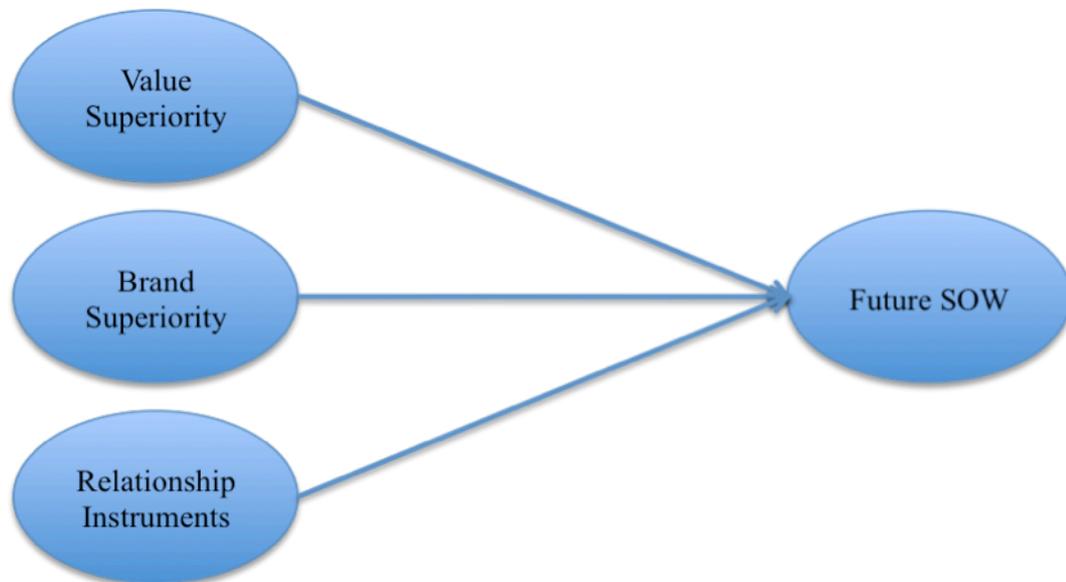
Future SOW

In this multi-brand-relationship environment, there are "always a share" customers (Jackson, 1985). Those customers purchase for several brands without being lost forever. How to gain a greater part of consumer expenditures is more important than winning or losing customers (Mayer-Waarden 2007; Reichheld, 1996a). Therefore, future SOW is a dependent variable in our model that significant to future performance of firms. It can also indicate the relationship strength between a firm and its customers. It has been found to have a great impact on revenue and profitability (e.g., Coyles & Gokey 2002; Garland 2004; Keiningham, cooil, et al. 2007; Keiningham, Perkin-Munn, et al. 2005).

Value Superiority

The first proposed driver of SOW in this study is value superiority. Value has its root in equity theory (Oliver & Desarbo, 1988). Oliver (1997) defined equity as a "fairness, rightness, or deservingness comparison to other entities, whether real or imaginary, individual or collective, person or non-person". Its concept refers to customer evaluation of what is fair, right, worth, or deserved for the perceived cost of the offering (Bolton & Lemon, 1999). Zeithaml (1988) grouped four consumer definitions of value as 1) value is low price, 2) value is whatever I want in a product, 3) value is the quality I get for the price I pay, and 4) value is what I get for what I give. And then she defined one overall definition of perceived value as the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given. Value represents a tradeoff of the salient give and get components, even though what is receive and what is given varies across consumers (Zeithaml, 1988). Perceived value is customers' perceptions of the benefits they receive from a firm relative to what they give up in the form of monetary and nonmonetary costs (Berger et al., 2002).

Similar constructs of perceived value in the marketing literatures include, for example, payment equity (Bolton and Lemon 1999), perceived equity (Olsen & Johnson 2003), and reciprocity (Bagozzi 1975). Similarly with perceived value, payment equity represents the customer's changing evaluation of the fairness of the level of economic benefits derived from usage in relation to the level of economic costs, that is, the customer's evaluation of the fairness of the exchange. An individual would weight the cost versus the perceived benefit in a specific business transaction to determine the perceived value of the referent product.

