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Editorial

Eldon Y. Li
Wei-Hsi (Frank) Hung

Editorial Objective

JBM is a double-blind refereed, authoritative reference addressing working or potential business and management theories/practices as well as the emerging issues of interest to academics, practitioners, and policy makers. The primary editorial objective of the *JBM* is to provide a forum for the dissemination of theory and research in all areas of business, management, and organizational decisions which would be of interest to academics, practitioners, and policy makers. Specific areas include, but not limit to: business analytics, case studies; business ethics, policy, law; corporate governance and social responsibility; electronic business, social commerce, mobile commerce; entrepreneurship, innovation, business venturing; enterprise management, human resource management; information management, project management; international business, marketing; operations and service management, supply chain management; strategic management, risk management, technology management. We invite research articles, comprehensive reviews, and case studies that provide insights into the business phenomena occurring every day. Authors of *JBM* are always encouraged to offer recommendations to readers exemplifying the applicability of their research findings.

Research Topics

In this issue, we have accepted four research papers for publication in *JBM*. The research topic of the first paper is "Return on investment from supplier/risk management," authored by Christopher A. Hoeckel, Josef Neuert, Marcus Schüller, Alla Schwamborn, and Jianpeng Wang. The second one is "Power of the scent: Exploring the role of sensory appeals on consumer product attitude," reported by Ruchi Garg, Ritu Chhikara. The third one is "Does the need for social status among price conscious consumers induces consumption of counterfeit luxury brands?," examined by Sameeullah Khan, Asif Iqbal Fazili. Finally, a study on "Innovation in marketing strategy: A customer lifetime value approach," is presented by Mehir Kumar Baidya, Bipasha Maity, Kamal Ghose.

We thank very much the authors for sharing their knowledge by contributing the papers and the reviewers for taking their precious time to offer improvement suggestions to the authors. Special thanks go to National Chengchi University in Taiwan for the administrative support and to Western Decision Sciences Institute for the financial support. Without all these scholars and partners the publication of *JBM* is not sustainable. Please note that the views expressed in these papers are those of the authors and not of the editors, editorial board, *JBM*, WDSI, National Chengchi

University, or Chung Yuan Christian University. We hope these papers are interesting to read and useful to your future research. On behalf of the Editorial Board, I thank you very much for your continuous support.

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Return on Investment from Supplier/Risk Management

Christopher A. Hoeckel
Josef Neuert
Marcus Schüller
Alla Schwamborn
Jianpeng Wang

Abstract

Purpose – The purpose of this paper is to examine and outline the impact of the supplier management maturity on the supplier management performance.

Design/methodology/approach – The study conceptualizes four dimensions (strategy & governance, organization & structure, process & systems and people) for the supplier management maturity and tests the relationship between supplier management maturity and supplier management performance (costs, quality, risk and innovation). Data for this study are collected from 98 purchasing consulting experts. The relationships proposed in the theoretical framework are tested using structural equation modeling.

Findings – The empirical results and findings from this research indeed substantiate the notion that elaborate supplier/risk management approaches contribute significantly to the improvement of supplier management performance and organizational competitiveness.

Research limitation/implications – This study is based on a group of purchasing consulting experts with an outside in view. Further studies should include participants from various industries to improve the representativeness of this study.

Practical implications – Results from the study suggest to practitioners that increasing the maturity of their supplier management organization and people leads to higher returns from the organizational performance in terms of cost, quality, risk and innovation.

Originality/value – This paper contributes in three ways to the discussion on how supplier management maturity affects the organizational performance. First by developing a theoretical model and testing it with empirical data using experience from the past, secondly by shedding more light on specific implications of empirical findings on different industries and lastly by predicting the main benefits contributing to the supplier management maturity in the near future.

Keywords: supplier relationship management, supplier management, supplier management performance, supplier management maturity.

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Introduction

In today's challenging and competitive business environment companies focus more and more on their core competencies by reducing the vertical integration of their value chain towards a leaner organization. Outsourcing activities also attempt to leverage supplier's capabilities and technologies to achieve competitive advantages (Nair *et al.*, 2015; Zimmer *et al.*, 2016). However, this also increases the dependency on suppliers and the necessity of trust in the supplier's attitudes and behavior. Therefore, the importance of their performance plays a key role in those kinds of business relationships (Kannan and Tan, 2002). The management of supplier relationships therefore becomes more crucial for the overall success of companies especially with suppliers of strategic relevance (Carr and Pearson, 1999; Chen *et al.*, 2004). Supplier management processes like supplier selection, supplier development, supplier performance and risk management are essential to manage supplier relationships effectively (Kannan and Tan, 2002; Nair *et al.*, 2015). This means allowing companies to optimize their supply base, reduce overall costs, assure product- and service quality and to mitigate risk to improve bottom line profitability.

A number of studies have been published, outlining the positive impact of supplier management on the organizational and company performance (Al-Abdallah *et al.*, 2014; Carr and Pearson, 1999; Carr and Pearson, 2002; Ellram *et al.*, 2002; Kannan and Tan, 2002; Li *et al.*, 2006; Wagner *et al.*, 2012). As prior studies mainly focused on the impact of the organizational performance either in the presence or absence of supplier management practices, this study aims to shed more light on the performance of supplier management related to the level of the maturity of the supplier management framework.

Therefore, in this paper, we examine the extent to which the supplier management maturity as part of the purchasing maturity (Rozenmeijer *et al.*, 2003; Schiele, 2007) impacts the economic efficiency in terms of the supplier management performance (Li *et al.*, 2006). The basic assumption is that organizations with a higher

supplier management maturity (input) achieve better organizational performance (output) in terms of e.g. profitability, competitiveness, etc. (Schiele, 2007).

The remainder of the paper is structured as follows. The next section provides a literature review about supplier/risk management, -maturity and -performance. Further the substantive relationships among the study variables are developed and hypotheses are stated. Next the research methodology and analysis, including the data collection procedure, hypotheses testing and results are explained. Then based on the study findings discussions and managerial implications are presented. Finally, a conclusion is given highlighting the limitations of the study along with suggestions for further research.

Theory and research hypotheses

Supplier/risk management

From a resource-based view, a company continually seeks to maintain its competitive advantage by managing its key resources and competencies (Oliver, 1997). The resources characteristics that lead to a competitive advantage include whether resources are scarce, valuable, reasonably durable, and difficult to imitate (Barney, 1991). The resource based view proposes that resource selection and accumulation are a function of both the company decision making and external strategies and -influences. External influences are considered strategic industry factors that impact the company, including buyer and supplier power (Oliver, 1997). As suppliers increasingly provide larger portions of the value delivered to the customer and can grant access to new technologies and innovation, the supplier/risk management becomes a focus activity and could even become a competitive advantage for the company (Monczka *et al.*, 2011). Supplier/risk management can also impact product costs, ensure the supply of reliable and frequent deliveries, improve the quality of products and mitigate risks to improve and sustain the competitive advantage of the company (Al-Abdallah *et al.*, 2014; Helmold and Terry, 2016; Hofbauer *et al.*, 2012).

For Hofbauer *et al.* (2012) supplier management includes a six step approach: Supplier scouting, supplier evaluation, supplier classification, supplier development, supplier selection and supplier integration. For Helmold and Terry (2016) the supplier management includes the supplier strategy with a supplier classification, supplier selection, supplier evaluation, supplier development, supplier integration and supplier controlling. Kannan and Tan (2002) describe three dimensions, which underlie supplier management: effective supplier selection, innovative supplier development and meaningful supplier performance assessment. For Nair *et al.* (2015) supplier management activities like supplier selection and supplier evaluation are contributors to purchasing performance. Zimmer *et al.* (2016) propose a framework for supplier management, which includes supplier selection, supplier development and supplier monitoring. For Appenfeller and Buchholz (2011) supplier management contains four steps: supplier analysis, supplier evaluation, supplier classification and supplier development. For Monczka *et al.* (2011) supplier relationship framework

consists of supplier performance, supply base rationalization including supplier segmentation, supplier relationship management and buyer-supplier development.

According to the literature the following main steps for a supplier/risk management framework can be derived: 1. Supplier portfolio management and supplier classification (Day *et al.*, 2010; Olsen and Ellram, 1997; Wagner and Johnson, 2004), 2. supplier selection (Ittner *et al.*, 1999; Kannan and Tan, 2002; Nair *et al.*, 2015), 3. supplier assessment and monitoring (Dey *et al.*, 2015; Kannan and Tan, 2002; Talluri and Sarkis, 2010), 4. supplier development (Chen *et al.*, 2015; Larsson, 2005; Noshad and Awasthi, 2014), 5. supplier integration (Haartman and Bengtsson, 2015), 6. supplier innovation (Wagner and Bode, 2014; Winter and Lasch, 2016) and 7. supplier risk management (Giunipero and Eltantawy, 2004; Tummala and Schoenherr, 2011; Zsidisin, 2003).

Supplier management maturity

Over the past two decades, purchasing functions of many companies improved their managerial maturity by growing from a purely buying function to a more strategic function (Carr and Pearson, 1999; Chen *et al.*, 2004; Paulraj *et al.*, 2006). Rozenmeijer *et al.* (2003) define purchasing maturity as the “level of professionalism in the purchasing function”. A purchasing maturity model, which describes different levels of an organization, is expected to reach for greater sophistication (Schiele, 2007). A purchasing maturity model should cover the relevant dimensions which describe the degree of maturity precisely, like strategic planning, organizational status and role, process orientation and availability of information systems, quality/skills of people in purchasing, cross functional collaboration and the level of collaboration with suppliers (Cousins *et al.*, 2006; Gelderman and van Weele, 2005; Schiele, 2007; van Weele, 2008/2010). Schiele (2007) describes in his model four levels of maturity: 1. best practice activities/tools/methods are known in the organization, 2. position/person is assigned to the task, 3. the process for task completion is defined, documented and well applied 4. cross functional integration throughout the company is given while basic requirements are met. Increasing the level of maturity throughout the purchasing organization by moving the purchasing staff from a nonstrategic to a strategic function enables them to contribute more value to the company by involving key suppliers in the company’s planning process. However, this also requires changes in certain activities, like getting more involved in the company’s strategic planning process rather than doing clerical work, and proactively seeking opportunities rather than conducting routine activities. Changing from a nonstrategic to a strategic function will in most cases not only require changes in structures and processes but especially in the level of skills and therefore professional development for the purchasing staff (Carr and Pearson, 2002; Carr and Schmeltzer, 2000). As an indispensable component of the purchasing function, supplier management can significantly contribute to a higher purchasing maturity. Similar to purchasing maturity, it contains the dimensions like strategy, organizational structure, processes and systems as well as the competency and skill level of the people (Cousins *et al.*, 2006; Paulraj *et al.*, 2006; Schiele, 2007). Based on this reasoning, we offer the following hypothesis:

H1: The level of a supplier/risk management process/framework maturity is dependent on the definition of a clear strategy and establishment of a functioning governance

H2: The establishment of a mature supplier/risk management process/framework is dependent on an established organizational structure

H3: Processes and systems with sufficient digitalization support lay the foundation for a more mature supplier/risk management process/framework

H4: A more mature supplier/risk management process/framework is dependent on the assignment of dedicated resources with certain competencies

Supplier management performance

A number of published studies indicate that greater maturity in the purchasing and supply management function is associated with better performance of the company (Al-Abdallah, 2014; Carr and Person, 2002; Carr and Schmeltzer, 2000; Chen *et al.*, 2004). In this case performance of the company is often related to financial performance indicators like income, profit, return on investment or market performance (Carr and Pearson, 1999; Li *et al.*, 2006). More mature supply management organizations foster the company's performance by pushing for supplier base reduction, collaborative negotiations, level of communication with suppliers, implementation of supplier evaluation systems and buyer-supplier relationships (Carr and Pearson, 1999; Chen *et al.* 2004; Coban, 2012; Li *et al.*, 2006; Paulraj *et al.*, 2006). Schiele (2007) shows a significant relationship between supply management maturity and cost savings indicating that supply management organizations with higher level of maturity outperform lower level organizations in terms of costs. In his model, Gonzalez-Benito (2007) also lists quality, flexibility and delivery as measures for supply management performance. Li *et al.* (2006) relate in their study the outcomes from effective supply management practice (price/cost, quality, delivery dependability, product innovation and time to market) to competitive advantages of the organization which supports the organizational performance. For Paulraj *et al.* (2006) the supply management maturity does not only have impact on the performance of the buyer's company in terms of cost, quality, flexibility and delivery but also on the performance of the supplier. Accordingly, we hypothesize the following:

H5: A higher supplier/risk management process/framework maturity leads to greater cost reduction concerning purchased parts

H6: A higher supplier/risk management process/framework maturity leads to less quality issues concerning vendor parts

H7: Early supplier integration into product development, established by a mature supplier/risk management process/framework leads to shorter innovation cycles and therefore lower innovation costs

H8: A mature risk management established by a mature supplier/risk management process/framework, leads to fewer production disruption costs and greater availability of purchase parts

Research methodology

Measurement model

Based upon the findings of the literature review, the main contributors to the supplier management maturity are the purchasing strategy and governance, the organizational structure, the availability of processes and information systems and the quality of people in purchasing, allowing a certain level of collaboration with suppliers. In turn, as previous studies have demonstrated, a higher performance outcome from supplier management is measured by realized cost reductions, less quality issues from supplier parts, less disruption costs, greater availability of parts and shorter innovation cycles with lower innovation cost. From these considerations, we developed our research model (Figure 1) with supplier management maturity as the independent variable and supplier management performance as the dependent variable. The purchasing strategy and governance, organizational structure, processes and systems, and people in this model represent the latent exogenous measurement variables. The latent endogenous measurement variables are represented by cost savings, supplier quality, supplier risk and supplier innovation.

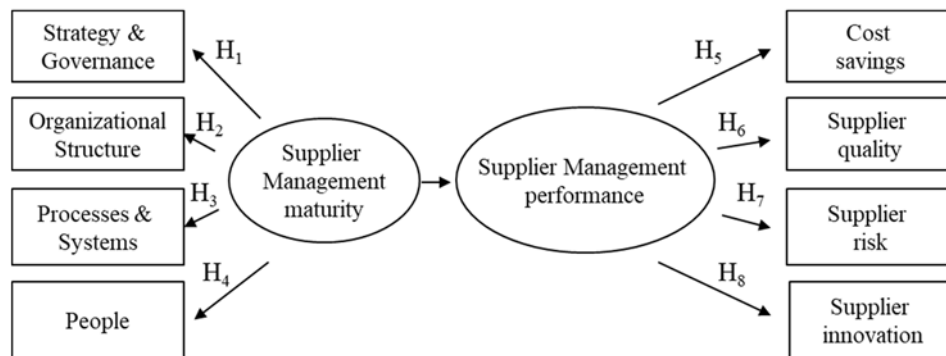


Figure 1. Measurement model on the economic efficiency of the supplier/risk management framework

Survey instrument

The survey instrument was setup in two sections. In the first section the items tapping the theoretical construct of the supplier management framework were adapted and built from existing scales and conceptual works from the purchasing strategy literature (Gonzalez-Benito, 2007; Nair, 2015; Paulraj *et al.*, 2006). The items were graded on a five-point Likert scale with anchors ranging from strongly disagree (1) to strongly agree (5) in order to ensure high statistical reliability among the questionnaire responses. With respect to the independent variable (supplier management maturity),

questionnaire recipients were asked to indicate the changes in supplier management performance, as the dependent variable.

In the second section the questionnaire recipients were also asked to select from a pre-defined list (see Appendix I) those three industries, which in their opinion have currently the highest supplier/risk management maturity and in addition to name the main benefits (cost, quality, risk or innovation) contributing to their maturity as of today and in the near future. Further, they were asked to list those three industries that in their opinion need to invest immediately and most extensively to improve their maturity and to name the most urgent areas (strategy and governance, organizational structure, processes and systems or people) they need to invest immediately and in the near future.

The survey questionnaire (see Appendix I) was tested for ambiguity, clarity, and appropriateness prior to the survey. According to the guidelines of DeVellis (2016) the questionnaire was discussed with academics and pre-tested by six supplier/risk management experts/practitioners. The questionnaire was modified based on the feedback received from the academics and practitioners. To improve the response rate, the survey was based on the general principles recommended by Dillman (1991; 2000) and Edwards *et al.* (2014).

Data collection

The study utilized a database including 250 global purchasing consulting experts. Prior to the global online survey regional sponsors were asked to give notice to the questionnaire recipients in their region of the imminent arrival of the survey and to highlight the importance of this study. The survey contained an introduction on how to fill out the questionnaire and it was color coded for the recipients to ease the task of reading and answering the questions. Four weeks after sending the original email with an online link to 250 global purchasing consulting experts, a follow-up email with the link was sent again to the non-respondents.

From the 250 global purchasing consulting experts who were invited 98 (39%) responded to the online survey. From the 98 respondents 43 (43 %) are located in the EMEA (Europe, Middle East and Africa) region, 32 (33 %) in the Americas (North, Middle and South America) and 23 (23 %) in ASPAC (Asia Pacific). Table 1 shows the distribution of the participants per role (Managing Directors, Managers and Staff Members) among the three regions.

