CRM and Market-learning for Brand Equity

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Abstract

The paper seeks to examine the concept of marketing capabilities as sources of sustainable competitive advantage (SCA). Two marketing capabilities ‘CRM & Market-learning’ have been identified through available literature. In addition to their role in contributing to SCA, they have been identified as supplementary to orchestrating a third capability, Brand-equity. A theoretical framework has been developed for explaining: 1) the linkages between CRM and market-learning for harnessing brand equity and 2) the role of these three capabilities in gaining sustainable competitive advantage for a firm. The study depicts that the marketing capabilities (CRM, market leaning and brand equity) are not only a strong and sustainable source of competitive advantage but also their implementation supplements grooming further capabilities.

Keywords: RBV, CRM, Market-learning, Brand-equity, Sustainable competitive advantage

Introduction

The resource-based view (RBV) of a firm views firm-specific resources as the basis of competitive advantage and superior performance (Wernerfelt, 1984). Unlike Michael Porters “five-force model” (1979) which puts all the burden of competitive advantage and firm performance on external agencies, the RBV links firm’s internal resources with its performance (Barney, 1991). The RBV focuses on how firms achieve and sustain competitive advantage with the help of elements that are internal to the organization which in turn results in superior firm performance by creating value for customers. Although RBV as a concept was initially proposed in the area of strategic management, however, its constructs have been espoused in the field of marketing as well, as it provides reasonable explanation of the effects of marketing on firm performance and achieving competitive advantage (Day, 1994).

The key to the success of ‘resource-based view’ lies in the organizational resources. Grant (1991) defines resources as the assets controlled by the firm that serve as inputs to the organizational capabilities, and thus have the potential to earn revenue. On a similar set of lines, Makadok (2001) suggests that capability is a non-transferable, firm-specific resource embedded in the organizational culture that aims to enhance the efficiency of organization’s other resources. Therefore from a marketing perspective, marketing resources are the assets available to marketers and others within the organization that when transformed by the firm’s marketing capabilities can create valuable outputs (Morgan N. A., 2012). For a firm to accomplish its goals of superior performance and gaining competitive advantage it needs to outclass its competitors and do it repetitively over a longer period of time. To achieve these objectives a firm has to shift its focus onto the capabilities that seem to satisfy Barney’s VRIN criteria (valuable, rare, inimitable, non-substitutable) (1991). As the literature suggests that the marketing capabilities fit the VRIN framework (Bhardwaj, Varadarajan, & Fahy, 1993) therefore they can be employed by a firm to gain competitive advantage. Marketing capabilities are “the integrative processes designed to apply collective knowledge, skills and resources of the firm to market-related needs of the business, enabling the business to add value to its goods and services,
adapt to market conditions, take advantage of market opportunities and meet competitive threats” (Vorhies, 1998).

In the present discussion, the aim is to deliberate on the two important marketing capabilities, CRM and Market-learning as sources for sustainable competitive advantage and their role in supplementation of another capability, Brand-equity. An effort has been made to identify and discuss the role of these capabilities in generating superior customer value and thereby enhancing the firm’s performance.

**Review of literature**

Customer relationship management (CRM) is a strategic process that intends to develop a firm’s relations with the customer in order to create a profitable customer base for the firm by developing its customer/market intelligence (Payne & Frow, 2005). It offers to reduce customer service costs, channel conflict, price wars and secures firm’s association with customers by encouraging dialogue, increasing customer contact and personalizing communications (Day & Hubbard, 2002). CRM doesn’t limit itself to just being a resource that provides competence to the firm but at the same time harnesses firm’s other capabilities to derive maximum value for the firm (Coltman, Devinney, & Midgley, 2009). It spreads its efficiencies to other processes and enhances their contribution to firm’s performance (Ryals, 2005).