However, the concept of value in this study is mostly related to functional, utilitarian, and economics value (Babin, Darden, & Griffin 1994). Consistent with Rust et al. (2000), we identify components of value as quality, price, and convenience. Some examples of value of grocery store and credit card categories are shown in Figure 4. With a comparison of superiority in SOW concept, value of a

particular brand is compared to other competitive brand in the category. Thus, in this study, we define value superiority is the customer's overall assessment of a product or service, based on perceptions of what is given up for what is received, with consideration of the superiority over other competitive brands (Adapted from Zeithaml (1988) and Rust et al. (2000)).

FIGURE 4

EXAMPLES OF VALUE IN GROCERY STORE AND

CREDIT CARD CATEGORIES

Fundamentally, it is value that forms the foundation of the customer's relationship with the firm. Lacking of value, customer will not make any transaction and relationship with the firm. Value found to have a very important role in consumer behavior of relationship marketing. Perceived value can help explain different areas of consumer behavior: product choice (e.g. Zeithaml, 1988), purchase intention (e.g. Al-Sabbahy, Ekinci, & Riley, 2004; Dodds & Monroe, 1985; Eggert & Ulaga, 2002; Grewal, Levy, & Lehmann, 2004) and post-purchase behavior (e.g., Patterson & Spreng, 1997). Moreover, the relationship between perceived value and post-purchase behavior has many theoretical and empirical supports. For example, while Grewal et al. (2004) found that perceived value explained almost 40% of the variance in purchase intention, Eggert and Ulaga (2002) found that perceived value explained a little more than 86% of repurchase intentions. Moreover, perceived value has been

found to be a main indicator of repurchases intention (Chang & Wildt, 1994; Gounaris, Tzempelikos, & Chatzipanagiotou, 2007; Woodruff, 1977), cross-buying (Gounaris et al., 2007; Verhoef, Franses, & Hoekstra, 2001). Berry and Parasuraman (1991) also supported that customers who perceive that they are receiving value and who feel valued by the supplier tend to spend more money on the firm on a per-year basis and stay with the firm for more years. The behaviors of purchase, repurchase, up-buying, cross-buying, and spend more on the brand show that customers will spend their higher portion of money on those particular brands.

Brand Superiority

Nevertheless, value superiority, a fundamental basis for business that focus on product and service, price, and value, is not sufficient in this business environment. Added value that has been used recently to compete is brand. It became apparent that purchase price paid for many firms, in mergers and acquisitions, largely reflected value of their brands. As more recent empirical research has shown that quality alone can explain only 20 percent of the prices consumers are willing to pay for different packaged food products (Anselmsson & Johansson, 2005; Sethuraman, 2000, 2003). Brand superiority, a significant driver proposed in this study that focus on superiority of one brand over other competitive brands, is developed and adapted from the most attention concept of brand – brand equity.

Definitions of brand equity have defined differently by many academic researchers. The most common view on brand equity seems to depart from a definition defined by Farquhar (l989) that "the value endowed by the brand to the product". Most researchers have since then provided similar definitions (Aaker, 1991; Keller, 1993; Lassar, Mittal, & Sharma, 1995; Myers, 2003; Washburn & Plank, 2002; Yoo & Donthu, 2001). For example, Aaker (1991) defined brand equity as "a set of assets and liabilities linked to a brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm and/or that firm's customers". Lassar et al. (1995) summarized five important considerations of brand equity: brand equity refers to consumer perceptions, rather than objective indicators;

brand equity is a global impression of the value associated with a brand; brand equity originates from the brand name, and not only physical attributes; brand equity is a relative measure; and brand equity influences the financial brand equity (i.e., brand value) positively.

Accordingly, brand equity can refer to the marketing effects or outcomes that add value to a product or service with its brand name compared with those that would add value if the same product or service did not have the brand name (Aaker, 1991; Dubin, 1998; Farqubar, 1989; Keller, 2003). Figure 5 illustrates some brands in grocery store and credit card industries in Thai market. It is clear that brand equity is a relative measure that needs to be compared with others and this is closely the concept of the proposed brand superiority. Therefore, brand superiority is defined as the customer's overall assessment of the brand, above and beyond its value superiority evaluation, with consideration of the superiority over other competitive brands (adapted from Rust et al., 2000). The assessment is above and beyond the functional value and involves more subjective, emotional, feeling, arousal (Holbrook, 1986; Holbrook & Hirschman, 1982), and hedonic (Babin et al., 1994).