Table 1. Survey respondents according to their role

	Managing Directors		Managers		Staff Members		Total
EMEA	4	4%	20	20%	19	19%	43
AMERICAS	4	4%	13	13%	15	15%	32
ASPAC	7	7%	8	8%	8	8%	23
Total	15	15%	41	42%	42	43%	98

Results for the measurement model

The reliabilities of supplier management maturity and supplier management performance were assessed by computing the Cronbach’s alpha coefficient with SPSS and calculating the average variance extracted and the composite reliability. Cronbach’s alpha indicates the homogeneity of a scale and in general varies between 1 (perfectly homogeneous scale) and 0 (absolutely non-homogeneous scale). A general condition for statistical analysis is an alpha between 0.6 (cut-off) and 0.9 (Cronbach, 1951; Nunnally, 1978; Weiber and Mühlhaus, 2010). As outlined in Table 1, Cronbach’s alpha value for the supplier management performance is above 0.60 but for the supplier maturity Cronbach’s alpha value with the 0.57 is below the cut off. The average variance extracted represents the average amount of variance that a construct explains and should be greater than 0.5 and a common cut off value for the composite reliability is 0.7 (Bagozzi and Yi, 1988; Fornell and Larcker, 1981). The composite reliabilities are above the 0.7 cut off. The average variances extracted explain with 0.48 and 0.44 less than 50% of the variance of construct. The fact that Cronbach’s alpha for supplier management maturity and the average variance extracted are marginally beneath the cut off probably does not disqualify the model approach as a whole, because in all likelihood it is due to the relatively low number of measurement items (Field, 2017). The construct validity was assessed via exploratory factor analysis (EFA) using principal component analysis with varimax rotation (Field, 2017). The factors loaded in compliance with their underlying constructs during EFA. The eigenvalues for these factors are above the 1.0 cut off point. The factor loadings were also above the cut-off point of 0.4 (Hair *et al.*, 1998) with loads from 0.54 for strategy up to 0.76 for risk. As all items load respectively to one factor, unidimensionality is given via the EFA (Field, 2017; Weiber and Mühlhaus, 2010).

Table 2. Reliability coefficients and factor loadings

Construct / Item	Cronbach α	Factor loads	Eigenvalue	Average variance extracted (AVE)	Square root AVE	Composite reliability
<i>Supplier Management Performance</i>	,63		1,91	,48	,69	,79
1. Cost		,69				
2. Quality		,68				
3. Innovation		,64				
4. Risk		,76				
<i>Supplier Management Maturity</i>	,57		1,76	,44	,66	,76
5. Strategy and Governance		,54				
6. Organizational Structure		,74				
7. Process and System		,63				
8. People		,72				

Table 3 displays the correlation between all independent and dependent variables. The level of significance of the correlations for the item’s organizational structure, people, processes and systems and strategy and governance provide insights that they seem to impact the supplier management performance to a greater extent.

Table 3. Correlation among variables

Construct / Item	Mean	SD	1.	2.	3.	4.	5.	6.	7.	8.
<i>Supplier Management Performance</i>										
1. Cost	3,92	,81	1							
2. Quality	4,22	,84	,25**	1						
3. Innovation	4,26	,76	,32**	,25*	1					
4. Risk	4,30	,75	,37**	,48**	,33**	1				
<i>Supplier Management Maturity</i>										
5. Strategy and Governance	4,33	,82	,24**	,19*	,13	,23*	1			
6. Organizational Structure	3,36	,96	,37**	,21*	,30**	,24**	,14	1		
7. Processes and Systems	4,09	,86	,21*	,19*	,22*	,12	,17	,24**	1	
8. People	4,18	,79	,19*	,35**	,19*	,36**	,22*	,31**	,24**	1

** Correlation significant at p < 0,01 level (two-tailed)

* Correlation significant at p < 0,05 level (two-tailed)

For the testing of the hypotheses, a structural equation modeling approach was applied utilizing the software package lavaan (Rousseel, 2012). The structural equation modeling simultaneously measures multiple relationships among independent and dependent variables in one model. Structural equation modeling is designed to test causal relationships suggested by theory. In a structural equation model, a path identifies a causal link between two variables and this link indicates that one variable is influenced by the other (Weiber and Mühlhaus, 2010). The structural equation modeling was expanded to include latent variables. A latent underlying variable represents factors that cannot be directly observed and must be measured by a set of manifest variables respectively indicators (Backhaus *et al.*, 2011). The theoretical framework in Figure 1 illustrates the hypothesized relationships among the variables supplier management maturity and supplier management performance. As recommended by a number of researchers multiple criteria were utilized to assess the model fit (Schreiber *et al.*, 2006).

Overall the model has a good fit with $\chi^2/df = 0.810$; goodness of fit [GFI] = 0.989; adjusted goodness of fit [AGFI] = 0.979; Bentler comparative fit index [CFI] = 1.000; root mean square residual [RMSR] = 0.057 and root Mean Square Error of Approximation [RMSEA] = 0.000. Figure 2 presents the results of the eight hypothesized relationships (H1-H8). All of the hypothesized relationships were found to be significant. Most of the R² values are above 0.30 and therefore within an acceptable range except for strategy and governance and processes and systems. These two values are considered to be weak (Chin, 1998).

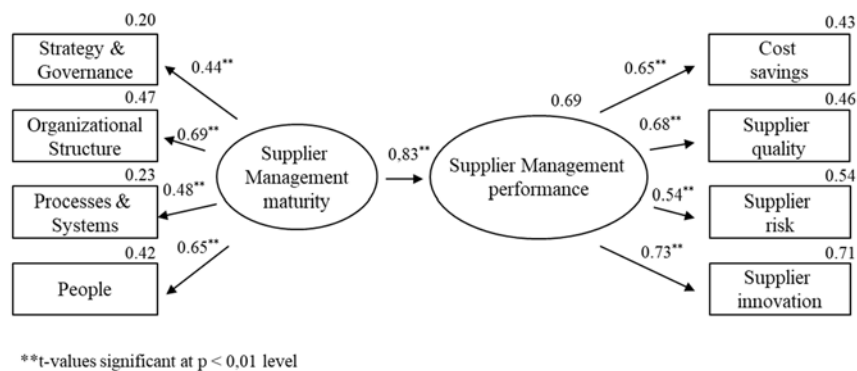


Figure 2. Structural model on the economic efficiency of the supplier/risk management framework

As a conclusion it can be stated that the following cause-effect propositions have been empirically substantiated: the maturity variables of the organization and the people have a significant impact on all four of the performance variables: cost, quality, innovation and risk. The maturity variables of processes and systems and strategy and governance have a significant impact on three of the four performance variables respectively.

Overall, it can be concluded that our theoretical model has been empirically confirmed to an acceptable extent.

Results of highest maturity with main benefits and urgent needs for investment per industry

The second part of the survey overall revealed that currently the main benefits from more mature supplier management organization are related to quality assurance (38%), cost reduction (29%) and risk mitigation (24%). Currently innovation contribution (8%) is not perceived as one of the main contributors with others (1%). The perception changes when taking the perspective into the near future. The benefits from more mature supplier management organizations in the near future are clearly related to innovation contribution (43%) and continually to risk mitigation (21%). Cost reduction (17%), quality assurance (17%) and others (1%) seem to contribute less in the future. When looking at some of the more mature industries (Figure 3), this trend is also visible on an industry level.

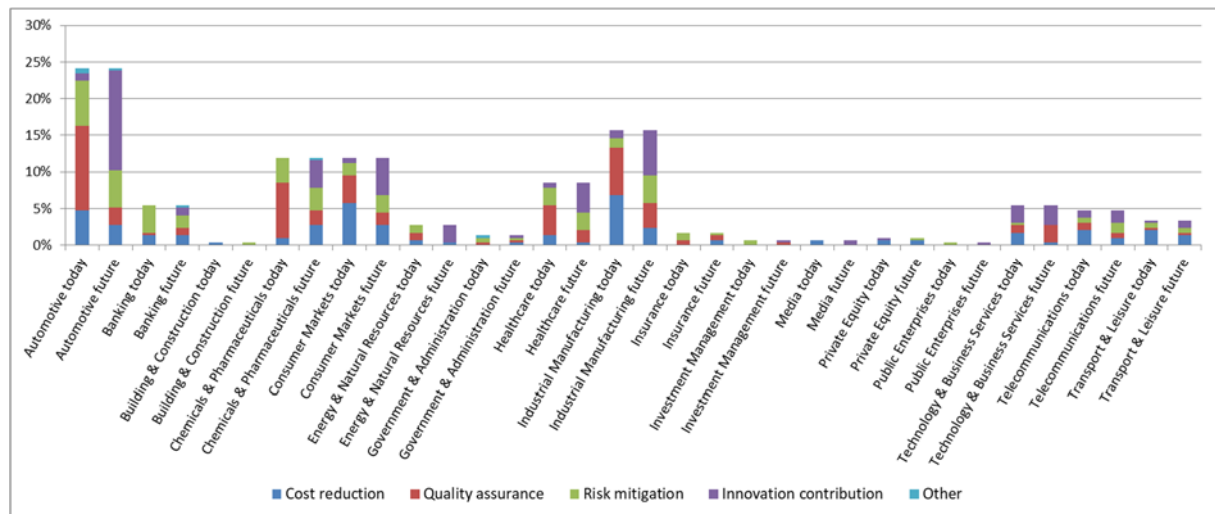


Figure 3. Supplier/risk management maturity and main benefits, currently and in the near future

For investments to improve the maturity of supplier/risk management currently, the areas of strategy and governance (39%), processes and systems (33%) are perceived as urgent and needed. Organizational structure (17%) and people (10%) are less in focus. In the near future investments in processes and systems (33%) will remain a main topic together with growing focus in the people (27%) area. Organizational structure (18%) remains on a steady level but strategy and governance (21%) seem to be less of a main topic in the future.

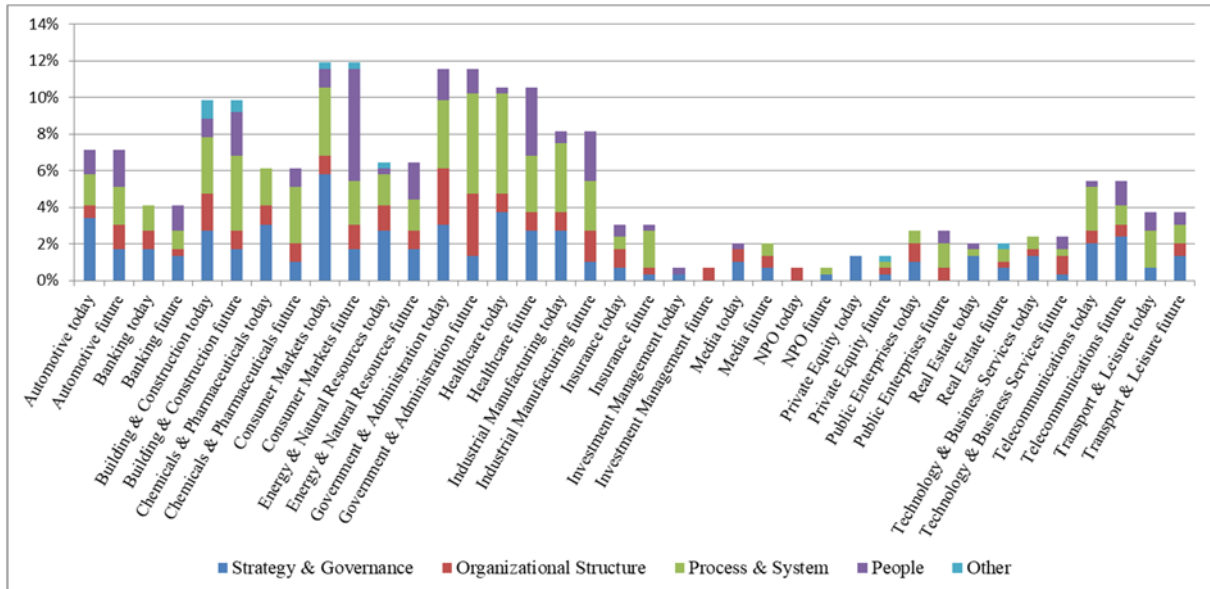


Figure 4. Expected investment in supplier/risk management and main areas, currently and in the near future

These trends are also visible throughout the industries where investments are expected, which is clearly demonstrated by the figures above (Figure 4).

Discussion

Contribution to state of research

The empirical findings of this study show a significant relationship between the supplier management maturity level and returns from organizational performance. The results also indicate that firms can improve their supplier management performance through an increased level of the supplier management maturity. In general this study advocates that firms need to embrace advanced levels of supplier management maturity since supplier management can play a pivotal role in delivering superior supplier management performance.

Hypotheses H01 to H04 state that the supplier/risk management maturity depends on the formulation of a clear strategy and the establishment of a functioning governance (H01), the restructuring or reorientation of the organization (H02), the redesign of existing processes with sufficient digitalization (H03) and the assignment of dedicated resources with certain competencies (H04). The hypotheses 1 and 3 show to some extent a lower significance in the correlations and the path analysis than hypotheses 2-4, but overall the hypotheses support the notion that an improvement of the supplier management maturity positively impacts the supplier management performance, which can be seen in Figure 2.

The empirical findings of this study also provide insights in supporting H05 to H08, meaning that a higher supplier/risk management maturity enables a better supplier management performance, resulting in greater cost reduction (H05), less quality issues (H06), shorter innovation cycles (H07) and fewer disruption costs (H08) and

therefore allow for return on investment from the supplier management organization. These results are also in line with other studies, which came to a similar conclusion that higher supplier management maturity leads to better purchasing performance in terms of cost, quality, innovation and risk management (Gonzalez-Bentio, 2007; Li *et al.*, 2006; Nair *et al.*, 2015).

Further, the study revealed that industries like automotive, industrial manufacturing, chemicals & pharmaceuticals and the consumer markets seem to be currently among the more mature ones from a supplier/risk management point of view. According to our findings the main current benefits for the companies with a more mature supplier/risk management are to quality assurance, cost reduction and risk mitigation whereas in the near future the main benefits are expected from innovation contribution and risk mitigation (Figure 3). For investments to improve the maturity of supplier/risk management currently, the areas of strategy and governance and processes and systems are in focus. In the near future processes and systems will remain a main area for investments together with a growing focus on the people area (Figure 4).

For Monczka and Petersen (2012), areas like strategic cost management and procurement and supply organization structures are currently among the most important/implemented strategies. For them this is the case, as they most likely can be executed within the supply management function or together with business functions. Strategies that require significant integration from suppliers (i.e. supplier innovation contribution), are currently among the less important/implemented ones. Similar to our findings, Monczka and Petersen (2012) see human resources development (people) as one of the strategies, most critical in improving the company's competitive performance and concluded that innovation through supplier management and human resources development are strategies to look for in the future.

Managerial implications

Several observations can be made regarding the relationship between supplier/risk management maturity and its impact on the supplier management performance. All four supplier/risk management maturity dimensions: people (capabilities), organizational structures, processes and systems and strategy and governance show significant correlations (Table 3) with the supplier management performance. This indicates that an evolution in these dimensions supports the improvement of supplier management performance and therefore ultimately company performance (Carr and Pearson, 2002). To generate a starting point for the enhancement of the maturity in the people dimension, Schiele (2007) recommends analyzing job descriptions and competency profiles, procedures for recruiting and integrating new personnel and mechanisms for performance appraisal and career development. For the organizational dimension, roles and responsibilities with interfaces and the structure and mandates of procurement should be reviewed. For processes and systems the emphasis of assessment is on the early involvement of the supplier in the development process and the cross functional involvement of procurement (e.g. R&D). Assessing these criteria per dimension leads in the first step to identify the level of the as-is

maturity and in the next step to specify appropriate measure to improve the level of supplier management maturity.

Further, the results of the survey predict a need for the improvement of the people and processes and systems dimension (Figure 4) in the near future. Recognizing recent trends in procurement and supply management, triggered by topics like the digital transformation (Gracht *et al.*, 2016; Karumsi and Prokopets, 2018), this seems to be confirmed. The increasing efforts of companies to digitize their purchasing and supplier management processes will enable them to process more nonstrategic/operational task through the system and therefore free up the purchasing staff to spend more time on strategic tasks.

Conclusions

Our research study was supposed to develop and provide basic theoretical insight into the dependency resp. interdependencies between supplier/risk management approaches and company performance in business transactions. Therefore a cause-effect model was formulated, pointing out a set of interdependent and dependent variables concerning the relationship between supplier/risk management maturity and supplier/risk management performance. In order to determine whether our theoretical model actually meets reality we conducted an empirical study to test the relevant hypotheses via a survey among business professionals in the relevant fields.

As a result it can be confirmed that the constitutional variables of supplier/risk management maturity, organizational structure, people, processes and systems and strategy and governance do have a significant impact on supplier/risk management performance in terms of cost, quality, risk and innovation. Schiele (2007) outlines a quantifiable relationship between supplier management maturity and purchasing costs. This enables a calculation of the return on investment in supplier management maturity in a similar way for quality cost or disruption cost from risk exposure.

