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# Undervalued or Overvalued Customers: Capturing Total Customer Engagement Value

V. Kumar<sup>1</sup>, Lerzan Aksoy<sup>2</sup>, Bas Donkers<sup>3</sup>, Rajkumar Venkatesan<sup>4</sup>, Thorsten Wiesel<sup>5</sup>, and Sebastian Tillmanns<sup>6</sup>

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## Abstract

Customers can interact with and create value for firms in a variety of ways. This article proposes that assessing the value of customers based solely upon their transactions with a firm may not be sufficient, and valuing this engagement correctly is crucial in avoiding undervaluation and overvaluation of customers. We propose four components of a customer's engagement value (CEV) with a firm. The first component is customer lifetime value (the customer's purchase behavior), the second is customer referral value (as it relates to incentivized referral of new customers), the third is customer influencer value (which includes the customer's behavior to influence other customers, that is increasing acquisition, retention, and share of wallet through word of mouth of existing customers as well as prospects), and the fourth is customer knowledge value (the value added to the firm by feedback from the customer). CEV provides a comprehensive framework that can ultimately lead to more efficient marketing strategies that enable higher long-term contribution from the customer. Metrics to measure CEV, future research propositions regarding relationships between the four components of CEV are proposed and marketing strategies that can leverage these relationships suggested.

## Keywords

customer engagement value, customer lifetime value, customer knowledge value, customer influencer value, customer referral value

*The purpose of a business is to create a customer.* Peter Drucker

Customer value measurement and management has traditionally focused on customer acquisition and retention, and increasing customers' spending with a company over time (Kumar, 2008b). This perspective predominantly centers on transactions between a customer and a firm, whether it be through repeat purchase or cross-buying, to ultimately increase a customer's lifetime value. Customers, however, contribute to firms in many ways that are beyond direct transactions (e.g., word of mouth [WOM], new product ideas, etc.). Firms are now recognizing the imminent need to focus on building personal two-way relationships with customers that foster interactions. Such active interactions of a customer with a firm, with prospects and with other customers, whether they are transactional or nontransactional in nature, can be defined as "Customer Engagement." The Economist Intelligence Unit (2007, p. 2) reinforces the importance of such customer engagement: "... Companies are now realizing that engagement is also a more strategic way of looking at customer and stakeholder relationships. In this emerging approach, engagement refers to the creation of a deeper, more meaningful connection between the company and the customer, and one that endures over time. Engagement is also seen as a way to create customer interaction and participation."

Other researchers have defined engagement to include only nontransactional customer behavior. Van Doorn et al. (2010) for example point out that the term "engagement" is behavioral in nature and they propose that "customer engagement goes beyond transactions, and is specifically defined as a customer's behavioral manifestation toward a brand or firm, beyond purchase, resulting from motivational drivers." While

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we agree with Van Doorn et al. (2010) that engagement is “a customer’s behavioral manifestation toward a brand or firm” and that it “results from motivational drivers,” we also argue that it would be incomplete without the inclusion of customer purchases from the firm. When one envisions the different ways in which a customer can interact or “engage” with the firm, purchasing from the firm naturally arises. Furthermore, purchase is a behavioral manifestation that can result from similar motivational drivers. Given that the concept of customer engagement is novel and in the developmental phase, there are bound to be differing and at times conflicting opinions regarding its conceptualization.

Regardless of differences in the definition of customer engagement, executives not only believe that high customer engagement is necessary for future growth, they also believe that low customer engagement is detrimental to success, both due to lost sales or opportunities and negative WOM (EIU survey 2007). So customers can not only be engaged with a firm, they can be *disengaged* with a firm as well. Moreover, the majority of executives stated that engaged customers provide frequent feedback about products and services (EIU 2007). Yet, most firms do not know exactly what a customer engagement strategy entails primarily because they do not know how to measure it.

Although prior research exists on customer engagement (Bowden 2009), we propose that it can be viewed as a much broader concept. Hence, it is necessary to first identify how customers can engage with a firm before one can conceptualize and measure customer engagement value (CEV). Besides purchase behavior, customers can create (detract) value for a firm through the sharing of positive (negative) news and opinions with others and this social transmission has the potential to affect both the transmitters’ and receivers’ behaviors. Research in the interpersonal communication area has found that such transmission influences customer attitudes and decisions and affects the spread of ideas. There is broad agreement among managers, marketing researchers, and sociologists that customer interactions can strongly affect consumer responses to a product (Arndt 1967; Herr, Kardes, and Kim 1991; Von Wangenheim and Bayón 2007) and can extend far beyond the person with whom the initial transmission was communicated (Hogan, Lemon, and Libai 2004).

Human interactions (e.g., referrals, observation of product/service owners/adopters, etc.) play an important role in the diffusion of products and services. The rise in popularity of the online environment offers significantly increased opportunities for interactive and personalized marketing. The online environment provides numerous venues for consumers to share their views, preferences, or experiences with others, as well as opportunities for firms to take advantage of WOM marketing (Godes and Mayzlin 2004; Hennig-Thurau et al. 2010). In addition, the growth of social networking sites has allowed users to broaden the scope of their connections with others by allowing them to build and maintain a network of friends for social or professional interaction and to share ideas with others (Trusov, Bucklin, and Pauwels 2009). The result has been a

resurgence in marketing efforts designed to take advantage of social networks—both offline and online—via WOM campaigns, referral reward programs, affiliate marketing, and Internet-based viral marketing campaigns. Consequently, managers need to understand the financial value of this important social mechanism (Biyalogorsky, Gerstner, and Libai 2001; Lee, Lee, and Feick 2006; Libai, Biyalogorsky, and Gerstner 2003).

Another nonpurchase-related way that customers can create value for a firm is through their participation in the new product development process, cocreation, and their willingness to provide feedback for innovations and improvements to existing products and services. The Internet, for example, can serve as a platform for such collaboration with customers providing opportunities to easily offer suggestions and input to the firm (Sawhney, Verona, and Prandelli 2005). With such customer participation, manufacturers have the potential to enhance product innovation and to speed up the development process, both of which are key objectives of managers to lower costs and improve market acceptance of new offerings (Athaide, Meyers, and Wilemon 1996; Chandy and Tellis 1998; Henard and Szymanski 2001; von Hippel 1986). As a result, the extent to which customers are willing to engage in conversations (with other customers as well as the firm) can significantly influence a firm’s value, especially as it affects what customers are prepared to tell others, and what insights they are willing to provide firms regarding product development and enhancement.