FIGURE 5

EXAMPLES OF BRAND NAMES IN GROCERY STORE AND CREDIT CARD
INDUSTRIES IN THAI MARKET

Previous literatures found that brand equity involves in various customer behavior and firm's performance. For example, researchers found that a product's brand equity positively affects future profits and long-term cash flow (Srivastava & Shockerc 1991), a consumer's willingness to pay premium price (Keller, 1993; Lin & Kao, 2004), merger and acquisition decision-making (Mahajan, Rao, & Srivastava, 1994), stock prices (Lane & Jacobson, 1995; Simon & Sullivan, 1993), sustainable competitive advantage (Bharadwaj, Varadarajan, & Fahy, 1993), and marketing success (Ambler, 1997). In addition, consistent with Keller (1993), Aaker (1991) suggested that brand equity provides value to the firm (e.g., via effectiveness of marketing programs, brand loyalty, price premiums, favorable environment for brand extensions, etc.). Keller (1993) also stated that while brand equity can lead to greater revenue, lower costs, and higher profit, it has direct implications for the firm's ability to command higher prices, customers' willing to seek out new distribution channels, the effectiveness of marketing communications, and the success of brand extensions and licensing opportunities. Firms with strong brand equity have more potential to succeed in introducing a new product or extensions to related areas (cross-buying and up-buying) and repeat purchase (Wang, Wei, & Yu, 2008). Those support the tendency of customers to allocate their higher share of money to those particular brands.

Relationship Instruments

Once the marketing concept has moved from focusing on business transaction and short-term performance to customer relationship and long-term performance, relationship instruments has been used as a marketing tool to develop and maintain the relationship with customers. Bhattacharya and Bolton (2000) separated the relationship instruments from all other general promotions, i.e., loyalty/reward programs. Relationship instruments can be divided into two levels by Berry (1995). In level I (called relationship instruments Type I), firms use economic incentive (e.g., price discount, reward programs) to maintain the relationship with customers. On the other hands, relationship instruments Type II (Level II) include more social attributes. However, this study concentrates on relationship instruments

type I, such as loyalty program, reward program, and direct mailing as a driver of SOW. Therefore, this study defines relationship instruments as the customer's assessment of brand's marketing tools that aimed to develop and maintain relationship with customers by using economic incentive, such as loyalty and reward program and direct mailing. Examples of loyalty and reward programs that have been used extensively by grocery store and credit card are shown in Figure 6.

FIGURE 6

EXAMPLES OF RELATIONSHIP INSTRUMENTS,

LOYALTY AND REWARD PROGRAMS

Loyalty programs and reward programs are critical tools for driving customer retention in many industries, e.g., airlines, credit card, retail, and hotel chains (Kivetz, 2005; Kivetz & Simonson, 2003; Kivetz, Urminsky, & Zheng, 2006; Noordhoff, Pauwels, & Odekerken-Schröder, 2004). An objective of these relationship instruments is to enhance customer relationships by offering high value to profitable market segments (Bolton, Kannan, & Bramlett, 2000; Kumar & Shah, 2004). Gruen (1994) and Yi and Jeon (2003) stated that consumers typically participate in loyalty or reward programs to obtain economic benefits, emotional benefits, prestige or recognition, or access to an exclusive treatment or service. Although a customer is a member of many loyalty programs, there is a chance that he will join the program if he views it to be more attractive than competing programs. Most loyalty programs are based on volume (e.g., accumulate mileage in airline

industry, get one free car wash after 10th purchase), therefore customers have a tendency to stay and buy more with the brand to get the rewards (Shugan, 2005).

Direct mailings usually are customized personally to offer products or services that customer currently does not purchase (Wirtz et al., 2007). And they also are used for inform or contact the customers about the brand's loyalty or reward programs. In addition to that, direct mailings can also be an augmenting instrument for the relationship between customers and brand (e.g., general information about brand or thank-you letter). However, direct mailings have some special characteristics (Roberts & Berger, 1999). First, it is able to propose personalized offers. Secondly, there is no direct competition for the attention of the customer from other advertisements. And finally, it has a capacity to involve the respondent.