Secondly, our empirical investigation provided knowledge about the state of the art and the expected future benefits of supplier/risk management approaches in relevant industries. Right now quality assurance, cost reduction and risk mitigation seem to have a decisive impact on supply management performance. For the future it is expected that innovation management and risk mitigation may play a pivotal role.

Currently the areas of strategy and processes and systems are perceived as the dominating investment areas, whereas in the near future processes and systems and increasingly human resources management activities are expected to gain importance.

As with all studies, this research has some limitations. The empirical part of this study is based on a group of purchasing consulting experts with an outside-in view on companies and industries. One could argue that the consulting experts do not have enough long term industry and company specific insights to evaluate the level of supplier/risk management maturity and performance although this is one of the core tasks in consulting. Nevertheless, further studies may include participants from various industries to improve the representativity of this study and to close this gap. Further, the study enables for calculation of the return on investment in supplier management maturity in terms of quality cost or disruption cost from risk exposure. But to quantify the value from supplier innovation, additional extended empirical research maybe necessary to consolidate or modify our findings.

In sum, our research efforts again suggest that there is a strong cause-effect relationship observable between relevant managerial tools, processes, structures and heuristics and the overall business performance and competitiveness in general. This result is in line with a number of similar concepts and findings, but also is supposed to stimulate continuing research and practical efforts.

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Appendix I

Questionnaire for the ‘Return-on-Investment in Supplier/risk Management’ survey:

Welcome and Introduction

Welcome to this global survey on supplier/risk management. Supplier/risk management is a holistic process framework that aims to manage supplier relationships and risks. Next to managing supplier risk, this framework also includes proactive supplier segmentation and strategy development, supplier qualification and

onboarding, supplier performance assessment and development and supplier innovation.

The purpose of this survey is to understand your perception of supplier/risk management in relation to:

1. The supplier/risk management process/framework across industries
2. The benefits of this supplier/risk management process/framework for corporations, and
3. The investment that is required for a supplier/risk management process/framework.

Please note that the survey consists of **10 questions** and will take you **no more than 15 minutes** to answer it. For the first 8 questions you will be asked to select how much you agree with the statement on a scale from 1 to 5, with 1 being in strong disagreement and 5 being in complete agreement. For these questions please select a number from the list. For the final 2 questions, you will be asked to either select an answer from the drop down list, or type in your own answer.

Before filling out the survey, please fill in the details below:

- How many years have you been working in the industry and/or as a consultant: 0-5 years; 5-10 years; 10-15 years; above 15 years
- Which region do you focus on most: EMEA, ASPAC and Americas
- Which industries do you have the most exposure to – please list the up to three industries:

- | | |
|--|---|
| <input type="checkbox"/> Automotive | <input type="checkbox"/> Investment Management |
| <input type="checkbox"/> Banking | <input type="checkbox"/> Media |
| <input type="checkbox"/> Building & Construction | <input type="checkbox"/> NPO |
| <input type="checkbox"/> Chemicals & Pharmaceuticals | <input type="checkbox"/> Private Equity |
| <input type="checkbox"/> Consumer Markets | <input type="checkbox"/> Public Enterprises |
| <input type="checkbox"/> Energy & Natural Resources | <input type="checkbox"/> Real Estate |
| <input type="checkbox"/> Government & Administration | <input type="checkbox"/> Technology & Business Services |
| <input type="checkbox"/> Healthcare | <input type="checkbox"/> Telecommunications |
| <input type="checkbox"/> Industrial Manufacturing | <input type="checkbox"/> Transport & Leisure |
| <input type="checkbox"/> Insurance | |

Survey

Each of following 8 questions includes a statement about supplier/risk management. You will be asked to select from a scale of 1 (strongly disagree) to 5 (strongly agree) to demonstrate to what extent you agree with this statement.

1. To what extent do you agree or disagree with the statement: A higher supplier/risk management maturity level leads to greater cost reduction concerning purchased parts.

- 1 strongly disagree/ 2-disagree/ 3-indifferent/ 4-agree/ 5-strongly agree

2. To what extent do you agree or disagree with the statement: A higher supplier/risk management maturity level leads to less quality issues concerning vendor parts.
1 strongly disagree/ 2-disagree/ 3-indifferent/ 4-agree/ 5-strongly agree
3. To what extent do you agree or disagree with the statement: Early supplier integration into product development established by a mature supplier/risk management process/framework, leads to shorter innovation cycles and therefore to lower innovation costs.
1 strongly disagree/ 2-disagree/ 3-indifferent/ 4-agree/ 5-strongly agree
4. To what extent do you agree or disagree with the statement: A mature risk management established by a mature supplier/risk management process/framework, leads to fewer production disruption costs and a greater availability of purchased parts.
1 strongly disagree/ 2-disagree/ 3-indifferent/ 4-agree/ 5-strongly agree
5. To what extent do you agree or disagree with the statement: Establishing a more mature supplier/risk management process/framework requires defining a clear strategy and establishing a functioning governance.
1 strongly disagree/ 2-disagree/ 3-indifferent/ 4-agree/ 5-strongly agree
6. To what extent do you agree or disagree with the statement: Establishing more mature supplier/risk management process/framework requires restructuring or reorientation of current organization.
1 strongly disagree/ 2-disagree/ 3-indifferent/ 4-agree/ 5-strongly agree
7. To what extent do you agree or disagree with the statement: The redesigning of existing processes with sufficient digitalization support lays the foundation for a more mature supplier/risk management process/framework.
1 strongly disagree/ 2-disagree/ 3-indifferent/ 4-agree/ 5-strongly agree
8. To what extent do you agree or disagree with the statement: A more mature supplier/risk management process/framework requires assignment of dedicated resources with certain competences.
1 strongly disagree/ 2-disagree/ 3-indifferent/ 4-agree/ 5-strongly agree

The following 2 questions will ask for your perception on supplier/risk management situation and future status regarding to different industries.

9. Please list the three industries which, in your opinion, currently have the most mature supplier/risk management process/framework. Please also name the main benefit that you feel these industries are seeing as a result of their mature supplier/risk management process/framework as of right now, and the main benefit that they will see these processes/frameworks in the near future.

Please type in the box your own answer if none of the benefit areas in the drop-down list matches.

Industry A: (drop-down list industries)

Benefit areas – Nowadays (drop-down list benefits or free text)

Benefit areas – In five years (drop-down list benefits or free text)

Industry B: (drop-down list industries)

Benefit areas – Nowadays (drop-down list benefits or free text)

Benefit areas – In five years (drop-down list benefits or free text)

Industry C: (drop-down list industries)

Benefit areas – Nowadays (drop-down list benefits or free text)

Benefit areas – In five years (drop-down list benefits or free text)

Drop-down list answers for industries: Automotive; Banking; Building & Construction; Chemicals & Pharmaceuticals; Consumer Markets; Energy & Natural Resources; Government & Administration; Healthcare; Industrial Manufacturing; Insurance; Investment Management; Media; NPO; Private Equity; Public Enterprises; Real Estate; Technology & Business Services; Telecommunications; Transport & Leisure

Drop-down list answers for benefit areas: cost reduction; quality assurance; risk mitigation; innovation contribution

10. Please list the three industries which, in your opinion, need to investment immediately and most extensively in their supplier/risk management processes/frameworks. Please also name the urgent area that each of these industries should invest in both immediately, and in the near future.

Please type in the box your own answer if none of the investment areas in the drop-down list matches.

Industry D: (drop-down list industries)

Investment areas present: (drop-down list benefits or free text)

Investment areas in five years: (drop-down list benefits or free text)

Industry E: (drop-down list industries)

Investment areas present: (drop-down list benefits or free text)

Investment areas in five years: (drop-down list benefits or free text)

Industry F: (drop-down list industries)

Investment areas present: (drop-down list benefits or free text)

Investment areas in five years: (drop-down list benefits or free text)

Drop-down list answers for industries: Automotive; Banking; Building & Construction; Chemicals & Pharmaceuticals; Consumer Markets; Energy & Natural Resources; Government & Administration; Healthcare; Industrial Manufacturing; Insurance; Investment Management; Media; NPO; Private Equity; Public Enterprises; Real Estate; Technology & Business Services; Telecommunications; Transport & Leisure

Drop-down list answers for investment areas: strategy & governance; organization & structure; process & system; people & change

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Power of the Scent: Exploring the Role of Sensory Appeals on Consumer Product Attitude

Ruchi Garg
Ritu Chhikara

Abstract

Purpose – Sensory appeals of marketing advertisement plays an important role in the formation of product attitude. The objective of this paper is to examine the role of sensory appeal in influencing product attitude.

Method – In Study 1, experiment was conducted to determine whether cognitive innovativeness and sensory innovativeness are mediating the sensory appeals and impacting consumers' attitudes towards a product and whether mediation effects differ across various ad formats. Study 2 used a qualitative approach by applying ZMET (Zaltman-Metaphor Elicitation Technique) to translate the sensory appeals into metaphors associated with a perfume product and presented Hierarchical value Map (HVM) to uncover the underlying consumers' emotion, consequences, and values.

Findings – Results indicate that both cognitive innovativeness and sensory innovativeness have substantial mediating effects between sensory appeal preferences and consumer attitude towards a perfume product. Also, results present that sensory preferences using different delivery platforms impacts the effectiveness of the ad. The visual sense was found to be the most influential of all senses, marketers could adopt this approach in their practice of developing ad strategies for products.

Limitations – This study specifically considered only one type of product, perfume. Further studies may explore other products to allow for better generalizations.

Implications – The paper concludes with implications and applicability of the sensory approach of marketing for creating more effective advertisements.

Originality – This study finds contribution in understanding the mediating effects of sensory and cognitive innovativeness on consumer attitude for a

perfume product, which is an unexplored area. Marketing strategies should take into account these for enhancing product appeal.

Keywords: sensory marketing, cognitive innovativeness, sensory innovativeness, Zaltman-metaphor elicitation technique (ZMET), hierarchal value map (HVM).

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Introduction

Consumer behaviour theories present a broad range of consumer decision making stages through which information processing happens. Upon presentation of stimuli, consumers capture and assess the information collected by being exposed to and comprehend the information. This information could be made available to customers in the form of any sensory input (e.g. product aspects such as aroma, color, texture, design, etc. or information like price, brand etc.) which leads to arousal of an individual's sensory organs (Parducci, 1984).

The human senses (or Human Senses) act as an extraordinary source of information processing and information generation (Krishna & Schwarz, 2014). Humans continuously use them to create and recreate impressions of the stimuli around them, and these impressions are stored and processed leading to construct meaning about the stimuli (Yoon & Park, 2012). This will further help them to make decisions. It becomes important to understand the conduct of senses during decision making by the consumer.

Humans have five senses namely visual, auditory, palate, tactile, and olfactory. Different sensory usage and their different level of intensity have impact on sales, loyalty, and experience (Hultén, 2011; Lee, Jeong, & Oh, 2018; Velasco, Obrist, Petit, & Spence, 2018). There are studies which examined the negative impact of sensory cues on brand loyalty, sales, performance, and experience. For example, music was perceived as disturbing and interfering and negative effect was examined on brand sale and loyalty (Beverland, 2006; Craton & Lantos, 2011).

Literature also suggested that human senses can enhance brand loyalty by providing a superior brand experience. The level of impact created by different senses on brand loyalty was 3 different in intensity, with palate exerting the maximum

influence, followed by auditory, tactile, and visual. It has been found that higher is the sensory stimulation provided by a brand, greater its sensed value and which in turn linked to the marketing performance (Lindstorm, 2005; 2006).

Therefore, to develop a marketing strategy on the basis of sensory appeal offers important insights to the consumer market characterized by consumers' experiences and emotions (Ifeanyichukwu & Peter, 2018). This research unearths the mechanism by which sensory appeal influences product attitude with the use of both quantitative and qualitative methods to form a multi-sensory marketing model.

Previous literature suggested the influence of cognitive and sensory innovativeness on loyalty, attitude, product acceptance, shopping style, and so on (Fort-Rioche & Ackermann, 2013; Park, Yu, & Zhou, 2010; Trong, 2013). However, the role of mediating effect of sensory and cognitive innovativeness between sensory preference and consumer attitude remains limited. Therefore, the research explores the usage of different sensory appeals in the ad copy and its impact on product attitude.

The research is divided into two parts. Study 1 explores the mediating role of cognitive and sensory innovativeness between sensory preference and consumer attitude by conducting a quasi-experiment. Study 2 used ZMET technique to translate sensory appeals into images and metaphors. It extracts core sensory concepts associated with perfume to find practical implications for sensory marketing. These studies help to understand how sensory stimuli, either experiential or imaginary, through sensory and cognitive innovativeness influences consumer attitude.

Conceptualization and development of Hypothesis

Humans' five senses help them understand things around them by recalling the information that resides in memories. Our sensory systems encode, retrieve, and reconstruct information all the time (Binh Nghiê-m-Phú, 2017). Our individual social backgrounds and cultural differences impact the way our senses interact with our memories (Yoon & Park, 2012). For example, pleasing fragrance of perfume improves both recall and recognition of unfamiliar brands rather than familiar brands (Morrin & Ratneshwar, 2000). This kind of information is important for organisations in developing their marketing strategies around sensory appeals in brand communications.

The current research suggests that sensory appeals invokes cognitive and sensory innovativeness, which in turn impact consumer attitude. Study 1 investigates the mediating effects of cognitive innovativeness and sensory innovativeness between sensory preference and consumer attitude, while also exploring how multisensory appeals influence consumer attitude using the five senses.

The mediating effects of cognitive innovativeness

Cognitive innovativeness refers to the inclination of a human being to engage in innovative experiences which have the capability to stimulate ones thinking (Pearson, 1970). People who are cognitive innovators engage themselves in thinking, finding solutions to issues, and mentally stimulating exercises (Cotte & Wood, 2004).

Cognitive innovators are more inclined to organize, elaborate, and evaluate the information of the stimuli (Cacioppo and Petty, 1982). They have preference for verbal mode of processing rather than the visual mode of processing (Venkatraman & Price, 1990). This points out at the preferences of cognitive innovators at all levels of consumer behaviour, like depicted in their affinity and bent for mind-related, or their information processing modes. For example, free sample distribution for a product like noodles might be a good strategy for cognitive innovators as they are able to taste the product and make judgements on its uniqueness, quality, and to what extent it is able to satiate their taste buds.

The subsequent question that arises is: If this is the case, how does a consumers' preference towards sensory cues result in consumer attitude formation based on cognitive innovativeness? Generally, when consumers watch ad messages having sensory appeals, they first reclaim and organize information which is built in their memory based on their past sensory experiences (Park, Yu, & Zhou, 2010). This tendency leads them to evaluate and form attitude if this is a favourable or not for their individual self. Also, cognitive innovativeness might become more strengthened if the ad which will act as a stimuli is able to make them think and involve in mentally stimulating experiences. This positive result of cognitive innovativeness leads to a favourable consumer attitude towards ads and products. Therefore, cognitive innovativeness could be chosen as a mediating variable between sensory inclination and consumer attitude, and therefore, this study hypothesises

H1: Consumer bent towards particular sensory cues in advertisements influences consumer attitudes through cognitive innovativeness applied on the received sensory information.

The mediating effects of sensory innovativeness

Sensory innovativeness refers to the person's inclination towards involving in internally generated experiences, including imagination, day-dreaming, fantasy, and so on and externally oriented adventurous engagements, like rafting, diving, and so on (Hirschman, 1984; Pearson, 1970; Zuckerman, 1979). Sensory innovators tend to respond to non-factual message appeals that comprise emotional and experiential features of products shown in the ads. They are also more persuaded by and have greater confidence in the non-factual ads versus the factual ads (Venkataraman & Price, 1990). This points out at the preferences of sensory innovators at all levels of consumer behavior, like depicted in their affinity and bent for experiential and

emotional stimulations. The question that arises is: If this is the case, how does a consumers' preference towards sensory cues result in consumer attitude formation based on sensory innovativeness?

Usually, when consumers watch ad messages having sensory appeals, they first reclaim experience based on their past sensory experience (Park, Yu, & Zhou, 2010). For example, when a consumer comes across an ad with an appeal of a fresh strawberry, and if their palate sense is a favorable sense for them, the ad image will be in sync with their perfect brand objective (i.e. a fresh tasting strawberry). Additionally, sensory innovativeness might become more strengthened if the ad is able to make them imagine an experience of eating a strawberry. This positive result of sensory innovativeness leads to a favorable consumer attitude towards ads and products. Therefore, Sensory innovativeness could be chosen as a mediating variable between sensory inclination and consumer attitude, and therefore, this study hypothesizes

H2: Consumer bent towards particular sensory cues in advertisements influences consumer attitudes through sensory innovativeness applied on the received sensory information.

Research Method: Study 1

Pre-Test

For study 1, researchers did pre-test which helped them in determining which advertisement (ad) was related with a core sensory appeal so that they could get control of consistency and maintain salience of ad copy. Researchers employed print ad rather than audio-visual ad because due to a variety of expressions and stimuli used in the latter, it makes difficult to extract one core sensory appeal.

