Co-building brand equity and customer equity through marketing capabilities: impact on competitive advantage

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Abstract: This research aims to analyse the potential overlap of brand and customer management decisions in terms of their outcomes. We work with a sample of 201 service companies. We combine survey and accounting data. Our research analyses empirically the relationship between brand equity and customer equity and connect them with marketing capabilities and competitive advantages under the same framework. According to our results, brand equity and customer equity are related assets that are built upon the same marketing capabilities; these assets – together with industry level factors – strongly affect competitive advantage formation. Particularly, brand equity mainly allows companies to increase their prices. In turn, customer equity leads to a higher loyalty of the customer base of firms. Our results indicate that brand equity and customer equity need to be jointly managed, in order to correctly evaluate how brand equity and customer equity contribute to profitability.

Keywords: brand equity; customer equity; marketing capabilities; competitive advantage.


Biographical notes: Mª Jesús Yagüe has been a Professor of Marketing since 1994, first at Universidad de Castilla-La Mancha and afterwards at Universidad Autónoma de Madrid. Her research interests include brand equity, pricing, marketing profitability and tourism marketing. She has published her research in leading journals such as European Journal of Marketing, International Journal Market Research, Journal Business to Business Marketing, Computers in Human Behavior, Journal Travel Research, International Journal of Hospitality Management, International Journal of Contemporary Hospitality Management, Journal of Services Management, among others.
1 Introduction

Brand and customer portfolios are intangible marketing assets that help companies make profits because of their effect upon competitive advantages. Academic literature has studied how to manage (build and develop) and measure the value – brand equity (hereafter, BE) and customer equity (CE) – that these assets provide to companies. In short, BE is the differential effect of brand knowledge (including brand image and brand awareness) on consumer response to the elements of marketing mix for the brand in comparison to the same elements of a fictitiously named or unnamed version of the product or service (Keller, 1993, 2008). In contrast, CE has a purely financial nature and can be defined as the discounted stream of profits expected from the actual and potential customers of a firm (Rust et al., 2004a).

Research efforts involving BE and CE have generally constituted well differentiated lines of research. Whereas BE studies can be traced back to the early 1990s and tend to concentrate on conceptualisation and measurement (Aaker, 1991; Keller, 1993; Netemeyer et al., 2004; Wang et al., 2009), the concept of CE has become popular over the past ten years and focuses on its measurement and optimisation (e.g., Berger and Nasr, 1998; Allenby et al., 1999; Gupta et al., 2004; Venkatesan and Kumar, 2004; Fader et al., 2005a, 2005b; Wiesel et al., 2008).

Hence, there is some parallel development of the research into BE and CE, and these concepts are intimately related (Leone et al., 2006; Spyropoulou et al., 2011; Romero and Yagüe, 2015, 2016). BE modifies customer choices and brand sales, producing cash-flow from the customer to the company (Srivastava et al., 1998; Rao et al., 2004; Johansson et al., 2012). Similarly, CE appraises the profits that a firm derives from actual and potential customers. Yet the potential links between the two factors have hardly been studied, making this an attractive research topic (Villanueva and Hanssens, 2007). The few studies to date of the connection between BE and CE posit that the management of brands and customers could have some similar effects (Ambler, 2003; Leone et al., 2006), and there may be synergies in brand and customer management. However, the previous (theoretical) studies do not provide any empirical support for their conclusions, and can hardly serve as the basis of research or managerial initiatives.