Previous literatures showed that rewards can be highly motivating (Latham & Locke, 1991) and customers have a strong drive to behave in achieving the rewards (Nicholls, 1989). Therefore, a customer might be motivated by program incentives to purchase the brand repeatedly (Roehm, M. L., Pullins, & H. A. Roehm, 2002). Similar to loyalty or reward programs, direct mailings also can create interest in a product or service and therefore, lead to a final purchase (Latham & Locke, 1991; Roberts & Berger, 1999). In addition, loyalty or reward programs can provide barriers to customers' switching to another supplier. And these are an important antecedent of customer loyalty (Dick & Basu, 1994; Klemperer, 1995). As well, the personalized offers by direct mailings may increase perceived relationship quality and loyalty, because customers are proposed the products or services their specific requirements (De Wulf et al., 2001; Hoekstra, Leeflang, & Wittink, 1999). And these loyalty, switching cost, and relationship quality can lead to increase in SOW (Sombat Thamrongsinthaworn, 2007; Wirtz et al., 2007).

Effects from the Competitive Brand

SOW concept is focused on the allocation of customer financial resources to multiple brands in a period of time. Its notion is zero-sum game, in which when one brand in a product or service category gains SOW from a customer, there must be some other brands in a category lose SOW from that customer. There are competitive effects of one brand to other brands in the category. Therefore, we propose that a study of SOW cannot be focused and looked just on one particular brand. Rather, it should be concerned and incorporated effects from other competitive brands. Nevertheless, past studies were interested and focused only on factors effecting SOW separately for one particular brand. None has shed some light into modeling multiple brands together.

We propose that not only drivers of a brand influence its customer's SOW, but also influence other brands' SOW and vice versa. However, past research found that most of multi-brand-relationship customers allocate a large percentage of SOW on top two brands of each customer (Sombat Thamrongsinthaworn, 2007). These top two brands compete to each other for customer SOW as hypothetical illustration in Figure 7. Therefore, the integrated model is paid attention to top two brands, top brand and adjacent brand, as illustrated in Figure 8. Summary of key definitions of main constructs in the integrated model is shown in Table 4.