A total of ten respondents from an undergraduate (BBA) class were enlisted. Participants were requested to bring five print ads demonstrating five senses. Researchers received ten print ads for each sense. Next, respondents were asked to rate these print ads based on their respective senses on a scale of 1 to 5. Based on the composite score, one ad was selected for each sense. Then, an ad was selected out of 5 ads which was a perfume ad, which had maximum standard deviation between respondents' ratings to confirm presence of one core sensory appeal. The order of sensory appeal in ad: olfactory (3.71), palate (3.28), auditory (2.49), visual (2.17), and tactile (0.13) with a standard deviation of 4.38. Therefore, the perfume ad representing the olfactory sensory clue was taken into consideration for Study 1.

Respondents Profile

A total of 150 respondents were selected for Study 1 from BBA and MBA classes from an Indian university. Students were the most appropriate subject for research as they were regular users of perfume. In addition to this, respondents were

homogeneous in terms of their demographic and socioeconomic background, and this helped in reducing the chances of getting error happening due to heterogeneous sample (Calder et al., 1982). The respondents (97%) were in the age group of 18-23 where 65% were male respondents and rest were females.

Procedures and Measures

The respondents were told that the objective of this study was to investigate a pilot test of a new print ad for a “Premium Perfume”. Respondents were asked to associate stimuli presented in the ad to their own experiences. An ad with an olfactory sensory appeal attained the maximum score in the pre-test. Therefore, the visual picturing a perfume glass bottle and spraying colourful fragrances was used. The ad copy read, “I smell the fragrance of Premium Perfume”.

Study 1 was conducted to investigate whether sensory and cognitive innovativeness play a mediator role between preference towards the sensory appeal and consumer attitude. Three separate sets of questionnaires A, B, and C were distributed to the respondents, with Type A included Ad copy (“I smell the fragrance of Premium Perfume”), Type B included visual, and Type C included Ad copy with Visual (Refer Figure 1, 2, & 3). Afterwards, respondents were requested to provide ratings to the statements measuring sensory innovativeness, cognitive innovativeness, and Consumer attitude on a scale of 7-point Likert type.

The construct of sensory innovativeness and Cognitive innovativeness were measured using the scale developed by Venkatraman and Price (1990). Four items used by Schivinski and Dabrowski (2014) were employed to measure consumer attitude. The sensory preference constructs were conceptualized by asking, “How much do you like the smell of premium perfume?”

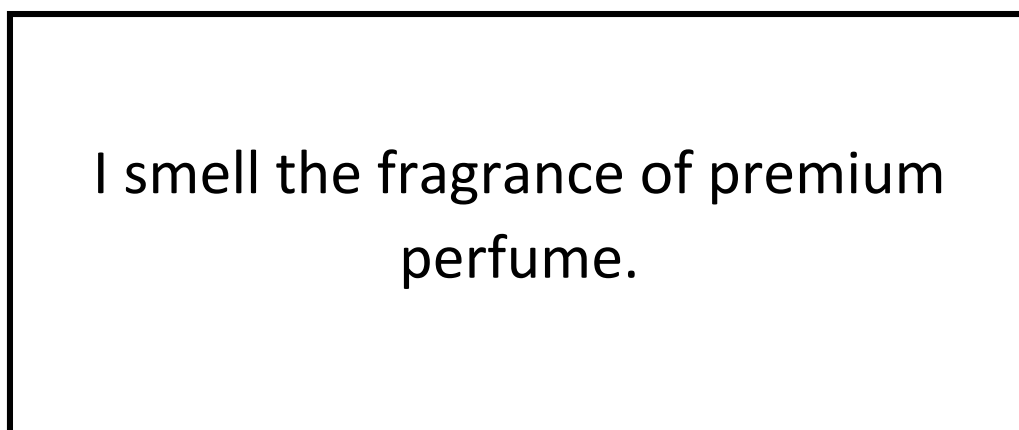


Figure 1: [TYPE A]



Figure 2: [TYPE B]



Figure 3: [TYPE C]

Analysis Results

This study adopted steps suggested by Baron and Kenny (1986) to measure the mediating effects of sensory innovativeness on relationship between sensory appeal and consumer attitude. According to Baron and Kenny (1986), for mediation to be present, the predictor's regression coefficient statistics should be greater than the same predictor's regression coefficient found in the presence of mediator variable in the regression model. Multiple regression analysis was executed to confirm the mediating effects of sensory innovativeness using different set of questionnaires (Type A, B, and C).

The analysis suggested that sensory innovativeness has mediation effect as sensory preference beta coefficient was decreased in all three Ad types (Refer Table 1). The reduction values i.e. $(a-b)/a$ were prominent for the Type B (16%), followed by Type C (13.3%), and Type A (3%). Thus Hypothesis 1 is accepted.

Table 1: Mediation effect of Sensory Innovativeness and Cognitive Innovativeness

Predictor	Criterion	Type A		Type B		Type C	
		Beta	t	Beta	t	Beta	t
Sensory preference	Attitude	0.241	1.720*	0.249	0.082*	0.278	2.008*
Sensory preference in the presence of sensory innovativeness	Attitude	0.233	1.357	0.209	1.408	0.241	1.720*
Beta reduction value $(a-b)/a$		0.033195021		0.16064257		0.133093525	
Sensory preference	Attitude	0.241	1.720*	0.249	0.082*	0.278	2.008*
Sensory preference in the presence of cognitive innovativeness	Attitude	0.151	1.023	0.205	1.359	0.268	1.892*
Beta reduction value $(a-b)/a$		0.373443983		0.176706827		0.035971223	

* Significant at .10 level, ** Significant at .05 level, *** Significant at 0.01 level

The analysis suggested that cognitive innovativeness has mediation effect as beta sensory preference beta coefficient was decreased in all three Ad types (Refer Table 1). The reduction values i.e. $(a-b)/a$ were prominent for the Copy only Ad (37.3%), followed by Visual Ad (17.6%), and Visual and Copy (3.5%). Thus Hypothesis 2 is accepted.

Lastly, Hypothesis 3 which hypothesized the effect of sensory appeals on consumer attitude and was tested. The result indicated that olfactory (beta=0.290, t=2.006) and Visual (beta=0.265, t=2.276) were significant influence on consumer attitude. On the other hand, tactile, auditory, and palate senses had no significant effect on consumer attitude (Refer Table 2).

Table 2: Effect of sensory appeals on consumer attitude

Independent Variable	Consumer attitude	t-value
Visual	0.265*	2.276
Tactile	-0.147	-1.228
Olfactory	0.29*	2.006
Auditory	-0.211	-1.292
Palate	-0.282	-1.869

* Significant at 0.05 level

Research Method: Study 2

Study 1 was performed to know the relation between sensory preferences and consumer attitude, based on the respondents' experiences. However, study 1 did not explain the reasons underlying their behaviours. Study 2 was conducted which brought qualitative aspects to this study. Qualitative research was used to offer respondents a chance to elaborately respond in their own words. This also allowed the researcher to understand the phenomenon in consumer's words, which tends to be more meaningful and unanticipated by researcher. The research employed Zaltman metaphor elicitation technique (ZMET) and presented with the help of Hierarchal value Map (HVM).

Research Design

This research employed 'Flowers' instead of 'Perfume' in Study 2 as unconscious feelings can be inferred by giving participants with an ambiguous stimulus. The reason 'Flower' was chosen is that it is basic ingredient of any perfume (Sangat-Roemantyo, 1990). They were asked to draw meaning of flowers in their life and sensory appeal associated with flowers. This will allow participants to express their thoughts which originate on a deeper level than tapped by an explicit stimulus. This will support them to respond and interpret from his or her own particular frame of reference (Churchill, Brown, & Suter, 1990). It will help researchers to understand the sensory appeal associated with perfume and their attitude.

In step 1, ten university students were selected and asked to bring photographs that best represent what flowers meant to them from newspaper, magazines, books, and other sources. They were asked to describe each picture representing their feelings and thoughts of the "Meaning of Flowers". Next, they were asked to select three pictures randomly and explain how any two are similar, however, different from third. This helped us in identifying concepts and distinction among concepts at a higher level. Consequently, they were probed to widen the frame of a picture and explain what could enter in the picture to contradict the original picture. This helped us to explore their feelings and thinking in detail. Next, they were asked to weave a short story using pictures which could present the ideas about the topic in question. At the end, respondents were asked to represent five sensory appeals associated with flowers, which could help to analyse the effects of sensory images on consumer attitudes.

This study employed means end chain model to uncover the underlying consumers' emotions, consequences, and values (Perkins & Reynolds, 1988). Means end chain model suggested how consumers' associate attributes of products, and how it helps them to satisfy their personal values. It is based on the Attribute-Consequence-Value (A-C-V) order (Gengler, Mulvey, & Oglethorpe, 1999). It can be further presented by a hierarchical value model (HVM) of its three inter-connected levels: Attributes, its consequences, and personal values (Reynolds & Perkins, 1987).

Findings

Zaltman and Coulter (1995) suggested that researcher should explore meaning embedded in the responses as images represent values which could lead to respondents' mental maps (During Step 1 of ZMET). Table 3 presents the images associated with the meanings of flowers in the respondents' lives. It also demonstrated reasons behind choosing these images. Out of seventeen presented images, twelve were based on tangible objects (Drink, Garden, Herbal product, Decoration, Artificial flower card, and so on) and four were of people and insect (People playing in water, A girl smelling a flower, a girl wearing flowers, a butterfly), and one abstract (Poem on flowers). The reasons indicated that respondents associated flowers with Nature, peace, and health. The findings indicated that visual sense (colourful and beautiful) was dominant.

Table 3: Images associated with Flowers and reasons for the selection of the images

Respondent	Images	Reasons for images
1	Refreshing drink	"It represents cool and refreshing nature of Flowers".
2	Red Roses	"It represents love and passion".
2	A girl smelling a flower	"It's aroma is natural and sweet".
3	Garden	"It is colorful and Beautiful".
3	Bouquet of flowers	"It is soft and Silky".
4	Rangoli	"It is colorful and represent our culture".
5	Artificial flowers card	"It helps us to show our concern and love to others".
5	Playing of holi using flowers	"It is harmless and promote peace".
6	Temple Decoration	"It is close to God and natural".
6	Herbal Product	"It is harmless and healthy".
7	Liril Soap	"It is refreshing and cool".
7	Butterfly	"It represents peace and color".
8	A cup of coffee ingrained flower	"It looks nice".
8	Agarbati for scent	"It's fragrance is natural and promotes spirituality".
9	A girl wearing flowers	"It is soft, silky, colorful, and beautiful".
10	Decoration in wedding ceremony	"It promotes social acceptance".
	Poem on Flowers	"It reflects peace and love".

Next, the respondents were asked to pen down sensory concepts associated with Flowers and rank them based on impact they had on consumer attitude (Refer Table 4). The result suggested the influence of sensory concepts on consumer attitude and indicated that visual had the highest influence (average rank=1.7), followed by Olfactory (2.3), Tactile (2.5), Palate (4.1), and Auditory (4.3). The findings of Study 2 suggested slight variation from the results of Study 1, which suggested the significant effect of olfactory and visual sense on consumer attitude.

Table 4: Sensory appeal and the ranked influence on Consumer attitude

Respondent	Visual	Auditory	Olfactory	Palate	Tactile					
1	Red color	1	Brizzy	5	Fragrance	3	Sweet	4	Soft	2
2	Colorful	1	Echo	5	Sweet aroma	3	Sweetness	4	Smooth	2
3	Pretty	1	Murmur	4	Perfumed aroma	3	Tart	5	Velvet	2
4	Pleasant	2	Whisper	5	Sweet Perfumed	1	Licorice	4	Softness	3
5	Vivid	4	Calm	5	Fragrance	1	Roofaza	3	Smooth	2
6	Green	1	Waterfall	2	Perfumed	3	Bitter	4	Bubbles	5
7	Colorful	1	Chirping	4	Sweet	2	Bitter	5	Cozy	3
8	White	3	Scared	5	Sweet aroma	1	Pungent	3	Warmth	2
9	Bright	1	Whisper	5	Scent	2	Spicy	4	Delicate	3
10	Glowing	2	Wedding bells	3	Seductive	4	Minty	5	Smooth	1
Avg. Rank	1.7	4.3	2.3	4.1	2.5					

In study 2, visual sensory appeal was found to be more influential, mainly represented by a color/colourful (mentioned three times) and bright/glowing (mentioned two times). This result reveals that colour plays a vital role in the formation of consumer attitude. Also, "fragrance/aroma" was mentioned five times for olfactory-related sensory appeal. This result suggests that fragrance/aroma may play significant role in forming consumer attitude.

The study presented Hierarchical value model using means end chain model. Here attributes refer to "the intrinsic and physical features, characteristics that define a product, person, or a thing" (Gengler et al., 1999). The findings suggested - colourful, soft, fragrance, sweetness, freshness, natural, and beautiful as attributes of Flowers.

Next, Consequences represent "consumer's feeling after the consumption of the product, this might be a positive feeling such as benefits, or a negative feeling such as perceived risks" (Lin, 2002). It comes at the intermediary level in the HVM map, and have abstract meaning which reflects perceived benefits (Gengler et al., 1999).

The underlying consequences linked to perfume attributes represent the next level of the HVM. The key benefits that appear at this level include health, relax, social acceptability, optimism, self-expression, relax and healthy. Interestingly, fragrance, color, beautiful are also linked to the development of optimism (consequence) with the perfume. Participants mention the development of optimism as a core consequence of the perfume's fragrance, color, beautiful (attribute). Results of this

study show that social acceptability is seen as an important consequence of perfume attributes of beautiful, aroma, and natural. 13

Values represent the most abstract level in the chain and defined as “an enduring belief that a specific mode of conduct or end-states existence is personally and socially preferable to alternative modes of conduct and end-states existence” (Rokeach, 1968, p. 160). Values influence behaviors, attitude, and evaluations across specific objects and situations (Thyne, 2001). The values indicated in study 2 could form criteria for the formation of attitude. Sense of accomplishment is highlighted through happiness, togetherness, confidence and which are further derived from optimism, relax, and health, and social acceptability and suggested that these might play significant role in the formation of consumer attitude.

Discussion and Implications

The present research studied the impact of sensory preferences on product attitude in the perfume category with the intent of validating the mediating effects of sensory innovativeness and cognitive innovativeness. The study also enquired on the role of sensory appeals’ emblematic images in the development of product attitude by drawing forth sensory theories on a perfume product based on qualitative methods.

Sensory innovativeness and cognitive innovativeness are substantial intermediaries between the sensory cue preference and product attitude. Interestingly, the ad with only a visual component showed significantly more mediating effects as compared to ads with copy only or copy and visual both. This throws light on the idea that creative strategies can be used by product managers by adopting different sensory based preferences across delivery platforms so as to maximize ad effectiveness.

For study 2 which was based on qualitative methodology, the perfume category produced basic sensory concepts which were based on symbolic imagery analysis and applied ZMET technique. In terms of value of applicability, the rankings of sensory appeals which most impacted attitude towards the product were visual, olfactory, tactile, palate related, and auditory. Results indicated that visual, followed by olfactory rank highest in eliciting product attitude. This outcome reinforces the correctness of adopting the qualitative approach for the perfume category, for dwelling into some of these interesting aspects around synaesthetical concepts. This establishment pertaining to the current research backs the establishment of the presence of synaesthetic traits in sensory image-based comparisons described by respondents around the considered product category. This synergistic approach could be particularly helpful in formulation of copy or visual concepts designed for a advertisement. Higher the magnitude of this synergistic effect, the better outcome in terms of boosting product preference.

The perfume brands should consider the core brand associations such as nature, freshness, purity, colorfulness, and aroma in their promotional activities. As these associations further highlights consumer benefits through health, relaxation, social acceptance, and formation of optimism. These benefits are valued by consumers, as

they provide consumers with happiness, confidence, togetherness, and ultimately a sense of accomplishment.

For future research directions, we suggest the use of more than one category (related or unrelated) to enable comparison between various categories. This would provide opportunity for a more comprehensive approach towards comparing the effects of sensory based approaches on brand as well as ad attitude. Such an approach would help researchers formulate product category specific branding strategies and contribute to enriching academic literature around product-base sensory branding.

Future research could compare the intensity of the impact of various sensory based appeals for different cultures as there may be difference in how people respond to various sensory stimuli depending on the cultures that they have been part of (Hultén, 2017). Therefore, culture specific studies pertaining to various product categories would be a significant research contribution.

This study used a mix of quantitative and qualitative methods which demonstrated as useful for their complementary usefulness. This was worthy as it led to generation of a deeper interpretation of the subject under study. Future studies may use similar research focus around different facets of sensory effect using diverse brands. Additionally, a greater number of studies deploying rigorous qualitative techniques, such as thematic appreciation tests etc. could be undertaken for enabling deeper interpretations.

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Does the Need for Social Status among Price Conscious Consumers Induces Consumption of Counterfeit Luxury Brands?

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Abstract

Purpose – The purpose of this paper is to investigate the role of price consciousness and status seeking behavior in driving non-deceptive consumption of counterfeit luxury brands (CLB).