In this article, we address these recent developments in the marketing realm and argue that customers should not be evaluated solely by their purchase behavior and that a more comprehensive assessment is needed. We suggest that CEV offers a more complete evaluation of how much an individual customer is contributing to the firm in multiple ways. Next, we conceptualize CEV and explain its four components. Then we examine appropriate metrics for measuring the various components of CEV. Subsequently we propose relationships between the different components of CEV, and finally we discuss the strategic and managerial implications of CEV.

## Conceptualizing CEV

It is clear that the creation of value by customers for firms occurs through a more elaborate mechanism than through purchase alone. This includes behavioral manifestations (of customer engagement), in addition to purchases, which can be both positive (i.e. posting a positive brand message on a blog) and/or negative (i.e. organizing public actions against a firm; Van Doorn et al. 2010). Furthermore, it can be intrinsically or extrinsically motivated (Calder and Malhotra 2008; Deci and Ryan 1985). Customer value is, therefore, driven by the nature and intensity of “customer engagement” regarding the firm (and its product/service offerings). We define and propose that the value of customer engagement is comprised of four core dimensions<sup>1</sup>:

- 1) Customer purchasing behavior, whether it be repeat purchases or additional purchases through up-selling and cross-selling (corresponding to customer lifetime value [CLV]).
- 2) Customer referral behavior as it relates to the acquisition of new customers through a firm initiated and incentivized formal referral programs (extrinsically motivated; corresponding to customer referral value [CRV]).
- 3) Customer influencer behavior through customers' influence on other acquired customers as well as on prospects (e.g., WOM activity that persuades and converts prospects to customers, minimizes buyer remorse to reduce defections, encourages increased share-of-wallet of existing customers; usually intrinsically motivated; corresponding to customer influencer value [CIV]).
- 4) Customer knowledge behavior via feedback provided to the firm for ideas for innovations and improvements, and contributing to knowledge development (extrinsically or intrinsically motivated; corresponding to customer knowledge value [CKV]).

One could argue that CLV should be an umbrella metric that can be decomposed into value derived from transactional and nontransactional components.

While theoretically CLV could be thought to include all aspects of value creation by the customer, in practice, as well as in the academic literature, it is repeatedly identified only with actual purchase behavior. CLV calculations in the academic literature are primarily based on the customer's transaction behavior (i.e., Gupta et al. 2006; Venkatesan and Kumar 2004). Rust, Lemon, and Zeithaml (2004 p. 109) for example explain that CLV results from, "frequency of category purchases, average quantity of purchase, and brand switching patterns . . ." This approach to calculating CLV is similar to that used by practitioners (Harvard Business School Publishing 2007). Managers define CLV as being based on purchase transaction in large part because the performance metrics associated with successful initiatives tend to be of the stimulus-response variety (i.e., a specific marketing activity resulting in tangible purchasing behavior by customers). Therefore, to more accurately gauge the total value a customer generates, it is important to include but extend beyond CLV. As a result, the total value from a customer's engagement (CEV) can be thought of arising from the aggregation of CLV, CRV, CIV, and CKV of that customer. Furthermore, the four components of CEV can influence one another. For example, a firm that supports a social networking site for its customers can encourage CIV in the short term, but these interactions between customers can strengthen (or decrease) their brand loyalty and ultimately increase (or decrease) their respective CLVs.

Although managers generally accept the importance of calculating CLV as a key metric in evaluating marketing decisions (Blattberg and Deighton 1996), in allocating resources more efficiently (Venkatesan and Kumar 2004), and in assessing the long-term value of the firm's marketing efforts, based on the proposed conceptualization of CEV,

each component needs to have its own corresponding measure of value generated by customers through their behavior and interactions to more accurately capture the value generated by a customer.

The components that make up CEV can be determined by aggregating the value of a customer's own transactions and corresponding CLV, CRV generated by bringing in new customers via referrals thereby aiding in the acquisition process, CIV generated by primarily influencing and encouraging existing customers to continue and/or expand usage post acquisition as well as encouraging prospects (individuals the firm is trying to acquire) to buy, and CKV created by providing knowledge and feedback to aid in the innovation process (see Figure 1).

In order to develop and implement effective marketing strategies and to ensure the efficient allocation of resources, it is essential for companies to understand the exact nature of each of these various elements. The following section elaborates on what these various components are, how they can be defined, and how they are different and distinct from one another.