The ability to learn about markets and anticipate customer responses is a core competence (Day, 1992). For a firm to create superior customer value it is very essential that it continuously generates information about customers’ needs, both expressed and latent and about how to satisfy them (Slater & Narver, 2000). Market-learning is an open-minded approach that senses the trends in the market and responds to them rather than being slow and dependent on pre-confirmed notions in the marketplace (Day, 2002). A learning orientation can be seen as a significant capability (Foley & Fahy, 2004) as it seems to be well positioned to provide superior customer value, complex to develop and imitate, and appropriate in a dynamic environment (Slater & Narver, 1995). Porter (1990) suggested that a firm can create superior customer value through innovations in its value-chain, which Weerawardena (2003) defines as a product of the learning capability. Therefore, market-learning can be earmarked as a source of sustainable competitive advantage (Sinkula, 1994).

Brand equity can be defined as the value of the brand in the marketplace (Pullig, 2008). So, higher the equity of the brand, higher would be its value in the market i.e. an association of a product with a high equity brand would result in a much more positive response to it than a product whose brand falls lower on equity. Kim et al. (2003) defines it as a set of brand assets linked to a brand. According to Aaker (1992) brand equity creates value for the customer thereby ensuring positive firm performance through the following sources: Brand loyalty, Brand name awareness, Perceived brand quality, Brand associations & other Proprietary brand assets.

Srivastava et al. (1998) identifies both CRM and brand-equity as crucial market-assets that enhance firms’ financial performance. CRM as a capability aims to develop long-term relations with the customers which in turn increases customers’ loyalty towards the brand and hence becomes a source of competitive advantage for the firm. Insights into customer needs obtained through a potent CRM may be leveraged via the firm's brand equity capability into more successful efforts to increase the firm's share of requirements among the attractive customers identified (Morgan, Slotegraaf, & Vorhies, 2009).

Similarly, a firm with strong market-learning capability identifies prospective customers and their unfulfilled demands and positions its offerings better than its competitors to attract new customers (Aaker D. A., 2004). Brand-equity depends on brand awareness and brand association that require a
firm to invest in promotional activities. Greater knowledge of the firm regarding media trends can enable a firm to reduce those costs (Morgan, Slotegraaf, & Vorhies, 2009), thereby enhancing brand-equity at lower costs through stronger market-learning capability.

**Linking CRM and Market Learning with Brand Equity**

The resource-based theory proposes that firms gain SCA by resources that are firm-specific (Day, 1994) and are valuable to customers, rare to obtain, difficult to imitate and can’t be substituted by similar resources (Barney, 1991). In the light of Bhardwaj et al. (1993) who advocated the inimitable nature of marketing capabilities along with their non-substitutable value-creation mechanism, we try to examine the marketing capabilities as sources of SCA. A vast array of literature is dedicated towards marketing capabilities that give a firm edge over its rivals. We have identified the two capabilities CRM and Market-learning and tried to study their linkage with supplementing a third capability, Brand equity and their combined contribution in rendering advantages to firms which can outlast the efforts of duplication by their rivals.

The first marketing capability CRM, is the ability of a firm to maintain strong relations with its customers (Rust, Ambler, Carpenter, Kumar, & Srivastava, 2004). It is a source for the firm to build competitive advantage (Day & Bulte, 2002). The second capability market learning, contributes fundamentally to the achievement of competitive advantage (Day, 1992). It is the ability to draw an understanding about firms’ customers, partners, rivals and its environment with an eye on the prospective changes to it. This capability therefore allows the firm to generate superior market knowledge. Both these capabilities contribute to the sources of the third capability i.e. brand equity through intimate customer relations and superior market knowledge. Ailwadi et al. (2003) defines brand equity as the outcome of marketing activities that accrue to a product with its brand name compared with those that would accrue if the same product did not have the brand name.

