

From Customer Knowledge Competence through Customer Engagement Behaviour to Customer Lifetime Value. A Conceptual Model.

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Abstract:

Customer knowledge stands behind customer innovations and new product performance, which underlines its role in the practice of new product development. However, the definition of customer knowledge and its role in customer relationship management is still ambiguous. This study proposes a conceptual model of the relationship between customer knowledge, understood broadly as customer knowledge competence, and customer lifetime value, with customer engagement behaviour and its antecedents as mediators. The empirical research based on this model could identify the role of customer knowledge competence in the process of customer lifetime value creation. The study presents theoretical and managerial implications and makes empirical research recommendations considering its limitations.

Keywords: customer knowledge competence, customer engagement behaviour, customer lifetime value

Track: relationship marketing

1. Introduction

Firms educate customers in various ways. In customer relationship management (CRM), these activities should lead to the growth of customer lifetime value (CLV), but no strong evidence supports the role of customer knowledge in the process of CLV creation.

Customer knowledge, understood as knowledge residing in customers (García-Murillo & Annabi, 2002), is not mentioned in the marketing literature as one of the CLV determinants. It is regarded as a driver of customer innovation (Hamza, 2015; Lofgren, 2014). Customer innovation is one of the elements of customer engagement behaviour (CEB), which is a broad concept reflecting different forms of engaging customers that have a relationship with a firm (Hollebeek, 2013; van Doorn, 2011; Vivek, Beatty, and Morgan, 2012). The CEB models show that the non-purchase actions (like innovations) of customers are determined by different stimulators, which are CEB antecedents, like trust or satisfaction (So, King, and Sparks, 2014; So, King, Sparks, and Wang, 2016). Regarding this, customer knowledge affects CEB and its antecedents to some extent, but there is no complex model that presents the path from customer knowledge through CEB and its antecedents to CLV. The purpose of this article is to propose a conceptual model that captures the relationship between customer knowledge and CLV, with customer engagement behaviour and its antecedents as mediators, and the methodology to verify it. The article concludes with theoretical and managerial implications, research problems and recommendations.

This study extends the meaning of customer knowledge residing in customers with their skills in the proposed form of a customer knowledge competence (CKC) construct, where competence means the composition of passive (knowledge) and active (skills) customer knowledge components identified through literature analysis.

2. Customer knowledge competence

Customer knowledge is an ambiguous term that embraces knowledge *about*, *for*, and *from* customers. This trichotomy is well established in the marketing literature and has been functioning for years. Knowledge *about* customer is knowledge a firm holds and can use for its marketing purposes. Knowledge *for* customers is the knowledge a firm possesses and can transfer to its customers, who treat such knowledge as a value. Knowledge *from* customers is understood as the knowledge residing in customers, composed of the offer and industry knowledge, which can be valuable for a firm's marketing purposes (Desouza & Awazu, 2005;

García-Murillo & Annabi, 2002; Gebert, Geib, Kolbe, and Brenner, 2003; Gibbert, Leinold, and Probst, 2002).

This article treats customer knowledge as *knowledge from customer*, but an analysis of its definitions finds that this knowledge is understood as twofold. First, as the knowledge customers possess, and second, as the suggestions or feedback customers provide. Knowledge customers possess implies knowledge customers have about products, suppliers and markets (García-Murillo & Annabi, 2002). Customers don't have to share this knowledge with firms, so it can be undiscovered for firms' purposes. Interacting with customers results in transferring this knowledge to sustain continuous improvement, e.g., service improvements or new product development (Gebert et al., 2003). The transferred knowledge takes the form of suggestions or feedback reflecting customer preferences (Kumar et al., 2010) and provides important sources for novel ideas (Taherparvar, Esmailpour, and Dostar, 2014). This results in the dichotomy of *knowledge from customers*, which covers the knowledge customers possess and the knowledge customers transfer in the form of feedback or suggestions (Fig. 1).