FIGURE 7

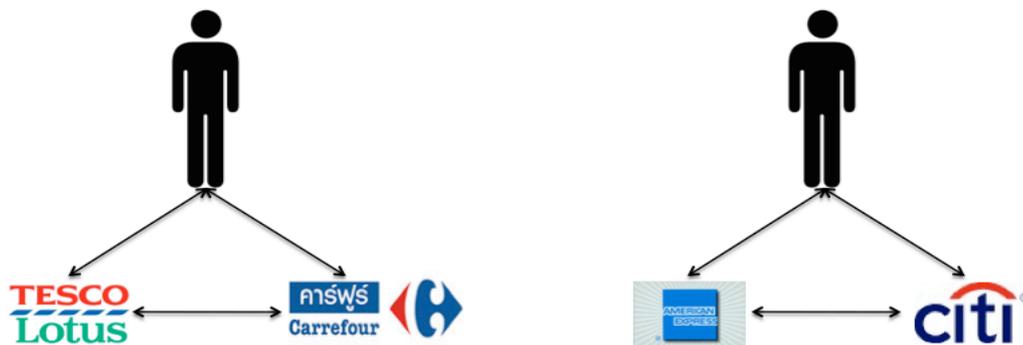MULTI-BRAND RELATIONSHIP BETWEEN CUSTOMER AND TOP TWO BRANDS
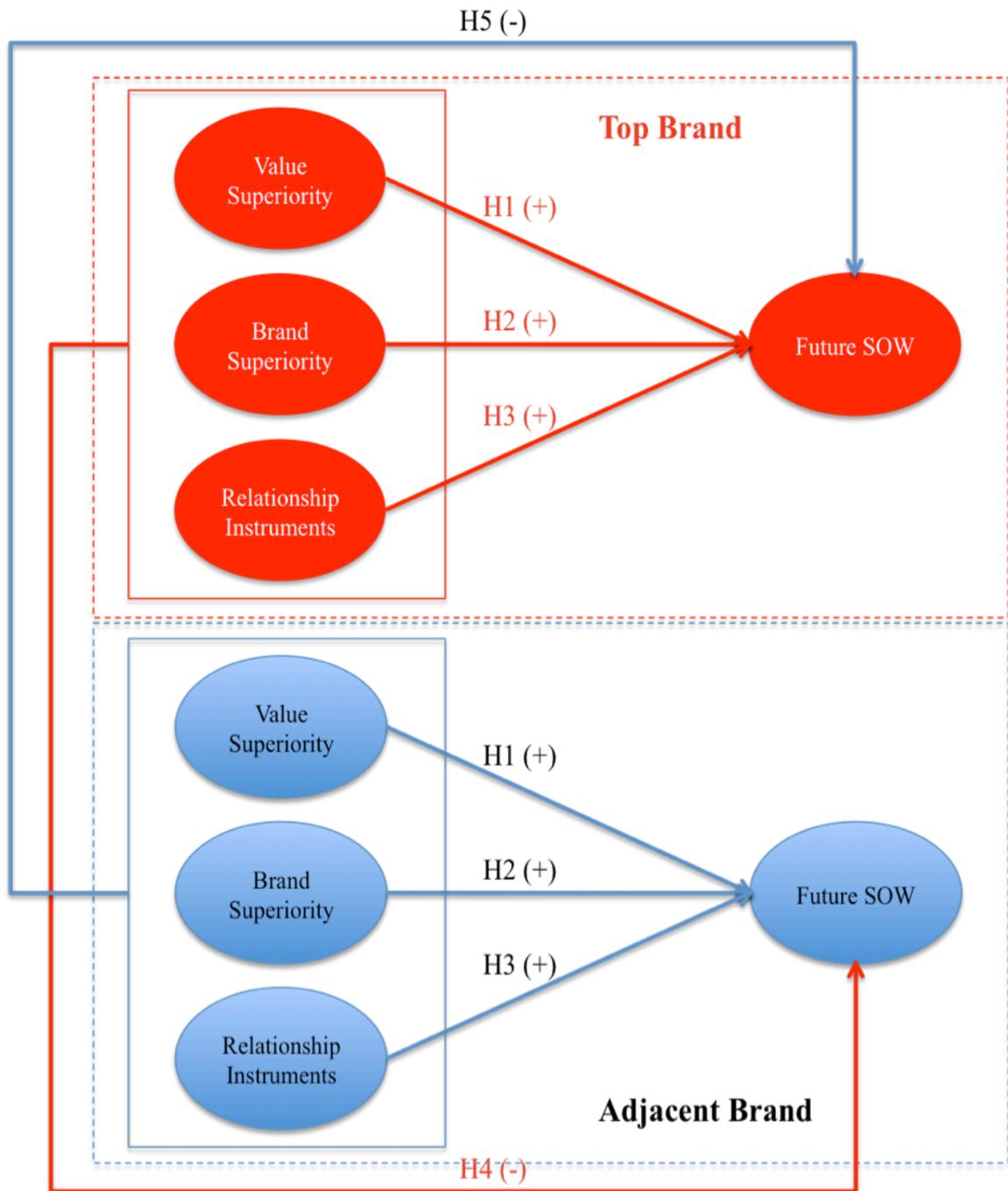
FIGURE 8

INTEGRATED SOW MODEL

TABLE 4

KEY DEFINITIONS OF MAIN CONSTRUCTS IN THE MODEL

Future Share of Wallet = a future proportion of customer's spending on a particular brand to spending on all brands in the same category

Value Superiority = customer's overall assessment of a product or service, based on perceptions of what is given up for what is received, with consideration of the superiority over other competitive brands

Brand Superiority = customer's overall assessment of the brand, above and beyond its value superiority evaluation, with consideration of the superiority over other competitive brands

Relationship Instruments = the customer's assessment of brand's marketing tools that aimed to develop and maintain relationship with customers by using economic incentive, such as loyalty and reward program and direct mailing

Top Brand = a brand that gain highest SOW from customer

Adjacent Brand = a brand that gain second highest SOW from the same customer

Effects of Drivers on Its Future SOW

Some basic elements of value have been studied to see the effects of them on customer SOW. For example, in trucks industry, the important predictors of SOW are performance attributes (Perkins-Munn et al., 2005). These performance attributes are all about customer perceived value - purchase price, value for money, design (i.e., ease of access and well matched), service quality, and product quality. The results show in the same direction with the pharmaceuticals industry that if value is good in perception of customer, SOW of the brand will be higher. The effect of value on SOW was also supported in bank industry, in the aspect of fees, interest rates and service quality (i.e., convenience) when comparing to other brands (Baumann et al., 2005). Ailawadi et al. (2008) found that store area, price consciousness, and counters per unit area are also factors of customer SOW, in which all of these factors are the components of value – quality, price, and convenience. Basically, value is the fundamental basis for all marketing activity (Holbrook, 1994). Along with previous literatures of value, value superiority or superiority of a particular brand over the other competitive brands can influence customers to allocate more to brand's SOW. Therefore, this research hypothesized that:

H1: Value superiority has a positive effect on brand's future SOW.