## CEV Components

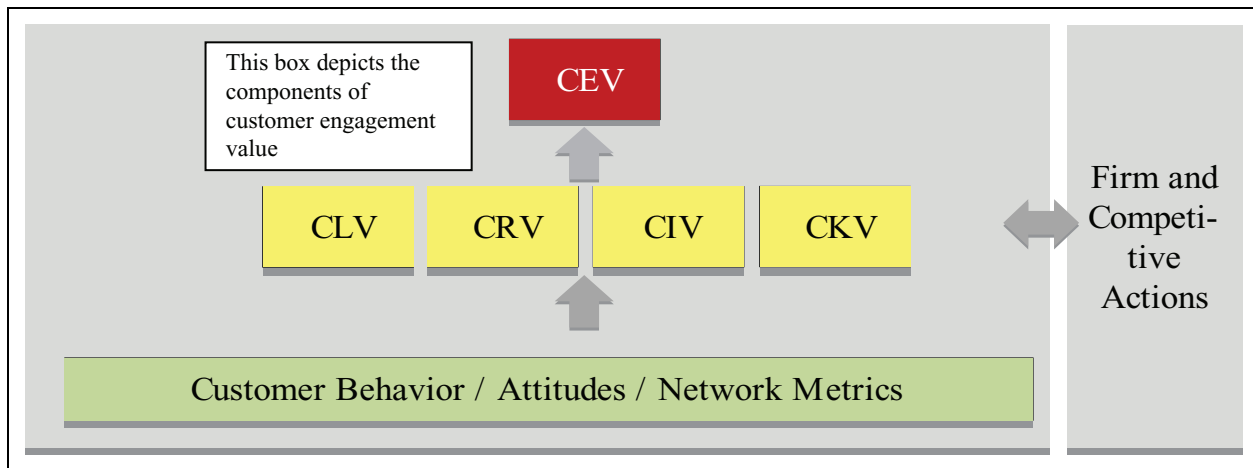
### CLV

One of the most widely used and accepted measures of customer value is CLV (Blattberg, Getz, and Thomas 2001; Gupta and Lehmann 2005; Kumar and Reinartz 2006; Rust, Zeithaml, and Lemon 2000). CLV is defined as the present value of future profits generated from a customer over his or her life of business with the firm. It takes into account the total financial contribution of transactions—i.e., revenues minus costs—of a customer over his or her entire lifetime with the company and therefore reflects the future profitability of the customer.

CLV provides important managerial insights. For example, the drivers of CLV provide important diagnostics about the future health of a business by allowing managers to assess the profitability of individual customers and by providing a structured approach to forecasting future cash flows. CLV is a forward looking metric unlike other traditional measures of value such as past or current contributions to profit. Therefore, CLV assists marketers in determining appropriate marketing activities in the present in order to increase future profitability (e.g., Kumar 2008a). Indeed, Gupta, Lehmann, and Stuart (2004) explicitly confirmed the positive link between CLV and firm value. Furthermore, Kumar et al., (2008) found that the CLV-based resource reallocation led to an increase in revenue of about \$20 million (a 10-fold increase) without any changes in the level of marketing investment.

### CRV

An important component of maximizing the value of a customer base is to determine how much of each customer's value stems from his or her referrals of new customers (CRV) as a result of a firm-initiated and -incentivized referral program. Referrals are crucial as they have the potential to reduce acquisition costs for the firm and bring in future revenue. Because



**Figure 1.** Conceptualizing and measuring CEV.

referral programs reward existing customers and build the customer base, firms use them to encourage customers to make recommendations to others. Ryu and Feick (2007) find that rewards are particularly effective in increasing referrals to weak ties in a customer's network. Furthermore, providing at least some of the reward to the receiver of the referral seems to be more effective for customers who have stronger ties to others in their network. Researchers have conceptualized and used the referral metrics as distinct and separate as contributing to customer value (Kumar, Petersen, and Leone 2007). Ideally, therefore, a company that wants to know a customer's full value would include a measure of that person's ability to bring in profitable new customers. CRV would, therefore, include some measure of estimating the average number of successful referrals the customer will make.

CRV is focused entirely on current customers converting prospects in their social network (both online and offline) into actual customers for which they are rewarded. In many ways, these referring customers can be thought of as non-employee salespeople earning a commission from the sale and can be an effective way of bringing in new customers. For example, many apartment complexes offer existing tenants the opportunity to earn money toward their rent by recruiting new tenants (every successful referral receives a \$100 credit). As a result, the probability of conversion of prospects into newly acquired customers and the cost of this acquisition if successful for each type of referral needs to be included in the CEV equation and calculations. In addition, it is important to determine the likelihood that a prospect would have become a customer regardless of the referral and the partial impact of multiple referrals to the same potential customer.

### CIV

In many product categories, information sharing, WOM, interaction, and assistance from other customers post acquisition (e.g., showing new customers how to maximize the utility of

a product) can significantly affect others' behavior through (a) increased persuasion and conversion of others to customers, (b) the recipient customer's continued usage of a product (e.g., network externalities—Katz and Shapiro 1985) and (c) changes in their share-of-wallet. A great deal of research already exists on the role of individuals' influence on others in the diffusion and adoption of products (Bass 1969; Rogers 1962; Van den Bulte and Wuyts 2007). Hill, Provost, and Volinsky (2006) for example found that consumers who had communicated with an early adopter of a telecommunications product were 3-4 times more likely to respond to an offer for the product. There is also a great deal of anecdotal evidence that WOM can play a significant role in a firm's sales and marketing efforts (e.g., The Blair Witch Project, and the Anita Diamant novel, *The Red Tent* (Keiningham et al. 2007).

Although there is much less research on the impact of WOM or continued use of products/services by influential customers on customer retention, usage, and advocacy of products, it can affect the desirability of continued (or even increased) usage by other customers. And in some product categories, some of the most desirable elements of ownership/usage actually relate to the joint experiences that can be shared with other customers (e.g., board games, dance shoes, sporting equipment, etc.).

Almost all of the behavior that would be classified as contributing to CIV is based on intrinsic motivation of the customer (as opposed to extrinsic rewards e.g., CRV). Hence, each time a customer voluntarily generates WOM about the firm and its products, he or she influences their CIV. If the WOM generated by the customer to others in the network is positive (negative), and/or gets (obstructs) others in the network to become customers and to purchase (refuse) additional products, his or her CIV increases (decreases). This begs the question of whether companies should strategically formulate environments that foster customers assisting other customers and expand into producing service experiences (Verhoef et al. 2009). For example, companies can create this environment through firm-facilitated online brand communities, where customer service representatives and voluntary customers provide support to customers in need.

This gap in the research and the need to include WOM in customer value models has been clearly and repeatedly identified and named a key research avenue to pursue (Hogan, Lemon, and Libai 2003; Libai et al. 2010). For example, Zeithaml (2000, p. 77) asks, “How can word-of-mouth communication from retained customers be quantified?” One such metric suggested by Kumar and Bhaskaran (2010) helps capture “the potential referral behavior of customers and users in a social network” and helps firms assess the influence value that a customer has over other customers or individuals in his or her social network. Although it is theoretically possible for noncustomers to have influence values, a firm must have the ability to track these noncustomers’ social networks in order to attribute them with appropriate CIVs (Kumar and Bhaskaran 2010). Therefore, when determining the total value of a customer, it is important to include the influence of a customer on the acquisition, retention, and increased share of category spending on other customers. Just as advertising effectiveness is not examined simply on trial by new prospects, but also on reinforcing the brand with existing customers, it is vital that this important role be recognized of customers as well. Furthermore, research has found that a firm likely to acquire and keep customers through WOM will earn a better return on its marketing investment compared to traditional efforts (Villanueva, Yoo, and Hanssens 2008).