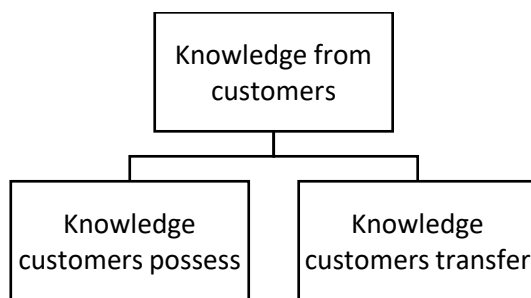


Figure 1. Knowledge from customers dichotomy

The classification includes customer knowledge and its transfers, but omits customer skills regarding the offer and the industry. Customers have their knowledge and skills, which lead to value co-creation in the process of utilizing the offer. Service-dominant logic argues that value is defined and co-created with the customer rather than embedded in output. However, firms can learn from their customers because of their knowledge and skills (Vargo & Lusch, 2004). This leads to the conclusion that customers have their knowledge and skills and can transfer both in the form of suggestions or feedback to improve firms' offerings. The above considerations state that customers have knowledge and skills that can be used to impact firms' offerings through customer suggestions and feedback. From the customers' perspective, the author calls this trichotomy *I know, I can, and I create* (Fig. 2).

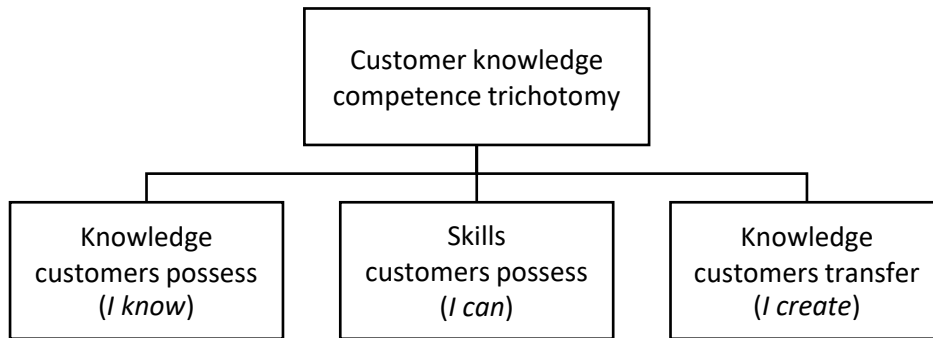


Figure 2. Customer knowledge competence trichotomy

The term *knowledge from customers* suggests that customers transfer knowledge, so there is an action from the customer to a firm. However, the action concerns only customer knowledge transfers, i.e., suggestions and feedback, excluding knowledge and skills. In this light, the term *knowledge from customers* does not fit all of these three components. Hence, the research proposes *customer knowledge competence*, which reflects the passive (customer knowledge and customer skills) and active (customer knowledge transfers) elements.

However, *I create* is a behavioural component based on what customers suggest or the feedback they provide, so this fits the CEB concept. While *I create* is a part of customer engagement behaviour, *I know* and *I can* may be its antecedents and named CKC dichotomy (Fig. 3).

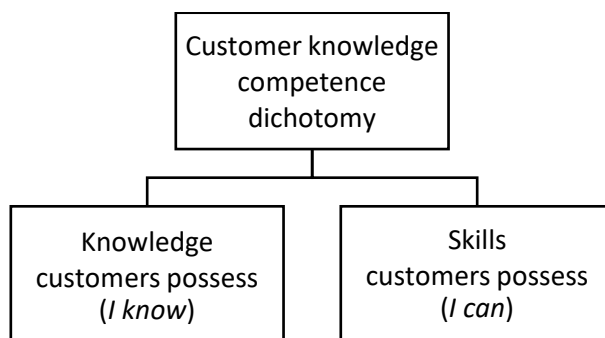


Figure 3. Customer knowledge competence dichotomy

CKC dichotomy is the customer knowledge competence operationalization used in the paper. This perfects knowledge and skills customers possess.