Our objective is to analyse the potential overlap of brand and customer management decisions in terms of their outcomes. To this end we adopt an empirical perspective, analysing how a company’s marketing capacities (marketing capacity understood as the ability of a firm to efficiently deploy and manage its marketing resources; Porter, 1985, 1991) might be linked with strengthened BE and CE. We also explore their relation with competitive advantages, i.e., how these assets can prove useful to create a defensible position over competitors.
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<th>Relationship between market-based assets</th>
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<td>BE – price premium (T), competitive advantage (T) and results (T)</td>
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<td>BE – results (T) and competitive advantage (T)</td>
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<td>Customer capabilities – CE (T)</td>
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<td>Customer capabilities – CE (T)</td>
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Note: T: the relationship has been studied from a theoretical perspective (i.e., not empirically tested in the study).
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<td>BE assumed as an antecedent of CE</td>
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<td>Srivastava et al. (1998, 2001)</td>
<td>Marketing capabilities – market-based assets (T)</td>
<td>BE and CE – price premium (T) and loyalty (T); BE – results (T) and competitive advantage (T)</td>
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<td>Anselmsson et al. (2007) and Lassar et al. (1995)</td>
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<td>BE – price premium (T)</td>
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<td>Robinsson and Pfeiffer (2005)</td>
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<td>BE – loyalty – margin</td>
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<td>Park and Srinivasan (1994)</td>
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<td>BE – price premium</td>
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<td>Hu et al. (2010)</td>
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<td>BE – price premium and results</td>
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<td>Nurittamont and Ussahawanichakit (2008)</td>
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<td>BE – results and competitive advantage</td>
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<td>Kim and Kim (2005), Oliveira-Castro et al. (2008) and Seggie et al. (2006)</td>
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<td>BE – results</td>
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<td>Bick (2009) and Leone et al. (2006)</td>
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<td>Link between BE and CE (T)</td>
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<td>Switching costs – loyalty</td>
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<td>Strombom et al. (2002)</td>
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<td>Switching costs – price premium (mediated by price inelasticity)</td>
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<td>Farrell and Shapiro (1988)</td>
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<td>Switching costs – price premium (T)</td>
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<tr>
<td>Romero and Yagüe (2016)</td>
<td>Marketing capabilities – BE and CE</td>
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<td>Link between BE and CE</td>
<td>Switching costs – price premium and loyalty</td>
<td>Switching costs – brand capabilities and customer capabilities</td>
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<td>This study</td>
<td>Brand capabilities – BE, Customer capabilities – CE</td>
<td>BE and CE – price premium and loyalty</td>
<td>Link between BE and CE</td>
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Note: T: the relationship has been studied from a theoretical perspective (i.e., not empirically tested in the study).
The contribution of this research is threefold. On the one hand we empirically study the connection between BE and CE in a wide range of industries. Previous research has studied this connection only at theoretical or methodological levels. Our results add that these two marketing assets are related but still have unique features that impede considering them the same asset, against previous evidences that assume that BE is just an antecedent of CE (Chen and Myagmarsuren, 2011; Hao et al., 2010; Allaway et al., 2011; Ramaseshan et al., 2013). On the other hand, we jointly study the relationships of BE and CE with marketing capabilities and competitive advantages, which have not been analysed by previous research under the same framework - previous research has tested the connection of either BE or CE with marketing capabilities and competitive advantages, but not both simultaneously with the exception Romero and Yagüe (2016) (see Table 1); this is not surprising because BE and CE are significantly different in terms of measurement methodologies and units of analysis (product vs. customer) (Villanueva and Hanssens, 2007). According to our results the growth in BE and CE leads to greater customer willingness to pay premiums, and to a higher loyalty among customers, in contrast to previous authors who have attributed improvements in terms of price premiums and loyalty indistinctly to increases in either BE or CE. Finally, switching costs have to be incorporated as control variables in the model because they significantly influence the positive effects from marketing capabilities and assets market on competitive advantages. This study note that switching costs reinforce both loyalty and premium prices in contrast previous studies that have studied the effects of changes on costs loyalty (Jones et al., 2000) and separate premium prices (Farrell and Shapiro, 1988; Strombom et al., 2002).

These findings about the connection between BE, CE, marketing capabilities and competitive advantages and the control role of switching costs have both theoretical and managerial implications. Firstly they support further research into brands based on customer management studies, and vice versa. Secondly, researchers focusing on the effects of market-based assets on company profitability and firm value should take into account the connection between these assets. Thirdly, from a practical perspective, controlling for this link is significant for accurate firm valuation processes; and for marketing managers, the BE-CE connection is the key to building stronger brands and increasing the customer base of a firm (Kumar et al., 2006) to ensure a sustainable competitive advantage.

The remainder of this paper is organised as follows. In the second section we present a review of the theoretical framework of our research and we formulate the hypotheses supporting relationships between the latent variables of our theoretical model. The third section provides details of the method followed for gathering and processing the information, and for measuring the latent variables included in the model via the development of scales. The results obtained from contrasting the empirical model and its underlying hypotheses are then analysed. Finally, we present our principal conclusions, and suggest future lines of research, aimed at overcoming some of the limitations of this research.
2 Theoretical model

2.1 Model overview

The influence of investments in marketing resources upon company profitability and firm value has been theoretically grounded on the resource-based view, on its subsequent developments – the dynamic capabilities theories – (Teece and Pisano, 1994; Teece et al., 1997) and on specific marketing literature (Srivastava et al., 1999, 2001). Previous research has identified different types of marketing capabilities (Morgan et al., 2009a; den Hertog et al., 2010) that are useful for generating market-based assets (Srivastava et al., 1998) and competitive advantages (Srivastava et al., 2001). Consistent with previous research, we propose a theoretical model (Figure 1) in which marketing capabilities, moderated by industry-specific factors, influence the creation of marketing assets. Building these assets affords differentiation advantages, i.e., firms are able to generate greater margins or retain more customers than their competitors. The relationships between model variables are conditioned by industry-specific factors such as switching costs and competition intensity.

Figure 1  Brand equity and customer equity formation and their impact on results (see online version for colours)

Notes: Types of effects: \(\rightarrow\) covariate (Jayachandran et al., 2005); \(\leftrightarrow\) simultaneous; \(\rightarrow\) direct.

The starting points of our model are the marketing capabilities of firms. We distinguish between two types of capabilities: those that favour brand management, and those that facilitate customer relationship management, respectively generating BE and CE (Rust et al., 2004a). By enhancing these assets, companies secure higher profits from the market via two mechanisms based on product differentiation. First, customers are willing to pay more for a product (Srivastava et al., 1998; Ailawadi et al., 2003), and second, a stable and sustained purchase level over time is more likely (Gupta and Lehmann, 2003). Marketing capabilities and the mechanisms via which companies make higher profits are affected by the existence of switching costs within the market (Burnham et al., 2003; Jones et al., 2000). Furthermore, the relationships between marketing capabilities and the generation of intangible assets are moderated by the particular characteristics of each sector or competitive environment (Berger et al., 2002), and specifically by competitive intensity (DiMaggio and Powell, 1983).
2.2 Hypotheses

Traditionally, literature on the resource-based view has treated marketing capabilities as an aggregate (Vorhies and Morgan, 2005) or as a concept consisting of two types of components, those associated with marketing mix capabilities and those of the strategic marketing process capabilities (Morgan et al., 2009b). Recently, some academics have grouped the marketing capabilities in accordance with the type of market-based assets they develop (Srivastava et al., 1998). Following this trend, two types of marketing capabilities can be summed up as those aimed at building CE and those intended to manage BE. Customer and brand capabilities are different yet complementary elements (Morgan et al., 2009a). The former are capabilities developed by the firm in order to create and manage stronger and closer relations with its customers (Rust et al., 2004b), while the latter are associated with the processes and activities that help the company to develop, support and maintain strong brands (Aaker, 1991; Hulland et al., 2007).