It is important to note that while the differences between CIV and CRV may seem subtle, they are in fact two separate constructs. CRV focuses solely on turning prospects into customers through a formal incentivized referral program, while CIV focuses on both prospects as well as existing customers. It is important to note that CRV involves compensation for customers who make referrals (e.g., \$100 for every successful referral) while CIV typically does not (e.g., a blog post expressing satisfaction with a product). Another key difference lies in that once a prospect has been successfully acquired by a firm through a referral program, he or she can never “be referred again.” In other words, a prospect can only contribute to an existing customer’s CRV once. He or she can then be targeted by the firm with up-sell and cross-sell strategies. However, he or she can still be influenced by other individuals and contribute to their CIVs. Conversely, existing customers who want to increase their CRVs can only do so by successfully acquiring prospects for the firm, but can increase their respective CIVs by influencing both other existing customers and prospects. In addition, while CIV can be positive, negative, or zero due to the spread of positive, negative, or no WOM, CRV can never be negative. This is because there are only two possible outcomes relevant to CRV; an individual makes a successful referral (CRV is positive) or not (CRV is zero). Furthermore, CIV stems from intrinsic motivations as opposed to CRV which arises from extrinsic incentives. In addition, due to the complexity in tracking, CRV usually is calculated for only one generation of referrals while CIV focuses on the ripple effect and extends beyond the close social network of the customer to create a chain reaction with a wide group of customers (Hogan, Lemon, and

Libai 2004). In addition, CIV is much easier to calculate for multiple generations since customer interaction behavior on social media and other online networks is easier to capture and quantify. While it is possible to define CIV as the value of a customer in a “network,” we have chosen the term CIV because it is plausible that an individual has a very large network of online social acquaintances but is not necessarily influential within the network.

## CKV

Today, the meaning of value and the process of value creation are rapidly shifting to more personalized customer experiences, service provision, intangible resources, co-creation and relationships (Vargo and Lusch 2004). Informed, networked, empowered, and active consumers are increasingly cocreating with the firm (Hoyer et al. 2010; Prahalad and Ramaswamy 2004). Customer participation and interaction with the firm and the people in both service creation and delivery directly influences service quality and behavioral outcomes (e.g., service usage, repeat purchase behavior, and WOM)—as well as firm outcomes (efficiency, revenues, and profits; Bolton and Saxena-Iyer 2009).

Customers can add value to the company by helping understand customer preferences and participating in the knowledge development process (Joshi and Sharma 2004). Since this is essential to the creation of successful new products that create value; contribution of customers to this value creation, that is CKV, needs to be captured and included as part of CEV. Fuller, Matzler, and Hoppe (2008) find that brand community members who have a strong interest in the product and in the brand, usually have extensive product knowledge and engage in product-related discussions and support each other in solving problems and generating new product ideas. Therefore, networks such as brand communities have been proposed as a valuable resource for innovation ideas for companies. Given that the failure rate of new products is somewhere between 40% and 75% (Stevens and Burley 2003) and the costs associated with new product development are high, minimization of the high failure rate is of significant theoretical and managerial interest.

Customer knowledge development—that is, the development of an understanding of customer preferences—has been identified as a key prerequisite for new product success (Cooper and Kleinschmidt 1995, 1996), and hence customer input can be a valuable resource. This can be done in a variety of ways but most notably through customers’ involvement in the process. For example, Ice Cream of Ben and Jerry encourages customers to participate in the new product development process by sponsoring a contest where customers can suggest the “best new flavor.” “Customer participation” can be defined as the extent to which the customer is involved in the manufacturer’s new product development process. Previous studies have demonstrated that customers may assume two distinct roles: information providers or codevelopers (Lengnick-Hall

1996). Fang (2008) for example differentiates two dimensions of customer participation—customer participation as an information resource and customer participation as a codeveloper—and examines their effects on new product innovativeness and speed to market. Interestingly, although high levels of customer participation as an information provider in the new product development process are commonly seen in business-to-business, the business-to-consumer sector has taken the lead in codeveloping products and services with consumers (Bughin, Chui, and Johnson 2008). Increasingly, business-to-consumer companies are using the Internet and social media to involve customers in several aspects of the new product development process and across product categories ranging from customized beer to T-shirts (Kumar and Bhagwat 2010).

The role of CKV, however, is not limited to new product/service creation and innovation. It is also vital to quality/service improvement efforts. The recognition of the importance of customer feedback, complaint management, and service recovery has made the collection of customer satisfaction information a required element for firms wishing to attain or maintain their ISO 9001:2000 certification (Vavra 2002). This feedback has the potential to not only make the entire offering more attractive to existing and potential customers but also improve process efficiencies (e.g., reduced complaint management). Therefore, the value of a customer's contribution to initiating new product and service innovation ideas, that is CKV, needs to be included as a component of CEV. The next section will offer a detailed discussion of the metrics CLV, CRV, CIV, and CKV that constitute CEV.

### Metrics for the CEV Components

Building upon the components of CEV described in the preceding section, the complete value of CEV can be captured by aggregating CLV, CRV, CIV, and CKV for an individual customer. This section provides a “chain of effects” framework for connecting firm and competitor actions to intermediate customer mind-set and behavioral metrics that ultimately result in the four components of CEV (Figure 1). The model follows the widespread belief in the literature (Berger et al. 2006) that marketing activities typically affect intermediate measures such as customer attitudes before they affect behavioral outcomes. Such a chain of effects framework would enable managers to better establish the short-term impact of their actions and also estimate the time required for marketing actions to result in financial outcomes (Gupta and Zeithaml 2006). Practitioner anecdotes indicate that chain of effects frameworks have enabled firms to improve the quality of their decision making and to also obtain better diagnostics of failed campaigns (Powers and Menon 2008). The behavioral, attitudinal, and network metrics proposed in Table 1 can, therefore, serve as leading indicators of changes in the components of CEV and connect firm and competitive actions to CEV. The purpose of the proposed metrics in Table 1 is to further illustrate the differences among the varying components of CEV and is not meant to provide an exhaustive set of metrics for assessing each component.