Rust et al., (2000) found that brand equity is one of drivers of customer equity (i.e., sum of all firm's customer lifetime value). A fundamental basis of customer lifetime value is customer spending on the brand all over its lifetime. Therefore, with higher brand equity, customers will spend higher on the firm and stay longer. Along with all supported, brand equity leads to many customer behaviors, including spend more and repeat purchase. Those would help customers spend higher percentage of their wallet on those particular brands. Moreover, there are few literatures that found the direct effect of brand on SOW. Brand image, one of components of brand equity (Keller, 2003), is found to be a predictor of SOW (Perkins-Munn et al., 2005). Brand preference also is interacted with customer satisfaction to impact customers behavioral loyalty (as measured by SOW)

(Keiningham et al., 2005) and it is highly correlated with SOW in both retail and bank industries (with higher correlation results in retail industry) (Keiningham et al., 2007). Correspondingly to the previous supported, this study hypothesizes that:

H2: Brand superiority has a positive effect on brand's future SOW.

In addition to past studies mentioned above, price discounts offered by direct mailings may motivate customers to purchase additional services (Bawa & Shoemaker, 1987) and thus increase SOW. Bolton, Kannan, and Bramlet (2000) and Rust et al. (2000) found that loyalty programs have a significant positive effect on customer retention and service usage. Those spending more and repeat purchase behaviors on a brand show tendency of customer to allocate more SOW to a particular brand. Furthermore, a direct effect of loyalty programs on SOW has been found in retailing and financial services (De Wulf et al., 2001; Magi, 2003; Verhoef, 2003). A possession of loyalty card of retail store also influenced brand's SOW (Meyer-Waarden, 2007). Finally, De Wulf et al. (2001) and Verhoef (2003) found that SOW is positively influenced by direct mails. Based on the above discussion, we put forth the following hypothesis:

H3: Relationship Instruments has a positive effect on brand's future SOW.

Effects of Drivers on Competing Brand's SOW

Whether or not the company actually takes action, the brand will be affected by what competitors do and how customers perceive competing brands. Prominently, customer mindset is always determined relative to the product offerings of the various competitors (Berger et al., 2006). If competing brands, for example, raise the perceived quality, one could assume that customer perception of quality will be changed and the relative quality level of the other brands is lowered, especially on those attributes where competitors are making improvement (Anselmsson, Johansson, & Persson, 2007). Sirohi, Mclaughlin, and Wittink (1998) found that for supermarket retailer, customer perceived value of the second-preferred brand has a significant negative effect on store loyalty intention of the first-preferred brand. The higher the perceived value of competitors, the lower the store loyalty intention. Loyalty intention in their study referred to likelihood to repurchase, likelihood to increase purchase, and likelihood to recommend. Similarly, drivers of one brand's SOW, i.e. value superiority, brand superiority, and relationship instruments, will always be compared to others. Once these drivers are perceived to be superior over other competitive brands by a customer, he may spend higher proportion of their money on those particular brands. And also spend fewer proportion of their money on other competing brands. Moreover, this is also supported by the notion of SOW, i.e., zero-sum game. When a particular brand's SOW of a customer is increased, clearly other brands' SOW will be decreased. Therefore, in addition to the effects of brand's drivers on its own SOW; drivers of one particular brand should also have effects on other competing brands. With focusing on top two brands, what top brand performs should negatively affect adjacent brand's future SOW. And in the opposite, drivers of adjacent brand should have negative effects on top brand's future SOW. Therefore, we hypothesize that:

H4: Value superiority, brand superiority, and relationship instruments of top brand have negative effects on adjacent brand's future SOW.
H5: Value superiority, brand superiority, and relationship instruments of adjacent brand have negative effects on top brand's future SOW.

In summary, SOW model in multi-brand relationship environment and all hypotheses of the proposed model are discussed. Not only a particular brand's drivers positively influence its own SOW, but also negatively influence the adjacent competitive brand's SOW and vice versa. In the next chapter, we discuss research methodology for this study. The process of measurement development is discussed and we also analyze the operational measurement of all constructs in the proposed model. We then analyze and report pretest results of samples.