Investing in brand capabilities constitutes an outstanding tool for improving the results of an organisation (Keller, 1993; Kerin and Sethuraman, 1998; Ambler, 2003; Raggio and Leone, 2007; Oliveira-Castro et al., 2008). The greater the value of an organisation’s brands, the greater its competitive differentiation advantages (Aaker, 1991; Lassar et al., 1995; Kim and Kim, 2005; Nurittamont and Ussahawanitchakit, 2008); hence, the better the results it achieves (Aaker, 1991, 1996; Keller, 1993; Park and Srinivasan, 1994; Nurittamont and Ussahawanitchakit, 2008; Oliveira-Castro et al., 2008) and the higher its market value (Simon and Sullivan, 1993; Kerin and Sethuraman, 1998). Studies in customer relationship management and CE (Gupta et al., 2004; Rust et al., 2004a; Bauer and Hammerschmidt, 2005) likewise conclude that companies who strengthen customer capabilities (by applying customer relationship management techniques) improve their value via future profits generated by the accumulation of CE. Nevertheless, the implementation of customer relationship management programs is not always successful, especially in companies where there is a resistance to change at various levels of the organisation (Bohling et al., 2006). Employee engagement and appropriate change management are essential for obtaining positive outcomes from customer management (Payne and Frow, 2005).

BE and CE are closely related with two types of competitive advantages based on differentiation (in contrast to cost leadership; see Porter, 1980, 1985), namely, greater consumer loyalty (loyalty is a consequence and not a component of the customer-based brand equity Keller’s concept, widely used in previous research (e.g., Taylor et al., 2007; Chen and Myagmarsuren, 2011; Juntunen et al., 2011; Geigenmüller and Bettis-Outland, 2012) and a predisposition to pay a premium price for the company’s goods and services. Thus, strong brands generate loyal customers who value these brands above all others in the market, who repurchase the brand on a regular basis, and who consider it entirely reasonable to pay more for it (Aaker, 1991; Park and Srinivasan, 1994; Taylor et al., 2007; Jobber and Shipley, 2012). High CE implies high retention rates and margins that ensure stable income flows in the future (Berger and Nasr, 1998; Gupta and Lehmann, 2003). In BE and CE literature, consumer loyalty is therefore seen as a common benefit derived from the construction of market assets, that is, brand purchase preference-commitment-repetition (Yoo and Donthu, 2001; Rubinson and Pfeiffer, 2005) and/or customer retention (customer loyalty with respect to purchasing the company’s products and services; Bick, 2009). The price premium associated with BE and CE comes from a certain inelasticity in the demand of loyal customers.
In summary, previous research indicates that:

1. Brand and customer capabilities increase BE and CE.
2. BE and CE are positively related with gaining competitive advantages, namely customer loyalty and customer willingness to pay a premium price (Srivastava et al., 1998).

Nevertheless, these relationships have not been tested together within the same framework. Just as Leone et al. (2006) point out some simultaneity between BE and CE, we can surmise that some effects attributed to the chain ‘brand capabilities → BE → differentiation’ might indeed correspond to elements of the chain ‘customer capabilities → CE → differentiation’, and vice versa. H1 and H2 reflect these chains and lead us to test common effects of BE and CE:

H1a Building brand capabilities positively influences BE.
H1b Building customer capabilities positively influences CE.
H2a BE has a positive effect on the average loyalty of customers.
H2b BE has a positive effect on the willingness of customers to pay a price premium.
H2c CE has a positive effect on the average loyalty of customers.
H2d CE has a positive effect on the willingness of customers to pay a price premium.

There is much debate about the relationship between BE and CE, although the two are generally viewed as concepts with important similarities (Bick, 2009). From the resource-based perspective, both are market-based intangible assets. The cash flows generated by brand and customer management could be, to some extent, the same (Leone et al., 2006; Romero and Yagüe, 2015, 2016). This hypothetical relationship between BE and CE would arise from marketing actions with a twofold effect, i.e., that might build both BE and CE (Ambler, 2003). Marketing actions implemented by companies to build associations with the brand, as well as favourable attitudes toward the brand, could increase acquisition and retention rates and the margins (and therefore the prices) charged to customers. Similarly, customer management decisions could strengthen attitudes, preferences and loyalty (Leone et al., 2006).