3. Customer knowledge competence and customer engagement behaviour

Customer engagement as a concept covers the level of a customers' cognitive, emotional, and behavioural investment in specific brand interactions, where dimensions include immersion (cognitive), passion (emotional), and activation (behavioural) (Brodie, Ilic, Juric, and Hollebeek, 2013; Hollebeek, 2013). Customer engagement behaviours include behavioural manifestations toward a brand or firm beyond purchase (So et al., 2014) and can be negative or positive. Positive customer engagement includes actions that in the short and long run have positive financial and nonfinancial consequences for a firm. Consumer actions (e.g., word-of-mouth activity, blogging, and online reviews) may turn out to be positive or negative for the firm based on the valence of the content (van Doorn et al., 2010).

Based on van Doorn's model, positive CEB is a set of customer activities that include word-of-mouth activity, recommendations, helping other customers, blogging, and writing reviews (van Doorn, 2011). Based on the above, this study uses Kumar's customer engagement concept, which defines CEB as a set of non-financial elements such as customer referral engagement, customer social influence engagement, and customer knowledge engagement (Kumar et al., 2010) where the latter is synonymous with the concept *I create*. The set is supplemented by helping other customers (van Doorn et al., 2010).

The customer-characteristic CEB antecedents derived from van Doorn's model are customer satisfaction and trust, supplemented by features coming from other authors' CEB models, such as affective-commitment, brand attachment, (Brodie et al., 2011), identification, absorption, enthusiasm and attention (So et al., 2016). They partially overlap *I know* and *I can* consequences such as customers' trust (Lee, 2015) or purchase intentions (Shafiq, Raza, and Zia-ur-Rehman, 2011), which justifies CKC components as antecedents of CEB antecedents and logically allows one to state the complex model the author proposes.

Applying CEB and its antecedents into the model results in a hypothetical relationship between CKC and CEB and its antecedents (Fig. 4). Not all of them were empirically verified, so the research is an opportunity to verify them.

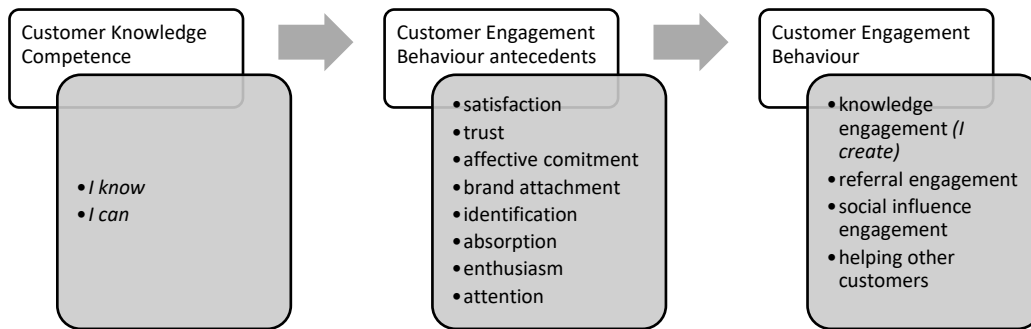


Figure 4. Customer knowledge competence and customer engagement behaviour conceptual model

The model shows the conceptual path from customer knowledge competence to customer engagement behaviour through its antecedents and reflects the way from knowledge and skills through customer-characteristic CEB antecedents to customer non-purchase actions.

4. Customer knowledge competence, customer engagement behaviour, and customer lifetime value

The consequences of customer engagement behaviour include financial and non-financial outcomes (van Doorn, 2011), including customer lifetime value, customer retention, or product performance (Maslowska, Malthouse, and Collinger, 2016; Verhoef, Reinartz, and Krafft, 2010). Assuming CLV is a synthetic, financial measure that is the consequence of marketing actions in CRM, the final conceptual model looks like four pieces (Fig. 5).