The first component, CLV, has been extensively investigated in the marketing literature and there is a wide body of research that exists to measure, calculate, and monitor CLV. Therefore, readers are referred to one of the several reviews (e.g., Reinartz and Venkatesan 2008) for a detailed understanding of the metrics aimed at capturing CLV.

The second component, CRV, captures the value of how customer referral programs can improve the profitability of the customer base by cost-effectively acquiring quality prospects (Kumar, Petersen, and Leone 2010). Research shows that customers who are connected with more prospects and interact more with these prospects can be good targets for referral programs. A measure of the number of connections and their level of interaction could, therefore, provide valuable input for CRV calculations. Furthermore, a firm may sometimes want to invest more resources in certain customers who are likely to be opinion leaders (and influence the acquisition of other profitable customers) even though they may not be profitable themselves (Gupta and Mela 2008). Since customers with the highest CLVs are not necessarily always those with the highest CRVs (Kumar, Petersen, and Leone 2010), this provides evidence why customers should be evaluated on both dimensions. In turn, a firm could also measure and evaluate the motivations of opinion leaders to spread WOM and create strategies that build upon those motivations.

The third component, CIV, captures the value of the influence that an individual (usually a customer) exerts on other customers or prospects. In addition to the number of prospects the customer is able to convert, the emotional valence of the customer's reviews or conversations with other customers can provide important input into the effectiveness of their actions and hence their influencer value (Chevalier and Mayzlin 2006). The strength of ties of the customer within the network, the number of people in their corresponding network, and his or her likelihood of sharing opinions also provides valuable information. Customers who have weak links with several groups are expected to have a higher customer influencer and referral values because they are more effective in spreading a message than customers who have strong links with a smaller set of groups (Feick and Price 1987; Gladwell 2000).

The final component, CKV, captures the value of feedback provided to the firm regarding ideas for innovations and improvements. Tracking a customer's product or service expertise for example (which is correlated with their CLV) can be valuable in assessing CKV (von Hippel 1986). In addition to expertise, willingness to provide feedback is an attitudinal factor that can lead to higher CKV. Furthermore, defected customers might also contribute to CKV by sharing their reasons for leaving, allowing the firm to identify service improvement opportunities and increase its capability to detect at-risk customers (Stauss and Friege 1999; Tokman, Davis, and Lemon 2007). Finally, the level of connectedness of customers to other prospects and customers can provide the capability to better assimilate information from their networks and hence the market when providing feedback, thereby increasing their knowledge value to the firm.

**Table 1.** Metrics for Customer Engagement Value Components

	CLV	CRV	CIV	CKV
Behavioral	Acquisition rate, retention rate, acquisition channel, share of wallet, retention cost, tenure, purchase frequency, cross-buying, value of purchases, variance in spending, cost of win-back	CLV of customers acquired from referrals, number of referrals	CLV of customers acquired from influence, number of reviews, product or service expertise, emotional valence of the reviews and interactions	CLV, product or service expertise
Attitudinal	Satisfaction, purchase intent, brand value or equity, relationship commitment, shopping channel preferences, firm understanding of customer needs, communication channel preference, complaint resolution, reason for leaving	Likelihood to recommend, likelihood of being an opinion leader, tendency to use social media and blogs		Likelihood to provide feedback
Network	Not Applicable	Number of connections and level of interaction with prospects, tendency to be hub versus a weak link across hubs	Number of connections and level of interaction with customers, tendency to be hub versus a weak link across hubs	Number of connections and level of interaction with customers, and prospects, tendency to be hub versus a weak link across hubs

Note. CLV = customer lifetime value; CRV = customer referral value; CIV = customer influencer value; CKV = customer knowledge value.

It is important to recognize here that the proposed metrics themselves can influence each other. A customer's connect- edness in a social network may help him or her easily acquir- ing information about a firm's products and can thereby reduce the cost of developing his or her attitudes toward the firm. Furthermore, customers with more positive attitudes toward a firm are expected to be more responsive to a firm's marketing actions (Venkatesan, Reinartz, and Ravishanker 2009) and may be more likely to join a firm-sponsored social network. The act of referring new prospects can lead customers to recall the benefits provided by the firm, thus leading to higher CLV. Interactions with other customers can also provide customers ideas of new uses (especially for complex products that are typ- ical in the business-to-business industry) and provide guidance on usage (especially for experience products) for the firm's products. Both the level and quality of these customer-to- customer interactions eventually build CLV.

Moreover, in a networked economy, the loss of a customer with a high influencer value can affect acquisition of future prospects and churn of other existing customers who are con- nected to this individual. The true value of the lost customer will depend on whether the customer churns to the competi- tion or disadopts the firm's technology entirely (Hogan, Lemon, and Libai 2003). If a customer is an opinion leader and disadopts a technology in the early phase of the product's lifecycle, then this can have a large negative impact on the firm's acquisition of future prospects that are likely to imitate the opinion leader. As a result, measuring the churn or attrition likelihood of the customer becomes important and can be linked to multiple components of CEV.

## Research Propositions

Having established the major constituents of CEV and their corresponding metrics, propositions regarding expected rela- tionships between the various components of CEV are set forth (see Table 2 for an overview). It is possible that customers who score high on one dimension do not necessarily score high on other dimensions of CEV. Understanding how the four pro- posed components of CEV are related to one another is neces- sary for firms to properly segment customers and appropriately target them with marketing strategies to ultimately maximize their CEVs.