Given that all these BE and CE elements provide companies an increase of the present and future cash flows, it is reasonable to assume that BE and CE are highly correlated (Romero and Yagüe, 2016). However, some authors underline that these concepts do not provide different perspectives of the same asset (Leone et al., 2006; Bick, 2009). There are relevant differences between them, representing specific contributions to company cash flows. For example, strong brands attract and retain not only consumers, but also more highly qualified employees; and they facilitate relations within the distribution channel, presenting opportunities for growth via product line extensions, licenses and franchises (Jones, 2008; Chernatony et al., 2010). In turn, customers can generate value for the company above and beyond their purchases by word-of-mouth or co-creation (van Doorn et al., 2010; Kumar et al., 2010). Moreover, the contribution of BE and CE to firm results might vary across industries. For example, BE is more relevant than CE in fast moving consumer goods or pharmaceutical products, whereas CE contribution is higher in B2B settings or for financial services (Bick, 2009). In these
cases, the magnitude of the BE-CE correlation could be even lower. Some authors propose that BE is just one of the antecedents of CE (Rust et al., 2000, 2004a; Chen and Myagmarsuren, 2011; Hao et al., 2010; Allaway et al., 2011; Holehonur et al., 2009; Ramaseshan et al., 2013; Villaseñor et al., 2012). According to Rust et al. (2000, 2004a), BE includes customers’ perception about firm products, while CE is a measure of the profitability of the customer base of a company. Greater BE does not necessarily imply greater CE. Brands are, together with other CE antecedents (namely, value equity and relationship equity) a means of creating, developing and preserving profitable long-term relationships with customers. If the impact of other CE antecedents is strong, the correlation of BE and CE could be low.

In short, no empirical study has tested to date the interdependence relationship between BE and CE excepting if Romero and Yagüe (2016). We explicitly include it with two purposes: firstly, to test the existence of the BE-CE correlation and, secondly, to assess more accurately the relationships between marketing capabilities, market-based assets and differentiation advantages (H1–H2). Hence, we formally hypothesise the following:

H3 There is a positive and significant correlation between BE and CE.

The relationship between marketing capabilities, BE and CE, and competitive advantages could vary from one industry to another. Consequently we include industry-specific factors in our theoretical framework: we incorporate switching costs as antecedents of both marketing capabilities and competitive advantages (loyalty and premium prices) in our model, and competitive intensity as a moderator of BE and CE formation.

Switching costs influence the repeated purchasing behaviour of the consumer (Burnham et al., 2003; Jones et al., 2000) and are taken into account by companies when making their marketing decisions (Eliashberg and Robertson, 1988; Karakaya and Stahl, 1989). Switching costs limit customer churn, thereby making it possible to charge higher prices to the customers who remain loyal to the company (Farrell and Shapiro, 1988). Additionally, switching costs stand as barriers to entry (Karakaya and Stahl, 1989). They have a positive effect on company results due to the fact that they lead to monopolistic competition conditions. However, switching costs could also have a negative impact on company profitability. Companies that believe they are protected by this barrier to entry could be discouraged to build strong intangible marketing assets. Hence, in our model, switching costs have a twofold and conflicting effect upon competitive advantages and corporate results. These conflicting effects have not been simultaneously tested by previous research. Depending on the net effect of switching costs on competitive advantage (either positive or negative); firms should foster or disregard them in brand and customer management. H4 and H5 aim to provide a simultaneous test of the opposing effects of switching costs:

H4a Switching costs have a negative effect upon customer capabilities.

H4b Switching costs have a negative effect upon brand capabilities.

H5a Switching costs have a positive effect upon average loyalty of customer portfolio.

H5b Switching costs have a positive effect upon customers’ willingness to pay a price premium.
Finally, our model accounts for the moderating effect of competitive intensity on the effect of brand and customer capabilities upon BE and CE formation (Reinartz et al., 2004). Competitive intensity increases the investments on capabilities that a company requires in order to gain competitive advantage (Desai et al., 2007). Companies in highly competitive environments are forced to deliver a superior value to customers and develop a customer-oriented management (Slater and Narver, 1998; Zhou et al., 2005). Likewise, companies under high competitive pressure use brands as a mechanism to reduce its negative impact (Porter, 1980; Gruca and Sudharshan, 1995; Aaker, 2012).

3 Method

To test our hypotheses we employ a structural equations model (SEM). This tool can simultaneously estimate all the relationships included in complex models in which constructs are interrelated. In order to measure the variables of our model, we collected data from a survey of marketing managers working for service companies in Spain. Managerial samples have long been used in management research (e.g., Greenley, 1988; Jantan et al., 2004; Narasimhan, 1990; Pehrsson, 2006) and usually allow reaching similar results than objective data (Venkatraman and Ramanujam, 1987; Reinartz et al., 2004). Because the data needed for our model are not publicly available, the only way to obtain it is by directly asking managers about their decisions and performance.

A market research institute carried out the fieldwork via telephone surveys, using the CATI system. The sample (201 managers) was randomly taken from the 5,745 service companies registered in the database SABI (which contains the financial records of more than one million companies operating in Spain), ensuring an acceptable representativeness of the population.

The latent variables used in the study were measured using scales validated by previous research (see Table 2) customer capabilities, brand capabilities, BE and switching costs were measured using primary Likert-type scales. Switching costs were measured using reverse indicators – the lower the perceived switching costs of a sector, the higher the value of the indicator. Competitive intensity of the sector was measured through market transparency, a determinant quality of competitive intensity (Granados et al., 2010). This variable is measured using a direct transparency indicator of the sector (Likert scales of 11 points: ‘in my sector the market is totally transparent’). The competitive advantages are assessed using two reflective indicators of differentiation: price premium (Porter, 1980; Prajogo, 2007; Winrow and Johnson, 2010) and customer loyalty (Nurittamont and Usahawanitchakit, 2008; Aaker, 2012). For the former we used a seven-point scale of prices relative to the competition (“in relation with the competition, the prices of the services provided by your brands are: over 20% lower; between 11% and 20% lower; up to 10% lower; similar; up to 10% higher; between 11% and 20% higher; over 20% higher”). For customer loyalty we devised a weighted average of five levels of loyalty multiplied by the estimated percentage of customers that fall within each (“distribute your current customer portfolio in accordance with the degree of loyalty shown towards your company when they have to buy a service in this category: between 90% and 100% of their purchases; between 70% and 89%; between 50% and 69%; between 30% and 49%; less than 30% of the times”). Finally, the CE indicators were measured using typified numerical scales as described in Table 2.
### Table 2
Reliability and convergent validity of model variables (SEM; partial least squares)