Method – The survey was conducted through a self-administered questionnaire at upmarket shopping centers in the Indian metropolis Mumbai. Of the 192 collected questionnaires, 163 were found to be useful for analysis. The study uses ANOVA to estimate the differences in intention to buy CLB among various groups.

Findings – The results of the study reveal significant main effects and interactive effect of need for social status and price consciousness on intention to buy CLB. Further the results suggest that consumer's intention to buy CLB is highest when they have a high need for social status and a high price consciousness.

Limitations – The sample size limits the generalizability of the results. The study was restricted to counterfeit luxury wristwatches. It is possible that conducting similar research in other product categories may produce different and more insightful results. Further the sample was drawn from only one city.

Implications – Without diluting the equity of the parent brand, marketers of luxury brands can inhibit consumption of CLB by extending the brand downwards to attract the “real gainers” group (price conscious consumers with high need for social status). This may also help to attract consumers of fast fashion brands. Further the perceived exclusivity of the parent brand can be increased to a level where it will be difficult for “real gainers” to pass on the counterfeit brand as genuine among their social groups.

Originality – The study contributes to the extant literature by proposing a consumer decision-making model which posits need for social status as an

underlying buying motive for luxury brands. Further the study also proposes a novel taxonomy which categorizes consumers into four unique segments (real gainers, class makers, bargainners and value seekers) based upon their status seeking behavior and price consciousness.

Keywords: counterfeit luxury brands, counterfeiting, social status, price consciousness, consumer decision making.

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Introduction

Counterfeiting has become a major economic, social and marketing problem across the world. Brand counterfeiting poses a major challenge for government as well as business organizations (Jiang, Xiao, Jalees, Naqvi, & Zaman, 2018). The trade of counterfeit products has become an extensive global economic concern (Bian, Wang, Smith, & Yannopoulou, 2016). The Authentic Solution Provider's Association [ASPA] (2018) reports that global economy suffers a loss of \$1.77 trillion annually and Indian economy loses INR 324 billion annually because of counterfeiting. Global online counterfeiting has led to losses of \$323 billion in 2017. Further global online counterfeiting in luxury segment has resulted in losses of \$30.3 billion (R Strategic Global [RSG], 2018). Eisend, Hartmann, & Apaolaza (2017) observe that counterfeiting is a serious threat to global companies especially with regards to protection of intellectual property rights. Luxury brands are facing an increased threat from counterfeit manufacturers. Counterfeit brands have improved on their product quality and marketing channels and hence have become direct competitors of genuine brands which ultimately results in erosion of economic value (Ngo, Northey, Tran, & Septianto, 2018).

The existing literature well documents the widespread counterfeiting of luxury brands. Grossman & Shapiro (1988) observe that luxury brands are counterfeited more than any other product categories. Counterfeiting is very common in luxury products such as clothing and fashion accessories which are mostly purchased conspicuously (Eisend *et al.* 2017). Chaudhuri (1998) reports that non-deceptive consumption of CLB mostly involves clothing and fashion accessories. Cesareo (2016) observes that counterfeiting in luxury goods accounts for 62-65% of total

counterfeiting. Counterfeiting has existed for a significant period of time. However, while in the mid-twentieth century, only certain high-priced and high-status products such as clothes, jewelry, and adornments were targeted for counterfeiting. Luxury brands, especially, are extremely vulnerable to counterfeiting due to their exclusivity (Phau, Sequeira, & Dix, 2009). One reason for widespread counterfeiting of luxury brands is that their psychological and emotional benefits such as prestige and social status far outweigh their functional and utilitarian benefits such as durability, ease of use, technology, and serviceability. While offering the functional benefits at a fraction of a price of genuine luxury brands might not be possible for suppliers of counterfeits, counterfeiting the intangible brand elements such as brand name, logo, trademark, etc. of a genuine luxury brand transfers all the psychological benefits associated with the brand without incurring much cost. Hence consumers derive all the symbolic benefits at a superior economic value from consumption of CLB.

Market for fake luxury goods in India is growing at twice the growth rate of genuine luxury products and is largely being driven by web shopping portals that account for over 25 per cent of the fake luxury goods market in India. The continuing problem of buying and selling of counterfeit products poses threats to brand owners, retailers, and end users (i.e., consumers). The consumption of CLB does not result in any physical damage to consumers, as against counterfeit medicines. However, they erode brand value, equity and reputation resulting in severe depletion of consumer trust in the brand (Green & Smith, 2002). Counterfeiting results in loss of economic as well as intellectual value for genuine brands (Bush, Bloch, & Dawson, 1989). Wilke and Zaichkowsky (1999) observe that the presence of affordable counterfeits may result in the loss of brand exclusiveness.

Against the above background, it is important to understand the consumer buying motives for CLB to control the demand side of counterfeiting. By understanding the antecedents that drive consumption of CLB, marketers will be able to design marketing strategies for minimizing their consumption. This paper looks at consumption of CLB from a consumer decision-making perspective and sets forth the process that consumers go through while choosing between CLB and their genuine counterparts on the basis of two criteria, ability of the brand to enhance social status and price of the brand. The focus of this paper is to analyze the collective impact of status seeking behavior & price consciousness on intention to buy CLB, propose a consumer decision making model for consumption of CLB, and propose consumer taxonomy on the basis of price consciousness and status seeking behavior.

The paper is organized as follows: First, we briefly summarize the extant literature on price consciousness and status seeking as antecedents for consumption of CLB. Second, we propose a conceptual model, which elucidates the consumer decision making for CLB. Next, we propose the research model and test it using two-way ANOVA. We then propose a novel taxonomy that classifies consumers into four distinct segments based upon two characteristics: need for social status & price consciousness. Finally, we provide implications for marketers of genuine luxury brands, limitations and future research directions.

Literature Review

Luxury has been defined in many ways. Bhanot (2013) observes that “despite the substantial body of knowledge accumulated during the past decades, researchers still haven't arrived on a common definition of luxury”. Luxury has been associated with private and public self-indulgence. Luxury has been linked to perceptions of comfort and beauty which are often subjective in evaluation (Dubois & Czellar, 2002). Luxury brands perform the dual role of fulfilling individual's desires yet also signal a certain wealth, status, or belongingness in a distinguished social group (Rod, Rais, Schwarz, & Čermáková, 2015). Nueno and Quelch (1998) have put forward a definition of luxury brands as “those whose ratio of functional utility to price is low while the ratio of intangible and situational utility to price is high”. Luxury brands deliver a higher performance on symbolic value, compared to non-luxury brands which deliver a higher performance on utilitarian value (Jain, Khan, & Mishra, 2017). Luxury goods fulfill the social as well as psychological needs of consumers (Shukla, Shukla and Sharma, 2009).

Counterfeiting has been defined in several ways by researchers and authors with terms such as fakes, knockoffs, replicas and gray often associated with the phenomenon of counterfeiting. Manufacturers of counterfeit brands engage in unlawful replication of a genuine brand which involves copying its intellectual property such as trademarks (Bian & Moutinho, 2011). Counterfeit marketing involves distribution of products which are illegally produced in violation and infringement of intellectual property of marketers of genuine brands (Chaudhry & Walsh, 1996; Kapferer, 1995). The International Trademark Association [INTA] (2016) defines counterfeiting as the “manufacture, import, export, distribution, and sale of consumer goods that are not genuine but are branded to look identical to an authentic product”. Also, referred to as knock-offs, counterfeit brands are imitations of genuine brands manufactured without brand owner's authorization (INTA, 2016). The problem of counterfeiting is prevalent in various industries and often affects the most successful brands.

On the basis of whether consumers knowingly or unknowingly buy counterfeit products, the existing literature defines counterfeiting as non-deceptive and deceptive respectively. Consumer's lack of knowledge about the brand being a counterfeit is termed as deceptive counterfeiting. In this study however, the focus will be on non-deceptive counterfeiting, which is considered as willful purchase of counterfeit brands by consumers even when they have sufficient knowledge and evidence about the brand being a counterfeit one (Grossman & Shapiro, 1988). The purchase of CLB is essentially non-deceptive in nature, given the ease with which consumers can differentiate between genuine and counterfeit brands on the basis of tangible characteristics of the brand such as price, marketing channels, etc. (Nia & Zaichkowsky, 2000).

Many researchers have advocated that the consumption of CLB is linked with the luxury brand's ability to enhance social status. Veblen (1899) observed that consumption of CLB is due to brand conspicuousness which arises due to an

underlying need for social status. Grossman and Shapiro (1986) observe that given a choice to choose between the mass market genuine brands and counterfeit versions of luxury brands, consumers would prefer counterfeits even if they come at a higher price. This can be attributed to the fact that consumers value the status linked to brand elements. Veblen (1922) observed that consumption of luxury brands is associated with signaling of wealth, which is done to gain social approval. One of the main reasons for conspicuous consumption has been identified as consumer's desire to display wealth and social status which they have earned or pretend to own wealth (Rod *et al.* 2015). The consumption of luxury goods has been linked with their ability to help consumers gain social status and signal economic well-being (Kapferer, 1997; Mandel, Petrova, & Cialdini, 2006).

Indian consumers have been observed to be more inclined towards the symbolic value of the brands compared to functional value. The primary motive is to impress others (Shukla & Purani, 2012). Jain *et al.* (2017) in a study conducted in Indian context observed that Indian's consume luxury brands mainly to gain social approval. Pino, Amatulli, Peluso, Natarajan, & Guido (2019) highlighted the role of brand prominence in consumption of luxury goods among Indians who tend to place more importance on status consumption. Hence, it is well documented in the extant literature that the need for social status is one of the primary motives for consumption of luxury brands.

Further, Kim, Cho, & Johnson (2009) observed the role of price consciousness and consumers' willingness to pay for luxury brands on intention to buy CLB. Marketers of counterfeit brands justify their actions by linking their illegal trade practices with consumer demand for status goods combined with inability to afford the genuine brands (Wilke & Zaichkowsky, 1999). Cordell, Wongtada, & Kieschnick, (1996); Grossman & Shapiro, (1988) observe that consumers buy CLB as it helps them to obtain the prestige associated with the brand without spending for the genuine brand. Wilcox, Kim & Sen (2008) observe that the likelihood to buy CLB is higher among consumers who are motivated by social factors, since counterfeits deliver on social as well as economic value. There is enough evidence in the existing literature which points to the effect of need for social status and price consciousness on consumers' intention to buy CLB. However, till now the co-existence of these two antecedents and their combined impact on intention to buy CLB has not been studied completely. The existing literature mostly explores the individual impact that each of the factors such as price consciousness and need for social status has on consumers' intention to buy CLB. This approach does not take into consideration the likelihood that consumers might be both price consciousness and have a need for social status at the same time. Consumers purchase counterfeit brands since genuine brands are not affordable to them and counterfeits help them to shape their identity. Eisend *et al.* (2017) observes that due to lower income levels in emerging economies, consumers are unable to afford genuine luxury brands.

This study proposes that consumers who have a need for social status may be inclined to buy either counterfeit or genuine luxury brands, depending upon their price consciousness. By undertaking empirical research, this study aims to establish

such a relationship if any between need for social status and price consciousness in driving consumers' intention to buy CLB. The extant literature on consumption of CLB in emerging countries is limited (Carpenter & Edwards, 2013). Most of the previous work on consumption of CLB has focused on developed economies. Hence this study is proposed to significantly contribute to the existing literature regarding buying motives for CLB in developing countries.

Although the existing literature regarding determinants of consumption of CLB is abundant, there is very little work done towards development of consumer decision-making model. Counterfeit marketing has not been explored much compared to other illegal markets such as drugs and human trafficking (Rod *et al.* 2015). Taking status seeking behavior and price consciousness as two key determinants of consumption of CLB, which is widely supported by the existing literature, we have developed an original taxonomy of consumers on the basis of their need for social status and price consciousness. This original taxonomy will be our theoretical contribution to the field, as it helps to understand various segments of consumers on the basis of their need for social status and price consciousness.

Theoretical Framework

Against the background provided in the preceding section, we propose a conceptual model for consumption of CLB based upon non-compensatory consumer decision-making process. To the best of our knowledge, we were not able to find out any work in the extant literature, which provides a consumer decision-making perspective with reference to consumption of CLB. It is imperative to understand the decision-making process that consumers go through when making a choice between consumption of a genuine or counterfeit luxury brand. By understanding this process and the factors that influence consumer choice at each stage, consumers' intention towards consumption of CLB can be controlled. In non-compensatory models of consumer decision-making, positive and negative attributes of a product don't necessarily net out as against compensatory model in which perceived good things about a product can help to overcome perceived bad things (Kotler & Keller, 2012). The proposed conceptual model of consumption of CLB is based on the premise that the fundamental need of a consumer of luxury brand (whether genuine or counterfeit) is the need for social status (see Figure 1). This is consistent with the existing literature, which links the consumption of CLB with consumers' need for social status. We propose that consumers direct their need for social status towards a luxury brand, as they perceive the luxury brand will satisfy their need for social status due to the prestige associated with the brand. Along with the need for social status, consumers of CLB are price conscious as well. We propose that in such a situation when consumers want to satisfy the two rather incongruent motives, i.e. satisfying the need for social status at a low price, the decision-making that they will follow will be non-compensatory. Given that the market for CLB relies on consumers' desire for genuine luxury brands (Hoe *et al.*, 2003; Penz & Stöttinger, 2005), given a choice to choose among counterfeit and genuine luxury brands, consumers would ideally want to purchase a genuine luxury brand and hence genuine luxury brands find the first place

in the consideration set as against their counterfeit counterparts. Hence, we can conclude that consumers do not evaluate genuine luxury brands and their counterfeits simultaneously. Genuine luxury brands are evaluated first and only when consumers fail to make a purchase decision among the genuine luxury brands do they look for CLB as alternatives.

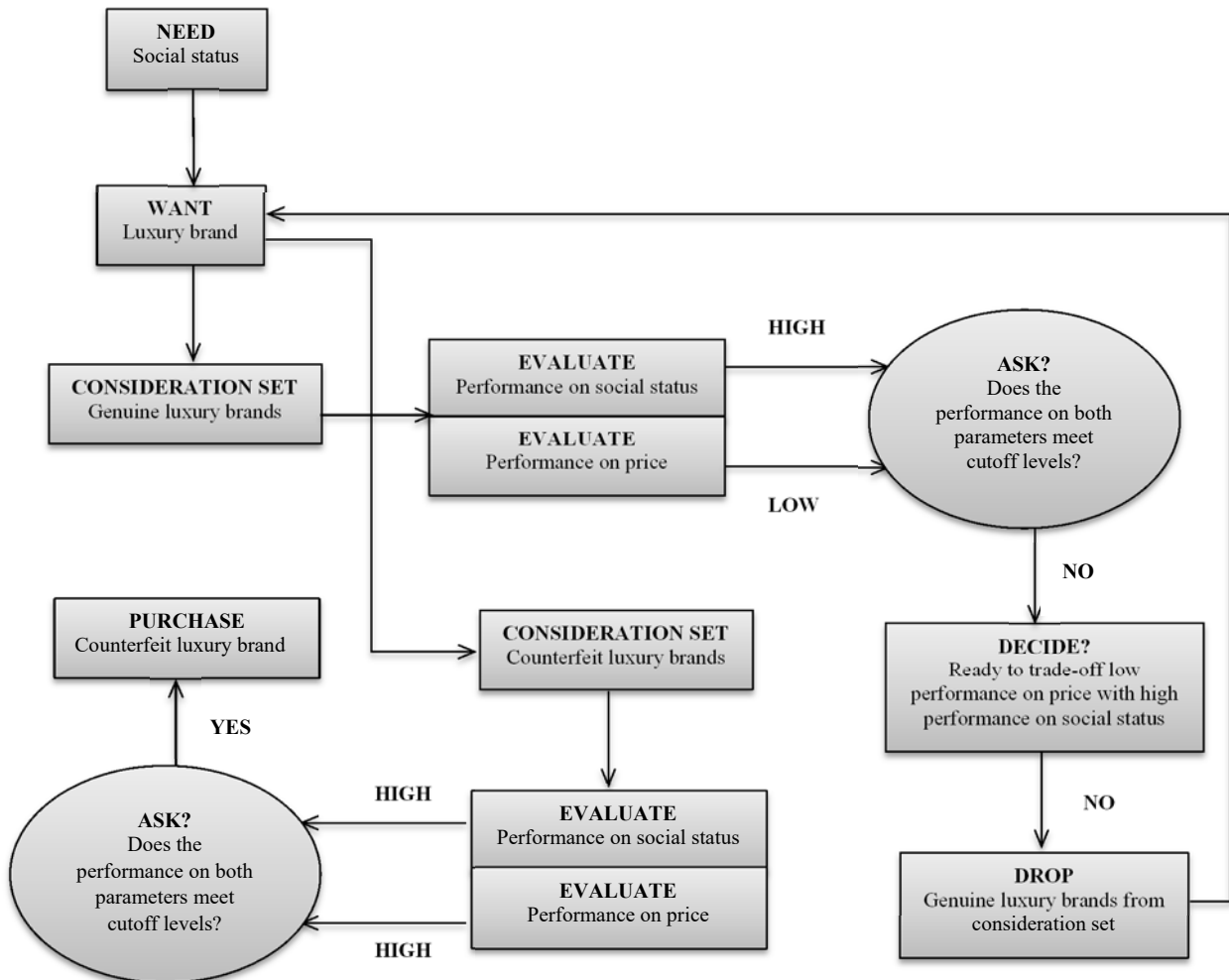


Figure 1: Conceptual model of non-compensatory consumer decision-making process for CLB.