### *The Relationship Between CLV and CRV*

When a prospect receives a referral from an existing customer, the impact of the referral will depend on the level of experience of the referring customer (Senecal and Nantel 2004). As consu- mers gain experience from buying and using/consuming the firm's products, a positive relationship between the impact of a referral and past customer value from purchases is expected. Furthermore, as past behavior is correlated with future beha- vior, this relationship is likely to extend to future purchases. Moreover, low CLV customers are typically less attached to and involved with the firm, compared to high CLV customers and are therefore less likely to actively involve other custom- ers through referrals. Prospects receiving referrals from low- CLV customers will be likely to perceive these referrals as mainly extrinsically motivated lowering their influence



**Table 2.** Proposed Relationships Between Customer Engagement Value Components

	CRV	CIV	CKV
CLV	Proposal 1: + <ul style="list-style-type: none"> <li>• Product experience</li> <li>• Attitude toward firm</li> </ul>	Proposal 2: + <ul style="list-style-type: none"> <li>• Product experience</li> <li>• Attitude toward firm</li> </ul>	Proposal 3: $\cap$ <ul style="list-style-type: none"> <li>• Low-CLV customers have little knowledge</li> <li>• High-CLV customers have good fit with product, so little to learn</li> </ul>
CRV	NA	Proposal 4: + <ul style="list-style-type: none"> <li>• Connectedness</li> <li>• Experience</li> <li>• Personality</li> <li>• Attitude toward the firm</li> <li>• Crowding out through incentives</li> <li>• Misattribution</li> </ul>	Proposal 5: + <ul style="list-style-type: none"> <li>• Connectedness</li> <li>• Product experience</li> </ul>
CIV	Same content as the CRV-CIV cell	NA	Proposal 6: U <ul style="list-style-type: none"> <li>• Connectedness</li> <li>• Product experience</li> <li>• Polarized online activity</li> </ul>

Note. CRV = customer referral value; CIV = customer influencer value; CKV = customer knowledge value. The signs indicate the expected direction of the proposed relationship.

(Folkes 1988). Finally, highly satisfied customers have higher CLVs (Anderson and Mittal 2004) and also refer other customers more frequently (Verhoef, Franses, and Donkers 2002). Based on the preceding arguments, Proposal 1 is proposed:

*Proposal 1:* There is a positive relationship between CLV and CRV.

It is important to note, however, that Kumar, Petersen, and Leone (2010) show that CLV and CRV exhibit an inverted U relationship. This primarily occurs because very high CLV customers are not as interested in making incentive-based referrals as medium CLV customers.

### *The Relationship Between CLV and CIV*

The impact of a customer's activities in the realm of CIV (e.g., blog postings, WOM, customer-helping behavior) will depend strongly on the experience the customer has with the firm (Senecal and Nantel 2004). More extensive transaction volumes and consumption experiences ensure that the customer is experienced with the product and hence knows what he or she is talking about when communicating. In sum, high CLV implies high credibility, making influencers more powerful. More experienced customers might also be better able to articulate their ideas (Alba and Hutchinson 1987), making them more influential. This suggests a positive relationship between past purchase behavior (CLV) and ability to convert prospects (CIV). In addition, high CLV could be a result of positive attitudes toward the firm, resulting in longer relationship duration and hence more opportunities for cross- and up-selling (Bolton, Lemon, and Verhoef 2004). Communication of this positive attitude to others can enhance exerted influence and hence contribute to CIV. However, when a customer is dissatisfied, in addition to having a low CLV and a higher

likelihood of terminating his or her relationship with the firm, this customer also has the potential to spread negative WOM and reduce CIV (Anderson and Mittal 2000). Based on the preceding arguments, Proposal 2 is proposed:

*Proposal 2:* There is a positive relationship between CLV and CIV.

Although credibility (purchase history, experience with a product) is an important precursor to how influential an individual is, it is important to note that credibility can be established without purchase history. Sometimes product "gurus" never actually purchase the same product they are spreading WOM about. For example, several bloggers "rate" Apple products without purchasing them. Some simply test products without buying them. These "gurus" can be perceived to be highly knowledgeable by their followers and peers, regardless of their purchase history.

### *The Relationship Between CLV and CKV*

Following on the preceding arguments, customers with low CLVs have little experience with the product and/or they are not likely very enthusiastic about the firm. Hence, their involvement with the company or the product category is probably quite limited. These customers will be, therefore, neither able nor willing to provide new insights into the company on how to manage processes and how to improve its products. However, the higher a customer's CLV, the more positive that customer will perceive the company and its products, and the more opportunities for the company to receive input. Very high levels of CLV, however, are indicative of an almost perfect fit between the company's products and a customer's needs. Since these customers are highly satisfied, they would be expected to have little incentive to communicate with the company about

how to further improve its products. These customers can, however, offer assistance to less experienced and knowledgeable customers if firms create a communication medium and motivate them to do so. It should be noted that this does not contradict the use of lead users (users whose needs today will be the needs of the marketplace tomorrow; von Hippel 1986) for idea generation in new product development.

A great example of the relationship between CKV and CLV can be provided by Catalina marketing's codevelopment of a cardless loyalty program with Meijer stores. Despite the fact that Meijer stores were a mid-tier customer for Catalina, they successfully codeveloped the process and greatly improved Catalina's retailer services business (Venkatesan and Leliveld 2009). This example shows how mid-CLV customers can greatly contribute knowledge to a firm (have high CKVs). Based on the preceding arguments, Proposal 3 is proposed:

*Proposal 3:* There is an inverse U-shaped relationship Between CLV and CKV.

### *The Relationship Between CRV and CIV*

The value of a customer's influence on others, whether incentivized or not, strongly depends on the connectedness of a customer and the number of prospects the customer interacts with. A customer's connectedness depends on the location of the customer in his or her social network (Goldenberg et al. 2009). In addition to the number of connections, the strength of the connections, that is weak or strong ties, has been found to affect the relative impact of the incentives used to trigger referrals (Ryu and Feick 2007).

The degree to which the recipient of the communication is influenced depends on the expertise of the customer who is influencing the recipient (Senecal and Nantel 2004). Experienced customers are likely to exert more influence. The customer's personality also plays an important role as well, whereas a customer with an outgoing, extravert personality will have more influence on the people in his or her network than an introverted customer. Especially since many times individuals use specific product-related experiences to initiate conversation. Furthermore, individuals differ in regard to their eagerness to share information with others. Market mavens, for example (Feick and Price 1987), enjoy providing others with information about shops, products, and other kinds of market-related information and hence can be quite influential. Their positive (negative) information shared with others will enhance (reduce) their CRVs and CIVs. As they are recognized by other consumers, they will be approached by others for information and hence will have more influence on others, enhancing (reducing) both their CRVs and CIVs in case they are positive (negative) about the company's products. In conclusion, whether or not one is a market maven, the level of connectedness, and personality traits all have a similar impact on CIV and CRV. Moreover, whether the customer has a positive or a negative attitude toward the firm, also affects CIV and CRV. Finally, there might be synergies

between CRV- and CIV-related activities. In particular, a potential customer who observes voluntary promotional activity for the firm (influencer behavior) will also be more likely to attribute an incentivized referral action to the referrer's intrinsic motivations, enhancing its effectiveness (Folkes 1988). The preceding arguments all suggest a positive relationship between CRV and CIV.