Customer Relationship Management (CRM)

Customer relationship management is the ability to identify the existing and potential attractive customers; develop a relationship with them, maintain it over a longer period of time; and leverage this relationship into profits (Srivastava, Shervani, & Fahey, 1999). CRM enables an organization to become customer-focused and develop stronger relationships with its clientele. It requires an organization to be in a continuous dialogue with customers, across all contact points, meeting the most valuable customers with a touch of personalized treatment so as to enhance their retention (Day & Bulte, 2002). The contact with the customers across different points (viz: websites, direct selling, service centres) endows the organization with the ability to sketch a lucid picture of the client. This therefore, allows the organization to anticipate the needs of its customers and fulfil them, in a more adept manner.
Managing relations with the customers is a distinctive capability which not only provides an edge to the firm over its rivals but also, is a value proposition for the customers as well (Slater S., 1997). An organization needs to treat each customer in a unique fashion, as every customer offers a different future economic value proposition for the organization, however, greater returns are ensured by investing in and retaining the most valuable customers. It has to focus on customers who are most profitable and also have a higher potential for profits in future as well (Bolton, Lemon, & Verhoef, 2004). Maintaining relationships with customers is among the longer-lasting sources of competitive advantage as it is based on distinctive capabilities and organizational learning, which is difficult for the rivals to understand and hence emulate (Day, 2000). Further, the process of continuously serving a particular set of clients improves the firm’s understanding of them, which in turn reduces the cost of serving them over a longer time period (Reinartz & Kumar, 2000), and at the same time experienced buyers of the firm’s products means lower costs of after-sales services and thereby higher profits for the firm (Ryals, 2005).

Market-Learning

Day (1994) defines the ability of an organization to learn about customers, competitors, channel members and the environment in which it operates as the market-sensing capability. It helps an organization to identify the segments in the market that have been underserved and those where its competitor hasn’t met with the customers’ demands (Slater & Narver, Intelligence generation and superior customer value, 2000). These underserved segments can therefore become the target markets for the organization (Morgan, Slotegraaf, & Vorhies, 2009). Also, the information about the current customer base of the firm can help it to gain insights and fulfil their unexplored needs and thereby increase the firm’s share of service rendering (Morgan, Anderson, & Mittal, 2005).

In the present complex scenario, however, the organizations need to adopt a more pro-active stance to be able to predict the changes in the marketplace rather than just responding to the occurring changes (Day, 2011), which generates superior knowledge about the market and provides an opportunity to earn above-normal profits (Eisenhardt & Martin, 2000). This approach is an improvisation of the earlier known market-sensing, and is known as the ‘market-learning’ capability. It’s defined as the organization’s purposive and active learning about its customers, competitors, business partners and environment in order to not only enhance its knowledge about the market but also be in a position to anticipate the future changes to it (Morgan N. A., 2012). A few other instances of market-learning being a source of competitive advantage are enumerated below:

- Predicting the precise value of resources in order to avoid overpayment for acquiring resources (Makadok, 2001).
- Identify least price-sensitive clients and charge higher costs to increase profits (Morgan, Slotegraaf, & Vorhies, 2009).
- Provides the ability to ask the right questions and answers to the ongoing inquiries based on prior learnings (Day, 1994).
- Allows firm to gauge the reactions of customers as well as competitors to firm’s past revenue increasing actions (Dickson, 1992).
- Knowledge about imparting non-monetary value to customers and business partners (Slater & Narver, Intelligence generation and superior customer value, 2000).

Brand Equity

Aaker (1991) defines brand-equity as “a set of brand assets and liabilities linked to a brand, its name and symbol that add or subtract from the value provided by a product to a firm and/or that firm's customers.” Similarly, Farquhar (1989) defines it as the value endowments made by the brand to a
Higher brand-equity indicates more prominent brand awareness and brand associations about the product, that provides a positive influence over customers’ buying behaviour (Netemeyer, et al., 2004), which in turn delivers significant value to the organizations owning the product (Aaker & Jacobson, The financial information content of perceived quality, 1994). Firms with higher brand equity can outperform the rivals in the market as it enhances the effectiveness and efficiency of their marketing programs (Aaker D. A., 1992). Combined with the brand loyalty, it permits the firm to go for premium pricing along with reduced dependency on promotional activities. A significant differentiation from competitors’ offerings can be achieved (Park, Jaworski, & MacInnes, 1986), coupled with the prevention of market-share encroachment by the competitor during price and promotional wars (Kamakura & Russell, 1991). It is able to draw a positive picture of the product in the minds of customers (Oster, 1990) which not only provides an assurance for quality but also creates a barrier for rivals to poach onto its customer base.