The model proposes that price conscious consumers evaluate the performance of the genuine luxury brands on two parameters (i) ability to fulfill the need for social status and (ii) ability to honor consumers' price consciousness. Under non-compensatory decision-making process, consumers would set a cutoff performance level for each parameter and only those brands, which meet the minimum standard for each parameter, will be shortlisted for a purchase decision. Amongst the shortlisted brands, the brand with the highest overall performance score will be finally selected for purchase. Table 1 illustrates a fictional evaluation of a consideration set consisting of genuine luxury brands of wristwatches in which consumer has set a cutoff level of 8 for performance on social status and a cutoff level of 7 for performance

on price on a scale of 0 to 10. All the genuine luxury brands are rated high on performance on social status due to the prestige associated with their consumption and their ability to enhance social status. Consumers evaluate the price performance of genuine luxury brands by comparing their prices with the reference price in the product category. For example, a “Genuine Rolex Watch” will be evaluated on the basis of its price relative to the reference price in men’s wristwatches category. Since the price of a “Genuine Rolex Watch” is much higher relative to the reference price of wristwatches, it will receive a low score on price performance.

Table 1: Fictional evaluation of consideration set of genuine luxury brands of wristwatches

Performance Scores			
Brands	Social Status	Price	Decision
<i>Genuine Rolex Watch</i>	9	2	×
<i>Genuine Tag Heuer Watch</i>	7	4	×
<i>Genuine Omega Watch</i>	8	3	×
<i>Genuine Rado Watch</i>	7	3	×

Note: Social Status is rated from 0 to 10, where 10 represent the highest level of Social Status. Price, however, is indexed in a reverse manner, with 10 representing the lowest price, because consumers prefer a low price to a high price.

Cutoff Levels: Social Status = 8; Price = 7

Notice that the two brands “Genuine Rolex Watch” and “Genuine Omega Watch” meet the cutoff level for social status, however none of the brands meet the cutoff level for price. Consumers then will have to make a decision if they are ready to trade-off the genuine luxury brand’s low performance on price with high performance on social status. The price consciousness of the consumers makes them to drop all the genuine luxury brands from the consideration set, as they perceive that potential loss due to high price is not compensated by potential gain in social status. Because price conscious consumers perceive genuine luxury brands to offer low performance on price, they are not willing to compromise on the perceived low performance on price of the genuine luxury brand even though it offers perceived good performance on fulfilling the need for social status. In such a situation consumers look for alternatives that offer perceived high performance on both price as well as social status. Since the need for social status and price consciousness is a “misfit”, as luxury comes at a high price, consumers try to find a match between the two rather incongruent motives. Consumers then identify the counterfeits of these luxury brands and evaluate them on the same performance criteria.

Table 2: Fictional evaluation of consideration set of counterfeit luxury brands of wristwatches

Performance Scores			
Brands	Social Status	Price	Decision
<i>Counterfeit Rolex Watch</i>	9	6	×
<i>Counterfeit Tag Heuer Watch</i>	7	9	×
<i>Counterfeit Omega Watch</i>	8	8	√
<i>Counterfeit Rado Watch</i>	7	8	×

Note: Social Status is rated from 0 to 10, where 10 represent the highest level of Social Status. Price, however, is indexed in a reverse manner, with 10 representing the lowest price, because consumers prefer a low price to a high price.

Cutoff Levels: Social Status = 8; Price = 7

Table 2 illustrates a fictional evaluation of a consideration set consisting of counterfeit versions of luxury brands of wristwatches presented in Table 1 with the same cutoff levels. The CLB are rated same as their genuine counterparts on social status because the consumers within their social groups will actually project the CLB as genuine luxury brands and social status being a psychological benefit is derived from the brand elements, which are easily replicated in a counterfeit brand. Hence the perceived performance of CLB on social status will be same as the genuine luxury brand. Consumers evaluate the price performance of CLB by comparing their prices with their genuine counterparts. For example, a “Counterfeit Rolex Watch” will be evaluated on the basis of its price relative to the price of a “Genuine Rolex Watch”. Since the price of a “Counterfeit Rolex Watch” is much lower as compared to the price of a “Genuine Rolex Watch”, it will receive a high score on price performance. Hence CLB are rated higher as compared to their genuine counterparts on price since the counterfeits are priced much lower in the marketplace. Hence CLB are rated high on performance on both social status and price. Notice that “Counterfeit Omega Watch” is the only brand to meet the cutoff levels for both social status and price. Hence there is no need for consumers to compromise as CLB apart from meeting the cutoff level on social status also meet the cutoff level on price. As a result, consumers decide to purchase the counterfeit luxury brand. Hence “Counterfeit Omega Watch” is chosen for purchase.

Research Model and Hypotheses

Based on the conceptual framework, the research model is developed as shown in Figure 2. Two independent variables need for social status (NSS) and price

consciousness (PC) are hypothesized to affect the dependent variable intention to buy CLB (ITB). Two main effects of the independent variables and any interaction between the two will be investigated. The main aim of the proposed research model is to test the proposed conceptual model, which posits that the effect of need for social status on consumers' intention to buy CLB depends upon consumers' price consciousness.

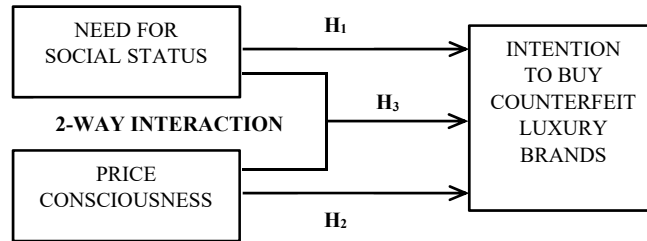


Figure 2: Research model.

Intention to Buy CLB:

Intention to buy CLB is the dependent variable, which is impacted by consumer's need for social status and price consciousness. Whitlark, Geurts and Swenson (1993) define intention to buy as a purchase probability associated with an intention category at the percentage of individuals that will actually buy product. Intention to buy is a strong predictor of consumer purchase behavior.

Need for Social Status:

The first independent variable need for social status sets the base of the proposed conceptual as well as the research model. Scitovsky (1993) defines status seeking as the desire to "rank within society, and seek acceptance or distinction within a certain social class or narrower group of colleagues, co-professionals or neighbors". The desire to gain status or social prestige has been found to have a great influence in predicting the behavior of individuals (Goldsmith *et al.*, 1996). Several studies conducted in the past have established the link between consumer's status seeking behavior and intention to buy CLB. Against this background, we propose:

H1: On average, consumers with high need for social status are more likely to buy CLB compared with consumers with low need for social status.

Price Consciousness:

Price consciousness is another independent variable hypothesized to effect consumers' intention to buy CLB. Price consciousness can be defined as consumer's willingness to pay, which Vida (2007) defines as the maximum price a buyer is willing to pay for a given quantity of a good. A consumer chooses an item from a set of alternatives for which a person's willingness to pay exceeds price the most. Several studies have established evidence that price consciousness increases consumers' intention to buy CLB. Therefore, we propose:

H2: On average, consumers with high price consciousness are more likely to buy CLB compared with consumers with low price consciousness.

Next the interaction between the two independent variables need for social status and price consciousness will be tested and consumers' intention to buy CLB at each combination levels of both the independent variables will be tested to find out the joint effect of the two variables. The following hypothesis for the interaction is proposed.

H3: The effect of need for social status on intention to buy CLB depends upon the level of price consciousness.

Research Methodology & Constructs

The proposed research model presented in Figure 2 was investigated on a convenience sample of 163 consumers in the Indian city of Mumbai. The study was conducted through a self-administered survey consisting of a questionnaire divided into four parts; one each for three constructs NSS, PC & ITB and one for the socio-demographics.

The questionnaire was designed to be completed in less than 5 minutes. The survey was conducted at upmarket shopping places like high streets and also few shopping centers, which are famous for selling counterfeit products. This study was conducted in the context of counterfeit brands of fashion accessories limited to luxury wristwatches. Respondents were filtered on the basis of their previous shopping experience with counterfeit luxury brands of wristwatches for self-consumption. While choosing the respondents, we were unbiased with their socio-demographic status as it was assumed that the need for social status and price consciousness were not affected by the socio-demographic status of the consumers. Out of the 192 questionnaires collected, only 163 were found to be useful and remaining questionnaires were incomplete due to missing information reflecting a response rate of 84.89%. Three constructs, intention to buy CLB with 3 scale items (ITB1, ITB2, ITB3), need for social status with 5 scale items (NSS1, NSS2, NSS3, NSS4, NSS5) and price consciousness with 6 scale items (PC1, PC2, PC3, PC4, PC5, PC6) were used to conduct the study (see Table 3). The study used constructs adapted from the existing literature. Intention to buy CLB was adapted from Beck & Ajzen (1991); need for social status was adapted from Eastman *et al.* (1999) and price consciousness was adapted from Goldsmith *et al.* (2003). Intention to buy CLB was measured on a 7 point likert scale with items ranging from 1 = unlikely and 7 = likely, need for social status and price consciousness were measured on a 7 point likert scale with all items in both the constructs ranging from 1 = strongly disagree and 7 = strongly agree.

In order to ensure that a higher score on the scale would mean a higher value on the construct, items ITB2, NSS4, PC2, PC4, PC5 & PC6 were reverse coded in SPSS. After entering the data in SPSS, all the three scales were tested for their reliability on internal consistency using Cronbach's Alpha. The value of Cronbach's Alpha for

intention to buy CLB, need for social status and price consciousness were 0.82, 0.89 and 0.72 respectively indicating a good reliability on internal consistency.

Construct Validity

Convergent validity is assessed based on composite reliability (CR), the factor loading and average variance extracted (AVE) (Hair and Lukas, 2014). Table 4 shows the estimates for convergent validity and CR. The lowest value for AVE is 0.74 which is above the recommended level of 0.50 (Hair and Lukas, 2014). AVE greater than 0.50 is an evidence for convergent validity. The values for CR are greater than AVE which is again a strong evidence for convergent validity (Hair and Lukas, 2014).

Discriminant validity shows how one construct differs from the other constructs. As per the testing system given by Fornell and Larcker (1981), discriminant validity is measured by comparison of AVE, maximum shared variance (MSV) and average shared variance (ASV). Discriminant validity is established when MSV and ASV are less than AVE. The square root of AVE should also be greater than inter-construct correlation. Table 4 shows the correlations between the variables are less than square root of AVE. Also, AVE is greater than MSV and ASV. Therefore, discriminant validity is established for the construct.

Table 3: Measurement scales with reliability results.

Variable	Code	Items	Cronbach's alpha	Source
<i>Intention to buy CLB</i>	ITB1	If I had the opportunity, I would buy a counterfeit branded product.	0.82	Beck & Ajzen (1991)
	ITB2	I would never buy a counterfeit branded product.		
	ITB3	I may buy a counterfeit branded product in the future.		
<i>Need for Social Status</i>	NSS1	I would buy a brand just because it has status.	0.89	Eastman <i>et al.</i> (1999)
	NSS2	I am interested in new brands with status.		
	NSS3	I would pay more for a brand if it had status.		
	NSS4	The status of a brand is irrelevant to me (negatively worded).		
	NSS5	A brand is more valuable to me if it has more snob appeal.		
<i>Price Consciousness</i>	PC1	In general, the price or cost of buying this product category is important to me.	0.72	Goldsmith <i>et al.</i> (2003)
	PC2	I know that a new kind of style in this product category is likely to be more expensive than older ones, but that does not matter to me.		
	PC3	I am less willing to buy this product category if I think that it will be high in price.		
	PC4	I don't mind paying more to try out a new style of this product category.		
	PC5	This product is worth paying a lot of money.		
	PC6	I don't mind spending a lot of money to buy this product category.		

Table 4: Construct validity

	CR	AVE	MSV	ASV	ITB	PC	NSS
ITB	0.79	0.77	0.07	0.05	0.88		
PC	0.77	0.74	0.03	0.02	0.18	0.86	
NSS	0.81	0.80	0.05	0.03	0.15	0.18	0.89

*ITB = Intention to Buy CLB

*NSS = Need for Social Status

*PC = Price Consciousness

*CR = Composite Reliability

*AVE = Average Variance Extracted

*MSV = Maximum Shared Variance

*ASV = Average Shared Variance

Results and Discussion

Description of the sample: the sample comprised of male (63.19%) and female (36.81%) population between the following age range; less than 20 year olds (9.82%), 21-30 (33.74%), 31-40 (32.52%), 41-50 (14.11%) and 51-60 (9.82%) (see Table 5). The sample was skewed towards male respondents and the primary reasons for this could be the unwillingness of women to participate in surveys especially at public places like shopping centers and malls and reservation in sharing some personal information due to cultural factors. Income (per annum) distribution was: less than INR 300000 (6.75%), INR 300001-500000 (33.13%), INR 500001-800000 (39.26%), more than INR 800000 (20.86%). Regarding education levels, the sample was skewed towards those being undergraduates and graduates, with 4.91% high school or less, 6.75% higher secondary level, 49.08% undergraduate, 32.52% graduate, and only 6.75% doctoral. 53.99% of the sample was salaried, 41.10% self-employed and remaining 4.91% claimed to be unemployed.

Table 5: Demographics of the respondents.

Demographics of respondents		Frequency	Percent
<i>Gender</i>	Male	103	63.19
	Female	60	36.81
<i>Age</i>	Less than 20 years	16	9.82
	21-30	55	33.74
	31-40	53	32.52
	41-50	23	14.11
	51-60	16	9.82
<i>Income (per annum)</i>	Less than INR 300000	11	6.75
	300001-500000	54	33.13
	500001-800000	64	39.26
	More than 800000	34	20.86
<i>Education</i>	High school or less	8	4.91
	Higher secondary level	11	6.75
	Undergraduate	80	49.08
	Graduate	53	32.52
	Doctoral	11	6.75
<i>Profession</i>	Salaried	88	53.99
	Self employed	67	41.10
	Unemployed	8	4.91

The scale items exhibited rather high means varying from 4.92 to 5.09 on a scale from 1 to 7 (see Table 6). The means of the three items of intention to buy CLB ranged between 4.92 and 5.06 indicating an overall higher intention to buy CLB among the sample. The means of the five items of need for social status ranged between 4.95 and 5.08 indicating an overall higher need for social status among the sample. The means of the six items of price consciousness ranged between 4.93 and 5.09 indicating an overall higher price consciousness among the sample.

Common Method Bias

Common method bias is assessed using Harman single-factor analysis which is a post hoc procedure that is conducted after data collection to check whether a single factor is accountable for variance in the data (Chang, Van Witteloostuijn, & Eden, 2010). In this method, all items from every construct are loaded into a factor analysis to check whether one single factor emerges or whether single general factor results to

the majority of the covariance among the measures; if no single factor emerges and accounts for majority of the covariance, this means that common method bias is not a pervasive issue in the study (Chang *et al.*, 2010). The generated principal component analysis output (see Table 7) revealed 3 distinct factors accounting 38.389% of the total variance. The first unrotated factor captured only 38.389% of the variance in data. Thus, the two underlying assumptions did not meet, i.e. no single factor emerged and the first factor did not capture most of the variance. Therefore, these results suggested that common method bias is not an issue in this study.

Table 6: Descriptive statistics of the sample.

Variable	Item	Mean	Std Dev	Kurtosis	Skewness	Min	Max
<i>Intention to buy CLB</i>	ITB1	5.02	2.32	-0.89	-0.9	1	7
	ITB2	5.06	2.18	-1.12	-0.74	1	7
	ITB3	4.92	2.29	-1.1	-0.76	1	7
<i>Need for Social Status</i>	NSS1	5.07	2.3	-1.07	-0.8	1	7
	NSS2	5.04	2.34	-1.09	-0.79	1	7
	NSS3	5.08	2.32	-1.07	-0.81	1	7
	NSS4	4.95	2.31	-1.12	-0.75	1	7
	NSS5	4.99	2.41	-1.13	-0.79	1	7
<i>Price Consciousness</i>	PC1	5.09	2.28	-1.1	-0.78	1	7
	PC2	4.93	2.28	-1.1	-0.71	1	7
	PC3	5.07	2.33	-1.13	-0.78	1	7
	PC4	4.93	2.36	-1.14	-0.77	1	7
	PC5	4.97	2.29	-1.13	-0.76	1	7
	PC6	4.96	2.29	-1.13	-0.76	1	7

Table 7: Total variance explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
<i>ITB</i>	1.152	38.389	38.389	1.152	38.389	38.389
<i>NSS</i>	.983	32.755	71.144			
<i>PC</i>	.866	28.856	100.000			

*ITB = Intention to Buy CLB

*NSS = Need for Social Status

*PC = Price Consciousness

Non-response Bias

To estimate the likelihood of non-response bias, independent sample t-test was conducted to test the significance of differences between intention to buy CLB of early (N = 76) and late (N = 87) respondents. The results of t-test revealed no significant differences in terms of intention to buy CLB, $t(161) = 0.680$, $p = 0.411$ indicating no significant differences in the response pattern, suggesting non-response bias was not a concern in this study.