However, it is possible to imagine a situation where incentives might crowd out voluntary activities. Once people get used to being paid for an activity, they are less likely to perform that same activity for free. Research finds that as long as behavior is driven by positive intentions, the ensuing effort will be relatively high (Heyman and Ariely 2004). As soon as monetary incentives are introduced, however, they need to be sufficiently large to achieve the same level of initial activity (Gneezy and Rustichini 2000). Hence, sometimes it maybe better to not use highly incentivized referral programs frequently as incentivized customers will be less active in communicating with others in their network on a voluntary basis, lowering their CIVs. The positive effects, however, are expected to outweigh the negative effects because even though customers may come to expect rewards for referrals, it is likely that they will still continue to spread (positive) WOM. Even if a customer wants a reward for a formal referral, it is likely he or she will still use product experiences to initiate conversations. Based on the preceding arguments, Proposal 4 is proposed:

*Proposal 4:* There is a positive relationship between CRV and CIV.

### *The Relationship Between CRV and CKV*

As previously proposed, a common driver of CRV and CKV is the connectedness of the customer. The more connected a customer is, the more knowledgeable he or she will be about other customers' usage situations, problems, and solutions related to the firm's products. By soliciting feedback from a well-connected customer, a firm is able to tap into a much broader knowledge base as opposed to soliciting feedback from an unconnected customer. These same connections to potential customers make it possible for a customer to effectively refer customers to the firm. Also product experience, knowledge, and involvement enhance both the effectiveness of customer referral behavior and the value of any knowledge transfer between the firm and the customer. Based on the preceding arguments, Proposal 5 is proposed:

*Proposal 5:* There is a positive relationship between CRV and CKV.

This positive relationship will be strengthened in cases where the firm acquires knowledge from customers through incentivized schemes; as such an action would trigger feedback from customers who are malleable to incentives. For example Express, a clothing company, motivated customers to submit product reviews by entering them in a drawing for a gift card

based on the number of reviews they submitted. It is likely that the company retrieved more knowledge from its customer base by motivating customers to submit reviews (provide knowledge) who normally would not have been inclined to do so (Kumar and Bhagwat 2010). Firms that do not reward their customers for knowledge generation might find a weaker relationship caused by crowding out (Heyman and Ariely 2004).

### *The Relationship Between CIV and CKV*

In the world of Web 2.0, a customer's CIV will be strongly influenced by the customer's online activities, like blogging, reviewing, and complaining. These activities not only provide a platform to influence others but also present firms channels by which knowledge can be acquired and ultimately contribute to CKV (Fuller, Matzler, and Hoppe 2008). For example, Netflix, an online DVD rental retailer, actively seeks feedback from its customers regarding their movie rental experience by observing what its customers are saying to each other. Customers are encouraged to review movies in their website to inform other customers. This information is then used by Netflix to refine the recommender systems that suggest movies to its customers.

An important characteristic of customers' online CIV activity, however, is that these activities usually tend to be polarized at the extremes, with customers typically reporting only highly positive or highly negative experiences (Hu, Pavlou, and Zhang 2007). Moreover, strongly negative online evaluations have a disproportionate impact on others' purchase behavior (Chevalier and Mayzlin 2006). Although positive and negative evaluations generate valuable feedback for the firm and contribute to the generation of CKV, customers providing this feedback generally are at the extremes in terms of CIV. Based on the preceding arguments, Proposal 6 is proposed:

*Proposal 6:* There is a U-shaped relationship between CIV and CKV.

However, it will be interesting to study whether increased usage of social networking sites, like Facebook, has decreased the polarizations of online evaluations. The ease of communication on such mediums may encourage more moderate evaluations.

It is important to note that the accuracy of the proposed relationships outlined above is sensitive to omitted or disregarded variables. This does not imply that predictions of the components will show the same relationships or that predictions of these components have the proposed relationship with the actual values. Consider, as an example, the case where a company has predicted CLV without the use of a proper measure of the customer's attitude toward the firm, which is a large driver of CLV—through relationship duration—and CIV. As a result, the relationship between predicted CLV and actual CIV will be much weaker than the relationship between their actual values. This clearly has consequences for testing the proposed relationships or using the relationships to infer the scores on one dimension from predictions on another dimension.

### **Maximizing CEV**

Given that CEV has the potential to increase a company's bottom line, it becomes crucial to explore ways in which CEV can be maximized. At the most basic level, a customer's CEV can be maximized when each of its four components (CLV, CRV, CIV, and CKV) is individually maximized. While strategies associated with maximizing CLV have been discussed extensively in literature (e.g., Kumar et al. 2008), the remaining components have received relatively less attention.

While CLV can be increased by more purchases by the customer over time, CRV increases with current customers referring new customers.<sup>2</sup> In a field experiment Kumar, Petersen, and Leone (2010) found several attributes that drive CRV. These behavioral drivers include the average yearly profit from the customer, the average time between consecutive purchases from the customer (both related to CRV by an inverted U), the number of departments the customer purchased from, the number of channels the customer shopped from (both positively related), and whether the customer made referrals in the past. This is in line with the finding of Verhoef, Franses, and Donkers (2004) that satisfaction increases referral behavior. By enhancing customer satisfaction and creating incentives for customers to exhibit the specific behaviors, companies can increase the CRV of their customers.

