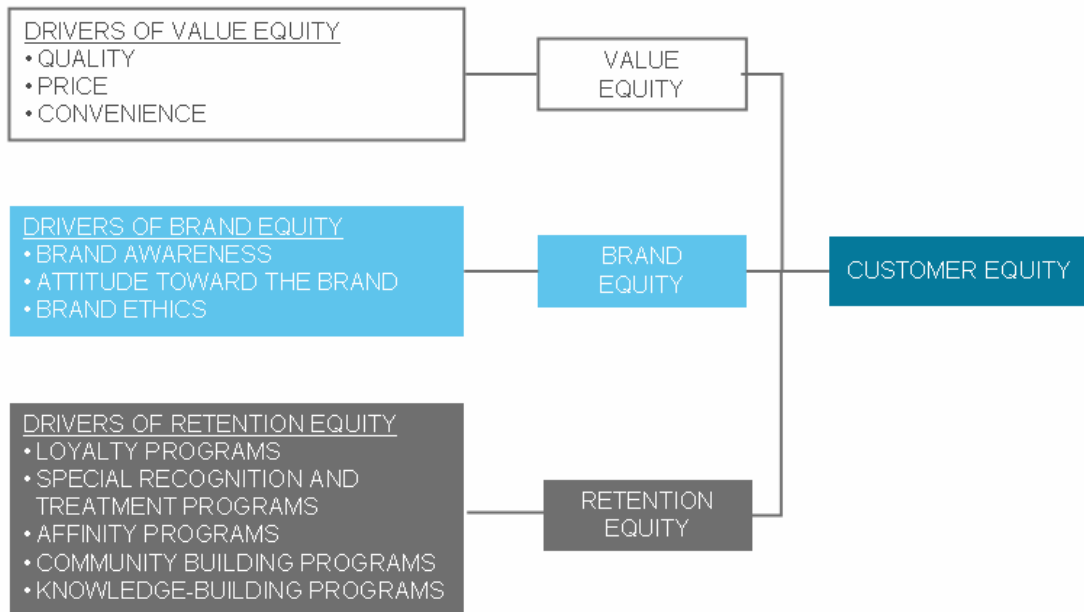


## Model: Customer Equity Framework

Type of model: Brand model (structure and process model)  
 Author(s): Roland T. Rust, Valerie A. Zeithaml and Katherine N. Lemon  
 Domain: Brand-Added Value/ Brand Equity



**Figure 1:** Rust, Zeithaml and Lemon’s *Customer Equity Framework*

Rust, Zeithaml and Lemon add nuance to the concept of brand equity by placing it in a broader context, namely that of Customer Equity. These authors flag situations where a brand’s added value can be very high, but without that being reflected in the market share. They present Customer Equity as a more suitable term to capture consumers’ choice behaviour; ‘Brand Equity’ will then, alongside ‘Value Equity’ and ‘Retention Equity’, be one of three Customer Equity drivers. Apart from Brand Equity, Rust et al pinpoint two further Customer Equity drivers; Value Equity and Retention Equity. They define Customer Equity as follows: ‘A firm’s Customer Equity is the total of the discounted lifetime values of all its customers’.

Rust et al define Value Equity as follows: ‘a customer’s assessment of the purpose a brand can serve for him/ her on the basis of a trade-off between costs and what one gets in return’. Brand Equity is defined as: ‘the subjective and intangible assessment a brand’s customer makes, and which goes beyond the objectively discernable value of that brand product’. And finally, Retention

Equity is defined by Rust et al as: 'a customer's tendency to stay loyal to a brand, which goes beyond an objective and/ or subjective value judgement of the brand itself'.

Value, Brand and Retention Equity each have their own drivers, which are outlined in brief in the following:

1. There are three Value Equity drivers:
  - a. Quality: quality comes in four types: the quality of the physical product (insofar as it concerns a physical product), the quality of the service product, the quality of the service delivery (the way in which the service is provided) and the quality of the service environment (in the case of cars, the show room at the dealership where they are on display).
  - b. Price: when a company uses price as a competition tool (with the main strategies being: 'every day low pricing', discounts and 'sales', and finance deals).
  - c. Convenience: customers sometimes go for a brand product on the basis of the level of convenience involved in buying or using the brand product. Rust et al provide three examples: locations, ease of use and availability.
2. Brand Equity also has three drivers:
  - a. Brand awareness: level of familiarity with the brand among the people. This is highly dependent on the deployed marketing mix (advertising, sales promotion, public relations etc.), the deployed media (such as television, print media, radio, internet, direct mail and email) and the advertising message.
  - b. Attitude toward the brand: the way people think and talk about a brand. This depends on the advertising message, special events (such as the New Year's dip in the North Sea, a mass event organised by sausage maker Unox), careful and measured launching of brand extensions, brand partners (co-branding), and product placement (such as BMW in the Bond movie GoldenEye) and endorsements.
  - c. Brand ethics: the extent to which the customer's believes the brand in question operates in an ethically correct manner. Perception of ethic behaviour is influenced by: community sponsorships, having a privacy policy, clean environmental record, ethical hiring and work practices, and stipulations regarding product and/or service guarantees (the extent to which companies/ brands give a guarantee on their products/ services says something about their reliability).

3. Retention Equity has five drivers:
  - a. Loyalty programs, such as customer loyalty cards, store cards and reward schemes.
  - b. Special recognition and treatment programs: programs with non-monetary rewards, such as special treatment by sales staff and addressing customers by their first and/or last name.
  - c. Affinity and emotional connection programs: programs used by a brand to tap into a customer's interests in order to strengthen the brand's link to those interests. Customers with a common interest in something are the prime targets for such schemes. The challenge for the brand is to accurately identify customers' interests and then appeal to them.
  - d. Customer community programs: programs building customer networks, with certain benefits for their customers. A fine example of such a program is HOG/ Harley-Davidson Owners Group, which enables Harley owners to exchange information about their motorcycles, and also organises tours.
  - e. Knowledge building programs: database with customer data, based on which customers are targeted with personalized offers.

Rust et al's Customer Equity Framework can be used to map the factors an organisation can manipulate to boost its profitability. The model's key innovation lies in the fact that it makes business strategy and tactics dependent on the wishes and needs of the customer. When, for example, it becomes clear that customers do not rate a brand's product performance very highly, the company behind the brand can decide to create a differentiating edge by emphasizing value creation by increasing Value Equity (through an active pricing strategy, for example). But if, on the other hand, the brand/ corporate identity is vague, the company can decide to take action to raise the Brand Equity (through more clear-cut advertising, for example). And as soon as there are indicators that customer loyalty is on the up, the brand/ company can move to enhance its Retention Equity (by extending shop opening hours, for example). All three Customer Equity drivers eventually target the same thing, namely making the customer as loyal to the brand or company in question as possible. And these customer loyalty levels are expressed in terms of Customer Equity: the overall (current and future) value of a customer for the brand/ company.

#### *Reference(s)*

Rust, R.T., Zeithaml, V.A., Lemon, K.N. (2000), Driving customer equity (how customer lifetime value is reshaping corporate strategy). The Free Press, New York, N.Y. U.S.A. \*

Rust, R.T., Zeithaml, V.A., Lemon, K.N. (2004), Customer-centered brand management. Harvard Business Review, September, p.1-10. \*

\* : available in the EURIB library.