<table>
<thead>
<tr>
<th>Variables</th>
<th>( \lambda )</th>
<th>( R^2 )</th>
<th>Cronbach's ( \alpha )</th>
<th>Composite reliability</th>
<th>Variance extracted</th>
<th>t value</th>
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<tr>
<td><strong>Customer capabilities</strong></td>
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<td>Assess your marketing capabilities relative to your principal competitors in the following areas. To do so use a scale of -5 to +5, where -5 = 'a great deal worse than your competitors', 0 = 'the same as your competitors' and 5 = 'a great deal better than your competitors' [adapted from Morgan et al. (2009a, 2009b)]:</td>
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<tr>
<td>1 Establishing a dialogue with the target audience.</td>
<td>0.74 (0.80)</td>
<td>0.54</td>
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<td>(25.32)</td>
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<tr>
<td>2 Developing an initial test of the company's services by the target audience.</td>
<td>0.64 (0.75)</td>
<td>0.41</td>
<td>8.45 (13.45)</td>
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<tr>
<td>3 Satisfying the long-term needs of the target audience.</td>
<td>0.65 (0.81)</td>
<td>0.42</td>
<td>9.99 (20.17)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Maintaining loyalty among the attractive customers.</td>
<td>0.63 (0.73)</td>
<td>0.40</td>
<td>7.74 (12.85)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Strengthening the relations with the attractive customers.</td>
<td>0.73 (0.79)</td>
<td>0.53</td>
<td>9.60 (17.35)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Maintaining a positive relationship with ex-customers.</td>
<td>0.81 (0.79)</td>
<td>0.65</td>
<td>10.61 (17.62)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Brand capabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assess your marketing capabilities relative to your principal competitors in the following areas. To do so use a scale of -5 to +5, where -5 = 'a great deal worse than your competitors', 0 = 'the same as your competitors' and 5 = 'a great deal better than your competitors' [adapted from Morgan et al. (2009a, 2009b)]:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Establishing desirable brand associations in the mind of the consumer.</td>
<td>0.84 (0.86)</td>
<td>0.71</td>
<td>--</td>
<td>--</td>
<td>(35.30)</td>
<td></td>
</tr>
<tr>
<td>2 Maintaining a more positive brand image than that of your competitors.</td>
<td>0.82 (0.86)</td>
<td>0.67</td>
<td>13.06 (34.59)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Maintaining high levels of brand recognition within the market.</td>
<td>0.83 (0.90)</td>
<td>0.68</td>
<td>13.43 (45.30)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Making the most of brand equity to extend your brands.</td>
<td>0.81 (0.85)</td>
<td>0.65</td>
<td>12.84 (26.90)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Monitoring your brand image and recognition among your target audience.</td>
<td>0.82 (0.89)</td>
<td>0.67</td>
<td>13.16 (42.62)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: \( \chi^2 = 205.383 \) (degrees of freedom 150, \( p = 0.002 \)); \( \chi^2/\text{degrees of freedom} = 1.37 \); root mean square error of approximation (RMSEA) = 0.045; comparative fit index (CFI) = 0.973; global fit index (GFI) = 0.900; normed fit index (NFI) = 0.909. Partial least squares results in parentheses.
Co-building brand equity and customer equity through marketing capabilities

### Table 2

Reliability and convergent validity of model variables (SEM; partial least squares)

<table>
<thead>
<tr>
<th>Variables</th>
<th>( \lambda )</th>
<th>( R^2 )</th>
<th>Reliability</th>
<th>Convergent validity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brand equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Likert scale (0–10). Extracted from Keller (2001)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 In your market, your brands are very well known.</td>
<td>0.76 (0.80)</td>
<td>0.57 (0.69)</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>2 Among your customers, the image of your brands is very good.</td>
<td>0.79 (0.87)</td>
<td>0.63 (0.77)</td>
<td>9.36</td>
<td>41.39</td>
</tr>
<tr>
<td>3 Among your customers, the perceived quality of your brands is very good.</td>
<td>0.74 (0.85)</td>
<td>0.54 (0.80)</td>
<td>8.36</td>
<td>33.86</td>
</tr>
<tr>
<td>4 Your customers speak very highly of your brands.</td>
<td>0.73 (0.81)</td>
<td>0.54 (0.81)</td>
<td>8.79</td>
<td>22.76</td>
</tr>
<tr>
<td><strong>Customer equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With respect to the customer base of the market in which you operate (the variables have been typified in a (0–10) scale to make them comparable to other scales in our questionnaire. Both variables are CE calculation components (e.g., Berger and Nasr, 1998; Gupta and Lehman, 2003; Gupta et al., 2004; Rust et al., 2004a; Fader et al., 2005a, 2005b):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 What is the average retention rate of your company’s customers?</td>
<td>0.76 (0.89)</td>
<td>0.58 (0.77)</td>
<td>---</td>
<td>26.68</td>
</tr>
<tr>
<td>2 What is the average annual income obtained in your company?</td>
<td>0.82 (0.91)</td>
<td>0.67 (0.77)</td>
<td>4.84</td>
<td>36.24</td>
</tr>
<tr>
<td><strong>Switching costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Likert scale (0–10).</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 In my sector it is very easy for a customer to acquire services from a different provider.</td>
<td>0.65 (0.77)</td>
<td>0.43 (0.87)</td>
<td>---</td>
<td>9.85</td>
</tr>
<tr>
<td>2 In my sector the process of changing to a new provider is very fast for the customer.</td>
<td>0.94 (0.93)</td>
<td>0.89 (0.77)</td>
<td>7.19</td>
<td>67.13</td>
</tr>
<tr>
<td>3 In my sector the customer sees no risk in changing provider.</td>
<td>0.65 (0.77)</td>
<td>0.42 (0.77)</td>
<td>7.73</td>
<td>11.82</td>
</tr>
</tbody>
</table>