Referral reward programs are effective at motivating customers to make formal referrals (Ryu and Feick 2007). However, other less direct strategies may also help maximize CRV. For example, encouraging customers to purchase from the physical store, the Internet, and the store catalog should increase their CRV since multichannel shoppers are more likely to make referrals. Firms can first encourage multichannel shopping and then promote referral programs through those channels to help encourage referral behavior. Kumar, Petersen, and Leone (2010, p. 19) also found that targeting customers with low CRVs using the empirically determined behavioral drivers "significantly increased profits from customer referrals over targeting customers with high CRVs." It was much more effective to target the low CRV customers than random customers. So, it would, therefore, make sense for firms to heavily publicize their referral incentives to low CRV customers. Interestingly, in the field study it was observed that customers who made referrals also increased their own purchases and added even more value to the firm. Increasing the referral base of customers is another strategic way to introduce and diffuse new products.

Encouraging and strengthening WOM communication is important to build CIV. In order for a customer to have influence over his or her peers, the customer must have access to and be a part of a social network. As the propositions set forth, the more connections a customer has with others, the more influential he or she has the potential to be (Goldenberg et al., 2009; Kumar and Bhaskaran 2010). Companies can, therefore, invest in encouraging social networks that tie customers together. Virtual communities are one way for customers to communicate with one another and hence influence

each other. The more people customers are talking to about a firm's product line, the better (given that they have positive things to say). Firms can also facilitate product-related discussions between customers on social networking sites. Finally, firms can motivate customers to be opinion leaders or "spreaders of knowledge" when creating strategies to maximize CIV. Firms can utilize the inherent quality many individuals possess to be "trendsetters" to motivate them to be opinion leaders. Finally, viral Internet campaigns are a great way for firms to generate buzz. Moreover, firms that can encourage and facilitate product-experience-related discussions by harnessing motivated customers' influence on others, increase CIV and in turn CEV. Online communities and forums provide a great platform for firms to accomplish this.

The Internet can also be an excellent means by which to maximize CKV. Sawhney, Verona, and Prandelli (2005, p. 4) argue that the Internet can help establish contact with customers, "In the networked world, firms are recognizing the power of the Internet as a platform for co-creating value with customers . . . . We outline the distinct capabilities of the Internet as a platform for customer engagement, including interactivity, enhanced reach, persistence, speed, and flexibility, and suggest that firms can use these capabilities to engage customers in collaborative product innovation through a variety of Internet based mechanisms." The customer needs to be given the opportunity to easily contact the firm to share his or her ideas or provide feedback. Firms must decide what level of involvement they would like from customers and use suitable social media channels to encourage such interaction with customers to promote this desired level of involvement (Kumar and Bhagwat 2010). Without ease of communication, many valuable insights from the customer base will go untold. Firms should, therefore, take advantage of the Internet when creating initiatives to encourage customer feedback.

In addition to utilizing the Internet, firms should take into account the variety of motivations customers have for providing feedback. For example, some customers may inherently be reward seeking. They are extrinsically motivated and require some kind of compensation from the firm for their ideas and feedback. Firms can offer to buy ideas or can offer these customers a cut of the profits. Firms can also engage customers by sponsoring competitions. Some clothing stores for example allow aspiring fashion designers to submit their designs and then allow the public to vote on their favorite designs. The winner's design is subsequently manufactured and offered for sale (and the winner is provided monetary compensation). Other customers may be attention seeking and just want fame. Again, contests can provide an excellent means to retrieve their insights and provide them with public recognition. Some other ways to recognize the customer could be to name the new product after the customer or post pictures of the customer on the company website. Finally, some customers may only want to offer their direct input to the firm (product reviews) as information providers in contrast to aiding in the new product development process. These customers are more likely seeking monetary rewards instead of fame or recognition. As a result, CKV can be maximized when the firm

makes communication with customers easy and accessible, provides some form of incentive (monetary or not), and engages the customer in activities through which the customer can offer feedback and collaborate with the firm.

## Conclusion

Customers can generate value to the firm through more ways than only their purchase behavior and a more comprehensive assessment is needed. In this article, it is argued that customers provide value to the firm through their (a) own transactions (CLV), (b) behavior of referring prospects (CRV), (c) encouragement on other customers and individuals to make (or not make) initial or additional purchases (CIV), and (d) feedback to the firm on ideas for innovation/improvements (CKV). These four dimensions together constitute a customer's CEV. Furthermore, several propositions on the relationships between the four components of CEV have been suggested as an avenue for future research. The CEV components can serve as a dashboard of customer metrics for top managers and they can be monitored over time.

Researchers and practitioners have proposed numerous ways of operationalizing CLV (e.g., Rust, Lemon, and Zeithaml 2004; Venkatesan and Kumar 2004; Wiesel, Skiera, and Villanueva 2008). Recently, studies have emerged that focus on ways to conceptualize and measure CRV (Kumar, Petersen, and Leone 2007, 2010). However, to the best of our knowledge, CKV and CIV have not been in the focus of any published research yet. This article proposes several behavioral, attitudinal, and network metrics in order to measure CEV's four components. While some of those metrics are readily available to firms (e.g., acquisition rate, churn rate), others are more difficult to collect and compile. This is likely to change, however, in the near future due to technological advancements that improve tracking of customers. Microsoft and Google for example recently announced real-time search functionality for Twitter. As a result, firms can now search and use information posted on Twitter as well as track individuals who post on Twitter and follow these posts. Linking this information to a firm's database could enable a company to effectively measure a customer's CRV or CIV.

Although creating an environment where customers are more engaged with the company may require initial investment, it has the potential to generate higher profits in the long run through the creation of CEV. Using customer knowledge and feedback for new product development, for instance, may initially be costly but could greatly enhance the effectiveness of the new product development process and increase success in the marketplace. As a result, firms need to adapt customer management strategies and create opportunities to increase CEV. As a new metric and approach to customer valuation, CEV provides firms a new and more complete way of assessing their customers and allows for firms to create better and more effective marketing strategies to target, acquire, and retain their best customer.

## Notes

1. See Van Doorn et al. (2010) for an alternative definition of customer engagement.
2. An important consideration in the measurement of CRV, however, is the issue about double counting. Although CLV and CRV involve separate metrics, they cannot be added up across all customers. What is one customer's CLV is potentially also similar to the CRV of the customer who successfully referred him or her to the firm.

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