Brands are one of the most valuable intangible assets that firms possess (Keller & Lehmann, 2006), and this intangibility renders them protection against duplication by the rivals. Owing to the intangibility of brand-equity as a resource, the competitors find it impossible to imitate the value generated by it or substitute it with a similar resource. Moreover, even if the source of value generation is apprehended, still the process of value generation is unknown owing to the heterogeneity and immobility of brand-equity as an organizational resource.

**Sustainable Competitive Advantage (SCA)**

In every industry there are some organizations that perform better than the rest. They are able to provide their customers superior value as compared to their rivals. This superior value generation is achieved on the basis of certain unique assets and capabilities possessed by the organization (Bhardwaj, Varadarajan, & Fahy, 1993), which helps them to gain a competitive advantage. Barney (1991) defines competitive advantage as a value-creating strategy not employed simultaneously by a rival. However, implementing a value-creating strategy isn’t enough as they are prone to duplication by the competitors. As such a firm is required to guard its sources of advantages against duplication to prolong their edge over competition and make them sustainable sources of advantage. According to Porter (1985) competitive advantage becomes sustainable when the competitors’ actions don’t cause erosion to their value-generation capacity. Lippman and Rumelt (1982) propose that a competitive advantage is sustainable if, it continues to exist even when the efforts to duplicate it have ceased to exist. The inability of competitors to duplicate resource endowments is a central element of the concept of SCA (Fahy & Smithee, 1999).

Capabilities can be considered valuable when they enhance firm performance by creating value for the customers. However, if these value-creating capabilities aren’t indigenous to the firm, the value created by them can’t be sustained for long. Soon the competitive forces in the market would erode their benefits by duplicating or substituting the capabilities. Barney (1991) suggested that firms can retain their edge over competition for longer periods if they base their strategies on resources that are heterogeneous, immobile, and fulfil the VRIN-criteria i.e. the resources have to be valuable, rare, imperfectly imitable and non-substitutable. Therefore, organizations in order to maintain their relevance in the market need to out-perform their rivals and gain competitive advantage and, at the same time base these advantages on resources that are ambiguous to the rivals so that they can be sustained for longer by the organization.
Conclusion

The theoretical background has provided a strong base to emphasize the linkage between marketing resources and business performance. The marketing capabilities contribute positively to the value generation by the firm along with the induction of the benefits of immobility owing to their intangibility. Intangibility of the marketing capabilities makes it arduous for the rivals to understand the process through which they generate value and since these resources are native to an organization i.e. inculcated and developed over a period of time by a specific organizational culture, therefore their indigenous nature makes them a heterogeneous resource by being specific to their parent organization. This heterogeneity and immobility of these resources combined with the VRIN-criteria generates a competence for the firm, with the help of which it can, not only out-perform its rivals but also sustain this competitive edge for a longer time period. Further, inquiries were made into the contributions of CRM and Market-learning in harnessing the capability of brand-equity. CRM is an effective means of knowing the customers and providing them a personalized treatment, which makes them perceive the brand as their own and increases their loyalty towards it. As far as market-learning is concerned it helps to unravel firms brand image/association in the market and aims to create a positive perception regarding the brand amongst the customers. Both the capabilities help the firm to gain insights into the needs of a customer, especially the latent needs (CRM through more intimate relation with the customer, and market-learning through efficient sensing of market demands) and hence provides an opportunity to satisfy them, resulting in increased equity of the brand.

References