Two-way between-groups ANOVA was used to test the two main effects and one combined effect (interaction) of two independent variables need for social status and price consciousness on the dependent variable intention to buy CLB. The primary aim was to test whether there was any statistical interaction between need for social status and price consciousness, i.e., whether the effect of need for social status on intention to buy CLB depends on the particular level of price consciousness

Main effect of need for social status on intention to buy CLB:

H_1 was supported with a statistically significant main effect of need for social status on intention to buy CLB. Consumers with high need for social status were found to have higher intention to buy CLB as compared to consumers with low need for social status [$F(1, 159) = 5.11$, $p = 0.025$, $R^2 = 0.03$]. Marginal means suggest that consumers with high need for social status are more likely to buy CLB, on average, irrespective of their price consciousness as compared to consumers with low need for social status (see Table 8). This is consistent with previous studies, which link the

status seeking behavior with a positive intention to buy CLB.

Table 8: Cell and Marginal means of ITB* at various combination levels of NSS* and PC*.

	High PC	Low PC	Main Effect of NSS
High NSS	Mean ITB = 4.88	Mean ITB = 3.40	4.14
Low NSS	Mean ITB = 3.55	Mean ITB = 3.32	3.43
Main Effect of PC	4.21	3.36	3.78

*ITB = Intention to Buy CLB

*NSS = Need for Social Status

*PC = Price Consciousness

Main effect of price consciousness on intention to buy CLB:

H₂ was supported with a statistically significant main effect of price consciousness on intention to buy CLB. Consumers with high price consciousness were found to have higher intention to buy CLB as compared to consumers with low price consciousness [$F(1, 159) = 7.43, p = 0.007, R^2 = 0.04$]. Marginal means suggest that consumers with high price consciousness are more likely to buy CLB, on average, irrespective of their need for social status as compared to consumers with low price consciousness.

Interaction between need for social status and price consciousness:

The interaction between need for social status and price consciousness was also statistically significant [$F(1, 159) = 3.99, p = 0.048, R^2 = 0.02$]. As the need for social status and price consciousness increases, consumers' intention to buy CLB also increases. Cell means suggest that when need for social status is high, consumers with high price consciousness are more likely to buy CLB, on average, as compared to consumers with low price consciousness.

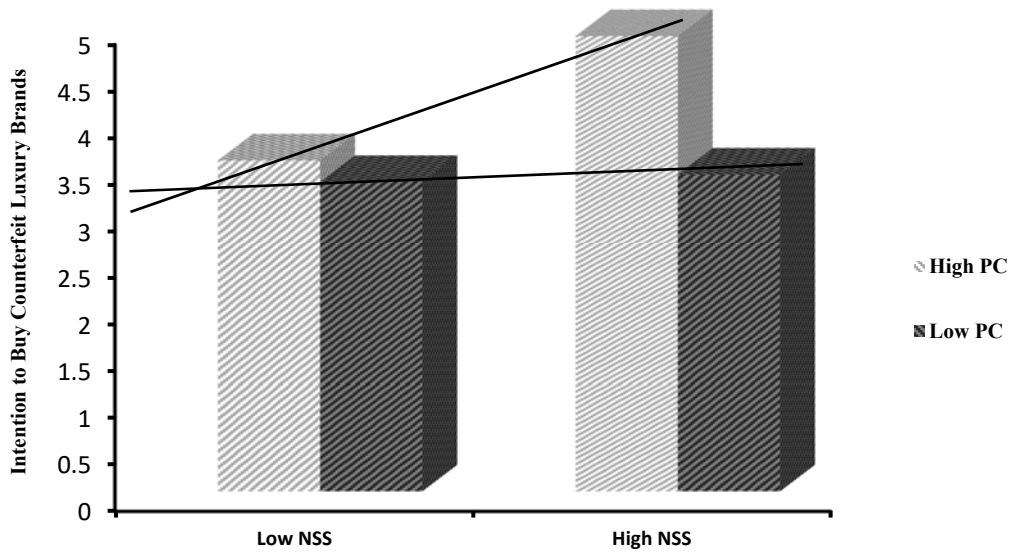


Figure 3: Graph showing 2-way interaction between need for social status & price consciousness.

To project the interaction between need for social status and price consciousness, we could connect the bars for the first independent variable, need for social status (see Figure 3). We would connect the two levels of need for social status for high price consciousness condition, and then we would connect the two levels of need for social status for low price consciousness condition. The intersection of two lines confirms the presence of a statistical interaction between need for social status and price consciousness. The interaction and the *F* test confirm that the effect of need for social status on intention to buy CLB depends upon the level of price consciousness. Specifically, a higher need for social status as well as price consciousness result in highest intention to buy CLB as compared to any other combination of levels of need for social status and price consciousness.

Basis analysis of the data provided in Table 8, we propose a novel taxonomy which classifies consumers into four distinct groups on the basis of their degree of need for social status and price consciousness (see Figure 4).

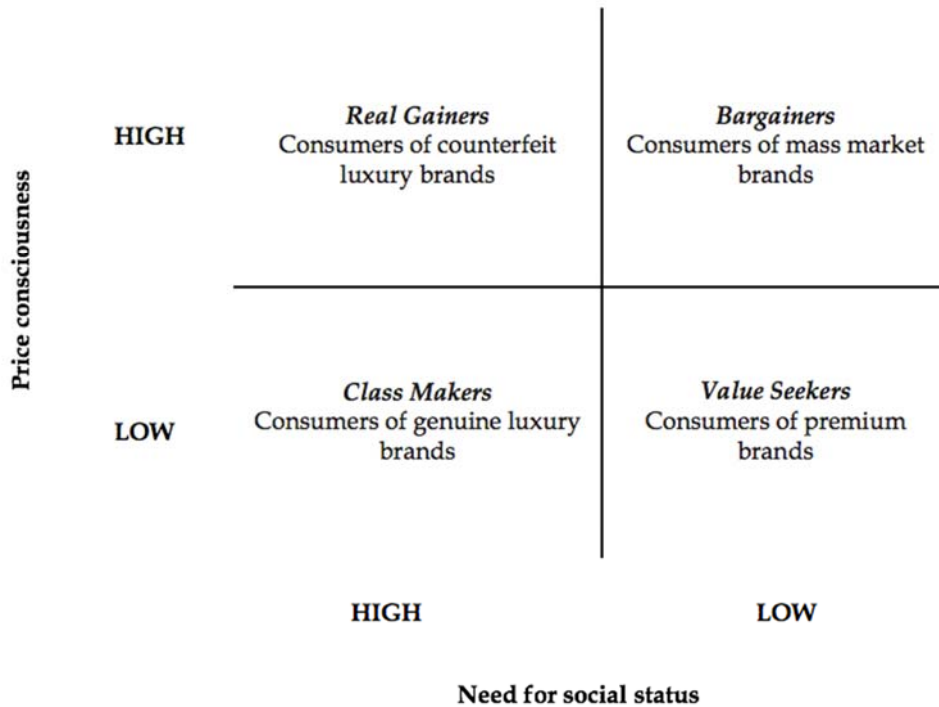


Figure 4: Taxonomy of consumers on the basis of need for social status & price consciousness.

We label the first category of consumers “*Real Gainers*”, with a high status seeking tendency and high price consciousness. These consumers consume counterfeit luxury brands and are driven by symbolic and economic benefits. We refer to their buying behavior as “logic defying”, as luxury has traditionally been associated with exclusivity and lavish spending (see Table 9).

We call the second class of consumers as “*Class Makers*”, with high need for social status and low price consciousness. They buy genuine luxury brands and their buying motives are primarily symbolic. We refer to their buying behavior as status seeking. We label third class of consumers as “*Bargainers*”, with low status seeking tendency and high price consciousness. These consumers are more likely to purchase mass market brands. Price dominates their purchase decisions. We refer to their buying behavior as “utility seeking” as these consumers look for functional benefits at the lowest possible price. Finally, we label fourth class of consumers as “*Value Seekers*”, with low status seeking tendency and low price consciousness. These consumers are likely to buy premium brands. These consumers are driven by strong inclination towards functional benefits of the brand even if these benefits come at a cost. We refer to their buying behavior as “value seeking”.

Table 9: Consumer taxonomy and buying behavior

Class	Buyers of	Primary Buying Motives	Buying Behavior
<i>Real Gainers</i>	Counterfeit luxury brands	Symbolic/economic benefits	Logic defying
<i>Class Makers</i>	Genuine luxury brands	Symbolic benefits	Status seeking
<i>Bargainers</i>	Mass market brands	Functional/economic benefits	Utility seeking
<i>Value Seekers</i>	Premium brands	Functional benefits	Value seeking

Implications

The results of this study have several implications for marketers of luxury brands. First luxury brands attract price conscious consumers who want to gain social approval (real gainers). Broadly speaking, within the context of the study marketers have two options to handle the problem of counterfeiting: extend the brand downwards to attract “real gainers” or increase the perceived exclusivity of the parent brand to a level where it will be difficult for “real gainers” to pass on the counterfeit brand as genuine.

A downward brand extension strategy, if executed well, can leverage equity of the parent brand and be more affordable to “real gainers” without diluting the equity of the parent brand. This will help tap the price conscious segment of the market who otherwise value the symbolic benefits of luxury brands. This may also help boutique luxury brands to attract consumers of fast fashion brands which are usually positioned as “affordable luxury” in the market. This strategy has been successfully adapted by Giorgio Armani by extending the brand downwards and launching new brand “Armani Exchange” which is more affordable than the parent brand and has been able to create a unique space in the marketplace. The strategy however needs to be carefully adopted as the brand risks losing its exclusivity.

Marketers of luxury brands may not want to pursue consumers of CLB, yet maintaining status quo may not be the best strategy, as counterfeiting affects brand image, reputation and results in financial losses for the companies. Assuming price consciousness is partially a function of socio-economic status, then consumers of CLB can pass on the brand as a genuine one as long as there is a “match” between the perceived exclusivity of the brand and consumer’s socio-economic status. Price conscious consumers from low income groups can be discouraged from buying CLB by increasing the perceived exclusivity of the luxury brand and thereby making the

brand more “inaccessible”. The higher the perceived exclusivity of the brand the more difficult is it for consumers to convince their social groups that the brand is a genuine one, since the low socio-economic status of the consumers will suggest their inability to afford the highly exclusive brand. This strategy however is effective only for those price conscious consumers who belong to lower income groups. Price conscious consumers who otherwise have enough purchasing power to buy the genuine brand can still pass on the counterfeit brand as a genuine one, as long as their social groups are convinced that they can afford to buy the genuine brand. The right strategy to target this segment may be to launch affordable versions of the brand.

Much to the disliking of marketers, when the positioning of luxury brands as status symbols influences price consciousness consumers, luxury brands are not able to honor their price consciousness. Consumers have the following three choices in such a scenario each of which comes in the form of a compromise. (i) Price Compromise: consumers are ready to pay for the price of the luxury brand. Price compromise is almost non-existent among price consciousness consumers. (ii) Brand Compromise: consumers buy an alternative and more affordable brand often referred to as “masstige” brands, or (iii) Product Compromise: consumers drop the idea of buying a luxury brand. Product compromise can be successful only in the absence of a counterfeit luxury brand. Each compromise if made, individually and directly acts a deterrent for consumption of CLB and consumers’ decision not to make any one of these compromises guarantees behavior, which results in consumption of CLB.

Conclusion

This study has contributed to the existing literature on consumer behavior in relation to consumption of CLB by establishing a relationship between the need for social status and price consciousness. By exploring the complex relationship and interaction among these antecedents the study has attempted to open new dimensions of consumption of CLB. The study sought to explain the consumption of CLB through a non-compensatory consumer decision making perspective and proposed that consumers want minimum acceptable performance on all the parameters, in this case social status and price. While luxury brands will continue to be associated with status in marketing communications, price should always remain a non-issue amongst the target market. A higher price should indicate more exclusivity to consumers who understand that the value of luxury need not be evaluated on the basis of monetary costs. Consumers of genuine luxury brands achieve a sense of accomplishment and self-indulgence by owning genuine luxury brands because they believe that “they are worth it”. On the other hand, consumers of CLB in a desperate attempt to be associated with higher social classes not only resort to unethical consumption but also, they may never achieve a sense of accomplishment because they know that “they are faking it”. Businesses, governments and nations need to create effective countermeasures to minimize consumption of CLB. The demand side countermeasures can only be effective when antecedents and motives for consumption are investigated.

Limitations and Future Research

It is not uncommon for such studies to have certain limitations, without undermining the validity of the results. First, the sample although provides a fair representation of the population in terms of sharing similar characteristics, since the survey was conducted at targeted locations and the respondents were selectively chosen, the sample size can however be questioned in terms of its generalizability with the population. It is possible that expanding the sample size can provide sharper, more predictive results and a stronger empirical rationale. Second, the focus of the study was a very restricted range of counterfeit luxury products, that is, fashion accessories and more specifically wristwatches. Although counterfeit luxury products include apparels, footwear, personal care, fashion accessories such as wristwatches, sunglasses, wallets, handbags, jewelry, etc. the narrower focus of this study specific to counterfeit luxury wristwatches should be taken into consideration while generalizing the results. The model can be tested in other product categories such as sunglasses, wallets, handbags, jewelry, etc. Third, as the study measured intention to buy as a proxy for behavior, it should be noted that there is a gap between an individual's intention to perform an act and his/her actual behavior due to other interfering factors. For example, both need for social status and price consciousness although influence consumer's intention to buy CLB but due to other interfering factors such as functional risks involved, may or may not have the ability to lead to a behavioral situation in which consumers actually purchase CLB. Fourth, although there are several compelling reasons for choosing Mumbai as the location to conduct this research, the specifics pertaining to this geographical location posit certain limitations in generalizing its conclusions.

The study can be conducted in other cities in India to test the generalizability of the model. This study provides new dimensions to consumption of CLB for further research in the area. One would be to reexamine this model by finding a correlation between an individual's socio-economic status and price consciousness. This will help to test the commonly held belief that most price consciousness consumers are not rich individuals and understand if wealthy individuals are also price consciousness. This can be done by gathering data in other smaller cities, taking into account influential socio-economic differences. The study although develops a new model of decision making for counterfeit luxury brands, takes support of fictional evaluation of luxury brands. Further study can be conducted in an experimental design to lend more credibility to the model.

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Innovation in Marketing Strategy: A Customer Lifetime Value Approach

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Abstract

Purpose - Customers are the most important asset of a firm. Therefore, estimating and understanding of the economic value of customers is one of the important issues in devising smart marketing strategies. This research attempts to estimate the lifetime economic value of customer (LEVC) for the purpose of innovation in marketing strategy to ensure sustainable competitive advantage in markets.

Method - A scientific research approach was initiated, that is, both induction and deductive research philosophies were taken into considered. Six primary and five secondary hypotheses were framed using insights from various sources like previous studies and inputs from managers. Longitudinal data on some active variables and on some attribute variables were gathered from a panel of 400 households in India. Thereafter, Multiplicative regression model (MRM) and Poisson regression model (PRM) were fitted to data to test all hypotheses.

Finding - Results support all the hypotheses such as "value proposition (VP) impact on both share-of-wallet (SOW) and frequency of buying (FOB) positively". Furthermore, LEVC varies from one group of customer to another. Moreover, the distribution of EVC is highly skewed over groups of customer. In fact, 30 percent customer generates 70 percent EVC and 70 percent customer produces 30 percent EVC.

Limitations - As far as limitations are concerned, the approach applied here is appropriate only when there is a meaningful difference exists among different groups of customer with respect to their economic value. Moreover, this work's approach is better suited to handle customer than products.

Implications - Findings should assist managers to create and manage a balance portfolio of customer to ensure short-term financial gain from and long-term stability of all customer groups. On the other hand, findings should provide guidelines to researchers to do research in the area of economic value of customer more precisely.

Originality - *This research contributes to practice and research in marketing because it discloses some strategic levers of customer equity--the most important asset of a firm.*

Keywords: marketing strategy, customer life time value, economic value, decomposition, portfolio.

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Introduction

In a paper, Rust *et al.* (2004) have mentioned that the conventional marketing metrics (e.g., awareness, association, market share, etc.) do not adequately account for the great diversity of customers. But, literature suggests that life time value of customer (LVC) does (Kumara & Rajan, 2009). There are two issues of LVC such as strategic and operational. Strategically, managers fight for LVC albeit a share of customers' wallet (Weinstein & Pohlman, 2015). Operationally, they need to identify profitable segments to maximize LVC (Bolton *et al.*, 2000; Kumar & Shah, 2009). However, segmenting customers and estimating LVC are not distinct issues but complement each other to bringing sophistication in marketing practices and research (Kumar *et al.*, 2008).