Notes: \( \chi^2 = 205.383 \) (degrees of freedom 150, \( p = 0.002 \); \( \chi^2 \) degrees of freedom = 1.37; root mean square error of approximation (RMSEA) = 0.045; comparative fit index (CFI) = 0.973; global fit index (GFI) = 0.900; normed fit index (NFI) = 0.909. Partial least squares results in parentheses.
4 Analysis and results

We applied a structural equations model estimated by maximum likelihood using the SPSS Amos 19 software program. Additionally, in order to check the robustness of our results we have estimated the model by partial least squares using SMARTPLS 2.0 (Ringle et al., 2005). The conclusions reached from both estimations are equivalent.

As in any structural equations model, the analysis was implemented in two phases. First, the psychometric properties of the measurement scales proposed for the latent variables of the model were evaluated using both exploratory and confirmatory analysis techniques. Next, our hypotheses were tested based on the validation of our causal model. We conducted our analyses using maximum likelihood and partial least squares estimations. Their results are equivalent, thus indicating the robustness of our analyses and allowing us to take advantage of the benefits of both techniques. On the one hand, partial least squares is especially useful for our research given our sample size (lower than 250 observations) and because it makes it possible to predict the impact of marketing capabilities on brand equity and customer equity taking into account that there could be a simultaneity between these constructs. On the other hand, applying maximum likelihood estimation provides extra statistical results that the estimation by partial least squares does not. For this research it is particularly relevant to have global goodness-of-fit measures for model comparisons, as well as indicators of the significance of the covariance between BE and CE in order to test H3.

4.1 Validation of the scales

We initially applied an exploratory factorial analysis and a reliability analysis to the items that define the scales of the latent variables of our model. After this initial filter, the customer capabilities scale maintained its six indicators while the brand capabilities scale lost two indicators and maintained the other five; we dropped the item ‘identifying and selecting attractive consumers’ in the original customer capabilities scale because it represents general marketing capacities; the items ‘using customer insights to identify valuable brand positioning’ and ‘establishing perceptions of quality greater than those of our competitors’ were also eliminated from the original brand capabilities scale. These indicators are related to brand associations. With regard to loyalty, since the seminal research of Aaker (1991), empirical studies has extensively shown that brand loyalty is a consequence of the other dimensions, which is coherent with our model based on the brand equity definition of Keller (1993). For the remaining variables, each item loads on its corresponding latent variable. Subsequently, the analysis of the psychometric properties of our latent variables supports the validation of the scales finally used in this study (Table 2). Following Hair et al. (2006), the model presents a good global adjustment. Furthermore, all the indicators present standardised lambda coefficients that are both significant and greater than 0.5 (they vary between 0.63 and 0.94; 0.73 and 0.93 in partial least squares). Likewise, all the indicators have a clear relationship with each of the underlying factors they are intended to measure ($R^2 > 0.3$). Convergent validity and reliability were checked using the composite reliability, with average variance extracted and the t-test values for each measurement. The composite reliability values for all measurements exceed the critical value of 0.7 (Nunnally, 1978; Norusis, 1993). The t values are highly significant and the average variance extracted is higher than the critical value of 0.5 (Fornell and Larcker, 1981).
Extra evidence of the discriminant validity of the measurement model is that none of the confidence intervals of the estimated correlations between each pair of dimensions contained the value 1 (except in the case of brand and customer capabilities). Additionally, as shown in Table 3, the square root of the average variance extracted (AVE) of each latent variable exceeds the correlation of that variable with all the other constructs, excepting brand and customer capabilities. This indicates a potential lack of discriminant validity between both variables. Nevertheless, we kept them as separate constructs in coherence with previous literature. This decision is also supported by further construct validity tests (submodels that include cross effects of brand and customer capabilities of BE and CE) indicating that the effects of each capability on BE and CE are neither consistent nor equivalent.