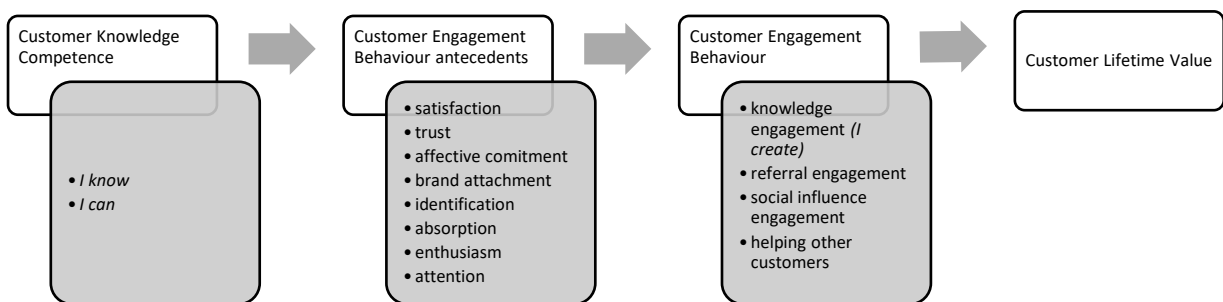


Figure 5. Customer Knowledge Competence and Customer Lifetime Value conceptual model

The model shows the path from customer knowledge competence through customer knowledge behaviour to customer lifetime value. It allows one to capture the direct relationships between neighbouring elements and the indirect relationship between CKC and CLV.

5. Theoretical and managerial implications

From the theoretical point of view, finding the paths from CKC to CLV through CEB and its antecedents would supplement CLV theory with CKC as its determinant. Moreover, it would allow us to find the relationship between *I know* and *I can* and CLV as well as moderators of the relationship such as age, gender, number of services/products bought, etc. It would characterize the relationship as more comprehensive.

From the managerial point of view, the verified model application would allow firms to propose educational programs for customers, including the level of their knowledge competence, engagement and its antecedents. These programs could include educational paths based on the results of the research, e.g. from *I know* through satisfaction and helping other customers to CLV.

6. Research recommendations and limitations

Most existing customer knowledge operationalisations and CEB models with their relationships have been tested among various industries at once, with no concentration on one particular industry with its contextual circumstances. The author proposes testing the CKC-CEB-CLV relationships via a survey, separately among current customers in industries providing highly-advanced solutions such as banking, insurance, telecommunications or high-tech retailers, without concentrating on one particular product or service. Firms from these industries build their relationships with customers and their products or services complexity requires CKC, which provides the research field. The fact that the research would not concentrate on one particular product or service, could make the generalization more probable.

I know and *I can* need scales to operationalize, since the existing ones refer to similar constructs like customer expertise or familiarity or reflect particular industries conditions. The CKC components scale should be standardized to measure the phenomenon in different industries with one scale and allows to compare the results.

For CEB and its antecedents are a variety of existing scales, as well as for CLV (e.g. Kumar & Pansari, 2016; Rust, Lemon, and Zeithaml, 2004; So et al., 2016; Vivek, Beatty, and Morgan, 2014); however, the choice doesn't need to be easy since they have different operationalisations embedded in different contexts.

The sample size should give the opportunity to analyse subgroups with potential moderators, such as customers' age, gender, number of products or services bought, lifetime

duration, or customer goals to establish the relationships between different groups of customers. Structural equation modelling (SEM) methodology is recommended to identify the relationship paths.

The projected research has its limitations. First, it derives from the fact that knowledge can be subjective or objective. Subjective knowledge can be thought of as including an individual's degree of confidence in his/her knowledge, while objective knowledge refers only to what an individual actually knows (Brucks, 1985). The limitation is that research should be based on subjective knowledge for all CKC constructs, which limits the results to an individual's degree of confidence in his/her knowledge. This is due to the fact that CKC constructs should be standardized for all industries, which would be impossible using objective knowledge regarding the specific offer. Another limitation is that it is not possible to identify the causal relationships, since no experiment will be conducted.

After quantitative research, the author recommends industry-specific case studies to include the characteristics of the industry, e.g., industry-specific customer metrics (one for each industry) and a deeper understanding of the relationships identified. It could also allow to deepen knowledge engagement (*I create*) by expanding this from suggestions or feedback to customer design, development, testing, manufacturing, marketing, and selling, accordingly to the new product/service development concept (Alam, 2002).

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