Table 3 Descriptive estimates (mean, standard errors) and correlations of latent variables

<table>
<thead>
<tr>
<th>Latent variables</th>
<th>Mean</th>
<th>Standard error</th>
<th>Switching costs</th>
<th>Customer capabilities</th>
<th>Brand capabilities</th>
<th>BE</th>
<th>CE*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switching costs</td>
<td>6.16</td>
<td>2.04</td>
<td>0.76</td>
<td>(0.84)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer</td>
<td>7.06</td>
<td>1.27</td>
<td>0.30</td>
<td>(0.23)</td>
<td>0.71</td>
<td>(0.78)</td>
<td></td>
</tr>
<tr>
<td>Brand</td>
<td>7.56</td>
<td>1.47</td>
<td>0.28</td>
<td>(0.22)</td>
<td>0.95</td>
<td>(0.80)</td>
<td>0.82</td>
</tr>
<tr>
<td>BE</td>
<td>7.64</td>
<td>1.07</td>
<td>0.09</td>
<td>(0.05)</td>
<td>0.53</td>
<td>(0.45)</td>
<td>0.56</td>
</tr>
<tr>
<td>CE*</td>
<td>5.82</td>
<td>2.46</td>
<td>0.08</td>
<td>(0.02)</td>
<td>0.35</td>
<td>(0.28)</td>
<td>0.23</td>
</tr>
</tbody>
</table>

Notes: *Standardised variable.
Figures in the principal diagonal (in bold) correspond to the square roots of the average variance extracted of each latent variable; figures below the principal diagonal are the correlation between constructs.
Partial least squares results in parentheses.

4.2 Contrast of hypotheses

Figure 2 presents the results of model estimation (partial least squares results are given in parentheses). The goodness-of-fit indexes show that its specification is correct. With respect to hypotheses testing, the model first confirms Hypotheses H1a and H1b, which posit that brand and customer capabilities have a positive influence, respectively, on the construction of BE and CE in services companies. These direct effects are positive and significant. Every additional point achieved in the brand capabilities aimed at BE represents an improvement of 0.58 (0.49) points in BE (number in parentheses is partial least squares result). Similarly, every additional point achieved in the customer capabilities leads to an improvement of 0.30 (0.28) points in CE.

In addition, model coefficients indicate that the accumulation of BE favours the gain of competitive advantages and, therefore, the improvement of corporate results. In particularly, the effect of BE on price positioning is 0.33 (0.29), supporting H2a, regardless of employing maximum likelihood or partial least squares to test it. Both techniques indicate a similar impact (magnitude) of brand capabilities on competitive advantages (price premium) mediated by the building of BE (0.19 in maximum
likelihood estimation; 0.14 in partial least squares). BE does not improve average loyalty according to our maximum likelihood results. Partial least squares estimations indicate a weak effect, significant at 90%. Thus, H2b is only weakly supported by our results.

**Figure 2** Structural model estimates (see online version for colours)

![Structural model estimates](image)

Notes: Global fit of the structural equation model: \( \chi^2 = 281.11 \) (degrees of freedom: 209, \( p = 0.001 \)); \( \chi^2/\text{degrees of freedom} = 1.35 \); root mean square error of approximation (RMSEA) = 0.04; comparative fit index (CFI) = 0.97; goodness of fit index (GFI) = 0.88; normed fit index (NFI) = 0.88. Dotted lines indicated a significance level lower than 95%. Partial least squares estimates in parentheses. Significance levels are based on a bootstrapping of 900 samples.

Regarding the effects of CE on competitive advantages, our results indicate that the accumulation of CE also favours the gain of competitive advantages. According to maximum likelihood results, this effect takes places only in terms of average loyalty (H2c) but not for price premiums (H2d). Specifically, the effect of CE on average loyalty is 0.17 (0.14, at a 90% level in partial least squares), thus supporting H2c. Hence customer capabilities have a positive and significant effect on average loyalty (0.05 in maximum likelihood estimation; 0.04 in partial least squares), which is mediated by the building of CE. Yet CE does not have a significant influence on price premium in any of the estimation methods. Our results support H2c but we cannot accept H2d.

Meanwhile, it is confirmed that, just as Leone et al. (2006) suggest, marketing activities affect the different elements that build BE and CE, and these effects provoke a significant degree of simultaneity and overlapping, in contrast to the antecedent (BE)-consequent (CE) relationship as proposed by Rust et al. (2000). The maximum likelihood estimation of our model indicates that there is a positive and significant correlation of 0.33 between BE and CE, allowing the acceptance of Hypothesis H3. Partial least squares corroborates this path estimate of 0.32 between the latent variables BE and CE. We further confirmed this effect by estimating our model incorporating BE as an antecedent of CE and vice versa. In both cases the path estimates are positive and
significant (0.28 and 0.23, respectively), thus providing extra evidence of the BE-CE correlation.

Hypotheses H4a and H4b, which were formulated with respect to the expected effects of the switching costs upon customer and brand capabilities, are confirmed. When the switching costs (measured using a reverse scale) within the services sector where the company operates are lower, customer and brand capabilities are higher. The estimated coefficient indicates that, for each point by which the switching costs are reduced, the customer capabilities are 0.24 points higher. Likewise, brand capabilities are 0.22 higher. In addition, the higher the switching costs, the greater the competitive advantages in terms of premium price and average loyalty. The estimated coefficients, both negative and significant, reflect direct and moderate effects and support Hypotheses H5a and H5b. Hence, for each additional perceived switching costs point, there is a 0.20 point increase in the price premium and a 0.27 point rise in the average degree of retention. The combination of the direct and indirect effects of switching costs upon the results of the market-based equities leads to a net positive effect but of a lesser magnitude, respectively 0.16 (0.14) and 0.26 (0.23).

Finally, the effect estimated for the indicator that characterises the industry environment indicates the existence of a positive and significant correlation of 0.34 with the marketing capabilities created; therefore, all the effects confirmed by our model are increased by the degree of market transparency.

5 Conclusions and future lines of research

This study was intended to provide new evidence regarding the relationship between investment in marketing capabilities and the construction of market-based assets, more specifically brand and customer capabilities and BE and CE, and to establish the relationship between BE and CE and their effects upon gaining competitive advantages that help improve company profits. Two industry-specific factors that influence these relationships were incorporated: namely, switching costs, and competitive intensity.

Our study puts forth a joint BE and CE modelling and measurement process that accounts for the influence of brand capabilities and customer capabilities, as well as the effects of both assets on differentiation advantages. The model tested in this research clearly separates some effects that may be confounded in past studies about the chain marketing capabilities → market-based assets → competitive advantage, and serves to empirically support the correlation between BE and CE. These advances have both theoretical and managerial implications.

The total effects of brand and customer capabilities on BE and CE building are respectively 0.58 and 0.30 under maximum likelihood estimation and 0.49 and 0.28 using partial least squares. Therefore, actions aimed at increasing management capabilities with respect to brand recognition and image appear to be more effective than marketing actions aimed at strengthening customer relationships. The accumulation of BE and CE also influences the formation of competitive advantages. It could well be expected that both types of equity have positive, direct and significant effects upon the advantages of premium prices and stability of sales, but our results do not support this intuitive statement. The marketing managers of our sample associate BE with profits derived from the increase of margin due to higher prices. This is consistent with previous research
findings, that price premiums are a consequence of accumulating brand assets (Aaker, 1991; Srivastava et al., 1998; Ailawadi et al., 2003). Moreover, managers associate CE with increased profits from the rise in the degree of loyalty of their customer base. We also found the degree of loyalty to be associated with BE, but more weakly. In contrast, previous studies point out that brand loyalty is an important component of BE (Aaker, 1991; Yoo and Donthu, 2001; Christodoulides and de Chernatony, 2010), although these studies did not distinguish between BE and CE. Our results indicate that BE and CE are correlated, and therefore BE also indirectly influences average loyalty via CE, while CE has an indirect impact on price premium (0.056 and 0.11, respectively; 0.045 and 0.09 in partial least squares). However, we must be cautious when interpreting our results, given the context of economic crisis in which data collection took place. In such a situation, companies might try to keep their prices through brand equity management (adequate brand equity management leading to product differentiation and therefore lower price elasticity; Porter, 1980; Aaker, 1991) and maintain their sales levels by Customer Relationship Management actions, such as frequent customer programs, promotions targeted at the individual level, and so on. In any case, these results help to prescribe marketing actions that are differentiated in accordance with the corporate portfolio of products. For instance, firms that are focused on products purchased with a low frequency should focus on building strong brands in order to achieve profitability via higher prices. Yet companies that sell high frequency products could also enhance their programs for customer relationship management to boost customer loyalty. Similarly, during the introduction and growth stage of a product life cycle, companies should furthermore focus on building strong brands that ensure as much cash flow as possible to employ in customer management decisions during the maturity stage (where customer retention is more relevant).

We also found that switching costs have a direct and positive impact on differentiation advantage as well as an indirect negative effect, because they discourage investing in marketing capabilities. Despite this negative effect, our results indicate that the net effect of switching costs is beneficial. Therefore, companies should aim to build switching costs for their customers if possible.

Regarding the BE-CE correlation, our results show an overlap between BE and CE, which is significant but of moderate magnitude. This is in line with the conclusions regarding the similarities and differences between BE and CE of the theoretical work by Bick (2009). The correlation coefficient between the two measurements is 0.33 (with either maximum likelihood or partial least squares estimation). To the best of our knowledge, this is the first research effort that empirically measures this correlation. Future research on BE could be enriched by incorporating findings from CE research and vice versa, overcoming the current separation between the two streams. The present contribution shows that it is worthwhile for managers to devote efforts not only toward building BE, but also CE. Additionally, this correlation must be controlled in firm valuation processes, either for research or managerial purposes.

To sum up, the conclusions of our study have implications both for researchers in the area of BE, CE and marketing capabilities, and for practitioners that need to somehow balance the management of their brands and customers. Nevertheless, this work is not free of limitations that could sow the seeds for future lines of research. First, our results are based on managerial perceptions. Some managers might inaccurately assess customer behaviors, perceptions, etc., and their performance in their markets. The employment of measurement procedures that are not based on managerial perceptions would increase the
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external validity of our research. Additionally, we found a potential lack of discriminant validity between customers and brand capabilities. Future research into brand and customer capabilities should carefully evaluate whether it is adequate to distinguish between the two concepts or, alternatively, whether there is room for improvement with respect to the development of new scales for these variables. Deserving mention are the difficulties we had in finding a scale for measuring CE that reflects the main financial components of the concept. As a result, the scale used consists of two indicators whose measurement is different from that of the rest of the variables. This fact hinders a direct comparison of the average BE and CE levels achieved by the companies in our sample, and this in turn may affect the magnitudes of some of the coefficients estimated.

Secondly, the fact that our analysis was carried out on different service sectors prevents us from knowing the stability of the model and the trade-offs between BE and CE if it were to be applied to other industries, as suggested by Bick (2009). Enriching our sample could help to assess a potential generalisation of the model and to detect whether the overlap between BE and CE and its effects upon competitive advantages are similar or different according to the type of industry.

A third limitation of our work that gives rise to a novel line of study is the introduction of new variables that expand the scope and measurement of competitive advantages or reflect real economic results in terms of profit margins and sales growth.

Despite these limitations, this research provides some empirical evidence with respect to the relationship between BE and CE and their outcomes – an area that has seldom been researched despite its great theoretical and practical implications – and opens interesting venues for brand and customer management researchers.

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References


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