This work attempts to shed light on 'how' managers understand and maximize the economic value of a customer base at the operational level. In strategic sense, managers need LVC in managing their marketing efforts in long-term basis. Practically, managers have limited resources; they cannot allocate resources to each and every customer equally (Gupta & Jennifer, 2004; Woodruff, 1997). Conceptually, resource-allocation involves trade-offs among customer groups. Which is why, the economic value of a bunch of customers is a priceless piece of information in practice (Gupta *et al.*, 2006).

In marketing, LVC is being considered as an important element of firm value (Anderson & Narus, 1998). However, it is not clear of "how LVC is defined? How LVC is estimated? What are the drivers of LVC? What is the structure and components of LVC?" Please note that we define LVC here as "the amount of economic profit is realized from customer over a period of time". Empirical support for the linkage between LVC and its drivers is critical to measure, manage, and maximize marketing efforts' effectiveness (Kumar *et al.*, 2006; Rust *et al.*, 2004). Firm's profits in competitive

environment are maximized when managers devise their strategy by taking into consideration of the economic relationship with their customers (Villanueva *et al.*, 2004).

In general, key marketing variables such as price, brand name, product quality affect customer judgment process (Brucks *et al.*, 2000). Though, each variable plays a differential role in the process. Their values also differ by nature of the relationship like contractual or non-contractual between firm and its customers (Tamaddoni *et al.*, 2010). For instance, in a non-contractual setting, short-life but high revenue customers accounted for a sizeable amount of profits for firms (Reinartz & Kumar, 2000). This insight is equally applicable for other setting as well.

Value of a product and service is not remaining the same and depends on its life cycle that governs customer preferences in the long-run. Therefore, CLV might be very effective in selecting profitable customers, i.e., customer segmentation (Kim *et al.*, 2006). Segments created through traditional methods without combing cost-to-serve and expected net cash flow might be economically unviable, which leads to financial disaster in the end (Mulhern, 1999).

In FMCG sector, customers shift their spending patterns over brands rather than stop doing business in the category. How could we understand and track the dynamism in the spending pattern? In this context, literature suggests that measuring each customer's share-of-wallet (SOW) would be a great help (Du *et al.*, 2007). That is why; knowing share-of-wallet (SOW) is far more important than customer retention rates to survive in FMCG industry (Perkins-Munn *et al.*, 2005). The figure of SOW indicates the relationship between satisfactions and profits (Bowman and Das, 2004). Whereas, Reinartz *et al.* (2005) have found that the share-of-wallet affects customer tenure and profitability positively.

In a slightly different study, Keiningham *et al.* (2003) have analyzed the impact of customer satisfaction on share-of-wallet in a B2B environment. Their findings are motivating. In the same vein, Glady and Croux (2007) have investigated the differential effects of relationship perceptions and marketing instruments on customer retention and customer share. This study's observations are standing tall.

Using survey data, Baumann *et al.* (2005) have examined the relationship between customer characteristics and SOW. They found a positive relationship between these two. On the same path, Garland and Gendall (2004) used SOW as a factor in prediction consumer behavior. We define SOW here as 'customer's brand-level spending within a product category' (Baumann *et al.*, 2005; Jones & Sasser, 1995).

Share-of-wallet (SOW) can be viewed as an indicator of relationship strength, which can be used in detection of customer attrition rate since smaller SOW holders could be considered as defectors (Cooil *et al.*, 2007; Magi, 2003). Furthermore, partial defection or silent attrition caused by decreasing SOW can be more serious than attrition, which is detected only when a customer has decided to no long use the brand (Leenheer *et al.*, 2007; Verhoef, 2003).

Literature reveals that CLV is also a function of frequency of buying (FOB) (Garrett & Gopalakrishna, 2010; Kumar & Shah, 2009; Reimer & Becker, 2015). In a paper, Kumar and Rajan (2009) have attempted to figure out how buying frequency influence customer profitability. They observe a significant relationship between profitability and FOB. In another research, Zhang *et al.* (2010) have found again a positive impact of FOB on CLV albeit customer loyalty. Other researchers like Ansari *et al.* (2008); Khan *et al.* (2009); Lewis (2006); and Li *et al.* (2011) have reported more or less similar findings.

Marketers need to consider SOW on an ongoing basis to understand whether a customer is active. Compared with marketing interventions aimed at preventing attrition, marketing efforts that attempt to prevent SOW losses could be more proactive and therefore, more effective. Despite numerous managerial application of SOW and its drivers to formulate strategy/tactics to general/customer-wise revenue, research on this issue is limited (please see Jing & Lewis, 2011; Tarasi *et al.*, 2013; Zhang *et al.*, 2009). What is absent from much of this literature is evidence to support link between CV and customer segmentations. More work is needed that should unify SOW, frequency of buying, CV in a single work. The purpose of this paper is 'to estimate the lifetime economic value of customer'. There are a number of factors and issues need to be taken into consideration to fulfill this purpose. In a single study, it wouldn't be possible as well as not wise to take all of them together. We only consider a few active variables and few attribute variables in this work. That is why; only four objectives were identified. The objectives of this research are:

1. To estimate the extent of impact of value proposition and attitudinal loyalty on share-of-wallet (SOW);
2. To estimate the extent of impact of value consciousness, product availability and customer characteristics on frequency of repeat buying (FOB);
3. To estimate the lifetime economic value of customer (LEVC) by taking into consideration of share-of-wallet (SOW) and frequency-of-buying (FOB); and
4. To decompose the overall LEVC into the base part and the incremental part.

These objectives once fulfilled that should facilitate managers to extending successful growth initiatives. Furthermore, the insights into LEVC are also useful to target right segments based on sound economic arguments and to allocate scarce marketing fund to efforts more precisely. Without information regarding SOW, FOB, and CV of each customer; it may be difficult for managers to initiate customer-centric programs such as cross and up-selling efforts, targeted promotions and other marketing actions (Bonacchi & Perego, 2012).

An argument is made that duration and customer share should consider two separate dimensions of CV (Reinartz & Kumar, 2003). Point is that longer duration does not necessarily associated with larger share-of-wallet. Furthermore, SOW indicates the degree at which customer fulfills his/her needs by using a brand in a category (Kumar *et al.*, 2004). That is why; this study did not attempt to capture CV using SOW as a proxy of customer behavioral loyalty. SOW (i.e. behavioral loyalty), which is evidenced in buying more often or one brand more than competitor's can be

considered a different outcome of customer based brand equity (CBBE). Firms have to realize that customers are the most important assets, grow them, and make profits from them (Homburg *et al.*, 2008).

Our study presents a structural framework for understanding the economic viability of each customer in non-contractual setting. The explicit objective of this research is to empirically investigate the nature of the association between share-of-wallet, value proposition, frequency of buying, marketing effort (especially availability of product), and customers characteristics (Berger & Nasr, 1998; Keiningham *et al.*, 2011; Liddy, 2000; Magi, 2003). Furthermore, in the non-contractual settings, the firm needs to ensure that the relationship stays alive because the customer typically splits his/her expenses with several firms (Anderson & Simester, 2004; Perkins-Munn *et al.*, 2005).

Theoretical and Conceptual Framework

The aim of citing relevant studies is to develop theoretical and conceptual framework regarding the issue in hand. What we understand through literature view is that 'lifetime economic value of customer does have a number of components and each component has a number of drivers' (Gupta & Lehmann, 2003). Theory also suggests that the number of components and methods of measurement of the drivers of each component differ from study to study (Kumar *et al.*, 2004). On the other hand, inherently the drivers of CV have predictive ability. If theory does not able to predict the phenomenon then it is not useful to managers as well as to researchers.

In this broader context, the purpose of theory is to understand of the components of LECV and their methods of measurement need to be considered and commissioned. These sorts of theoretical understanding help us to pin-point our focus in this research. This understanding also requires identifying the real problem though abstract with CV. We remind you that we wanted to see the architecture of LEVC and the relative important of each components of this architecture to total LEVC in this work.

At the conceptual level, we try to identify indicators to represent the conceptual issue of LECV. After giving a lot of thoughts, we consider two main indicators/constructs SOW and FOB and also various sub-constructs under each main constructs. For instance, SOW does have two sub-constructs (e.g., value proposition; and attitudinal loyalty). On the other hand, for FOB we consider three sub-constructs (e.g., value consciousness; product availability; and customer characteristics). Both construct in combine make the structure of LEVC at least conceptually. We also inclined to include some socio-demographic parameters such as family size and income level for giving adjustment to LECV. Without these sorts of adjustments LECV may be over estimated or inflated. In the end, we do believe that LEVC can be decomposed into two parts, base LEVC and incremental LEVC. This understanding is required to managing by LEVC in future more precisely.

Research Hypotheses

This study follows a scientific research approach. Therefore, we need to formulate hypotheses. Various sources (e.g., research papers; experts' opinion; our own experience) were explored in formulation of quality hypotheses. Then, to formulate our hypotheses, we develop a relevant conceptualization of drivers of customer lifetime economic value. Actually, we are interested to frame explanatory type of working hypotheses in this work to follow a design approach in formulation strategy. Several studies notably Chan *et al.* (2011); Fader *et al.* (2005); Jen *et al.* (2009); Kumar *et al.* (2006); Rishika *et al.* (2013); Schmitt *et al.* (2011); and Wilson *et al.* (2001) have supported us in the formulation of hypotheses. Furthermore, our experience, insightful feedback from a few managers and opinions of a few academicians help a lot in this context.

To keep our study sophisticatedly simple and focused, we framed six primary and five secondary hypotheses in this work. Secondary hypotheses are related to the relationships between SOW and its drivers and FOB and its drivers. The stated hypotheses are shown below:

H₁: Share-of-wallet (SOW) is one of the structural components of lifetime economic value of customer (LEVC).

However, it would be wise to understand of the drivers of SOW. Our theoretical understanding suggests that customer perception toward value proposition lead them to spend more on a given brand (Du *et al.*, 2007). On the other hand, we came across some studies in which it is reported that customer are inclined to spend more on those brands to whom they are attitudinally inclined (Baumann *et al.*, 2005). Therefore, we frame two secondary hypotheses under this primary hypothesis. The hypotheses are:

H_{1.1}: Value proposition is one of the drivers of SOW and has a positive effect on SOW

H_{1.2}: Attitudinal loyalty is one of the drivers of SOW and has a positive relationship with SOW

As per RFM model, one of the three variables is frequency of buying (FOB), which influence customer lifetime value (Buckinx & den Poel, 2005). In this work, authors strongly suggest that without taking into consideration FOB, the estimated CLV might be biased. Taking a clue from this work, we proceed to frame the following hypothesis.

H₂: Frequency of repeat buying (FOB) is one of the structural components of lifetime economic value of customer (LEVC)

Again, we are interested to dig further to understand of drivers of FOB since without knowing these sorts of factors managers wouldn't be able to formulate right strategy to motivate customer of buying more frequently (Lemon *et al.*, 2002). After reviewing a few studies, we found that value proposition is again one of the tentative causes of FOB (Reinartz & Kumar, 2000). In some other studies, it is also reported that product accessibility might be one of the determinants of FOB especially in FMCG sector (Athanasopoulos, 2000). Furthermore, it was found that some characteristics of customer are also sometimes impact on FOB (Mittal & Kamakura, 2001). In sum, we identify three drivers of FOB such as value proposition; product availability; and customer characteristics. Hence, three hypotheses are framed as follows:

H^{2.1} : Value proposition is a driver of FOB and has a significant positive relationship with FOB

H^{2.2} : Product availability is a driver of FOB and has a significant positive relationship with FOB

H^{2.3} : Customer characteristics (e.g., income; family size) explain variation in FOB significantly

Behaviorally, customers do differ from one another, if not then all customers might have equal CLV that seldom happens. Here, we take into consideration two dimensions only. These are SOW and FOB. If customers differ significantly by these two dimensions, then only their contribution to CLV would differ. We get some support from existing literature on these issues (Corstjen & Lal, 2000; Lemon *et al.*, 2002; Reinartz & Kumar, 2000). Therefore, we move on to frame four descriptive hypotheses on these exploratory variables. We stated these hypotheses as:

H₃ : All customers do not have equal SOW and differ significantly from customer to customer

H₄ : All customers do not have equal FOB and differ significantly from one customer to another

H₅ : All customers do not have equal LEV and differ significantly by customer

H₆ : Contribution of base LEVC and incremental LEVC to total LEVC are not equal and differ significantly

As we know, this study probably is the first one in India use consumer panel's data on wallet size, share-of-wallet, frequency of buying, etc. to accomplish the objectives of this work as mentioned above. The firms under study suffer from undifferentiated offering and low switching costs. Findings of this work need to give adjustment with these factors (Reinartz & Kumar, 2000). At the same time, we think that forward looking customer focus might give some forecasting insights (Zeithaml *et al.*, 2006). This study does not attempt to answers the questions like why one

customer differs from another; whether the differences among customers change over time; or how managers can exploit or modify marketing mix efforts to improve brand performance. But we hope that this work provides a guideline to researchers to answers of these questions in future.

This paper is organized as follows. In developing our conceptual framework and hypotheses, we present an overview of existing literature in above. With this as a background, we then proceed to develop empirical models to test hypotheses. After describing our data, measurement and methodological approach, we conclude with findings and implications from the research.

Research Design

There are two research paradigms, inductive and deductive. Because we are dealing with a establish research area as well as some subjective inputs from experts we are interested in to follow scientific approach (i.e. a mixed approach). That is why; we framed a number of working hypotheses using both theoretical and conceptual framework and subjective inputs from managers and academicians. On the other hand, we used a nomothetic methodology to produce credible, accountable and legitimate answers of our research questions. In this section, we discuss the empirical models; types and methods of data collection and characteristics of the database.

Empirical Models

Literature suggests that there are various models and methods that we could use to capture the phenomenon under study, i.e., economic value of customer (EVC). After a careful evaluation, we pick up a multiplicative regression model (MRM) and a Poisson regression model (PRM) as suggested by Mindy and Wendy (2007). We write a few lines about both the models in the subsequent paragraphs.

MRM is required to estimate the relationship between share-of-wallet (SOW) and its drivers. Here, SOW is a function of value proposition (VP) and attitudinal loyalty (AL) (i.e. eq. 1). Note that SOW is defined as the degree in which a customer fulfills his needs using a brand in a category (Reinartz & Kumar, 2003). As per Oliver (1999) the form of the relation between SOW and its drivers is not linear. That is why; we want to use the multiplicative form of the model, therefore, log of SOW is expressed as a function of log of VP and log of AL (i.e. eq.2) (Chen & Dubinsky, 2003; Oliver, 1999). We present the simplest form of the model below:

$$SOW_i = e^{\alpha + \beta_1 \ln(VP_i) + \beta_2 \ln(AL_i) + u_i} \quad (1)$$

$$\ln(SOW_i) = \alpha + \beta_1 \ln(VP_i) + \beta_2 \ln(AL_i) + u_i, \quad (2)$$

where sow_i is the share-of-wallet of the i^{th} customer; VP_i = Value proposition = QP_i (quality perception) of customer i / PP_i (price perception) of the same customer; AL_i is the attitudinal loyalty of the i^{th} customer; and u_i is the random error term.

On the other hand, Poisson regression model (PRM) is necessary to represent a relationship between buying frequency and its predictors. This model expresses buying frequency is a function of value proposition, income level, and family size. Since the relationship between variables under investigation in question often is non-linear, we present the PRM in double-log forms (Bolton *et al.*, 2004). Specifically;

$$n_i = e^{A+\beta_1(VP_i)+\beta_2(I_i)+\beta_3(N_i)+\beta_4(PA_i)+v_i} \tag{3}$$

$$\ln(n_i) = A + \beta_1(VP_i) + \beta_2(I_i) + \beta_3(N_i) + \beta_4(PA_i) + v_i, \tag{4}$$

where n_i = No. of purchases made by customer i ; PA_i is the perception of product availability of customer i ; I_i is the total expenditures on the category of i^{th} customer; N_i is the size of the family; and v_i is a disturbance term.

In order to select and target right customers, understanding of economic value of each customer and its composition, i.e. base and incremental is very essential. As we know in calculation of LEVC, three parameters are mainly involved: frequency of buy, share-of-wallet (SOW) and contribution margin per transaction per customer (Reinartz & Kumar, 2000). Which is why; the mathematical expressions of total-LEVC, base-LEVC, and incremental-LEVC are:

$$Total : LEVC_i = m_i \times SOW_i \times n_i - Capital * (COC + OP + Inflation) \tag{5}$$

$$Total : EVC_i = m_i \times e^{\alpha+\beta_1 \ln(VP)+\beta_2 \ln(AL_i)} \times e^{A+\beta_1(VP_i)+\beta_2(I_i)+\beta_3(N_i)+\beta_4(PA_i)} - Capital * (COC + OP + Inflation) \tag{6}$$

$$Base : LEVC_i = m_i \times e^\alpha \times e^A - Capital * (COC + OP + Inflation) \tag{7}$$

$$Incremental : LEVC_i = m_i \times (e^{\alpha+\beta_1 \ln(VP)+\beta_2 \ln(AL_i)} \times e^{A+\beta_1(VP_i)+\beta_2(I_i)+\beta_3(N_i)+\beta_4(PA_i)} - e^\alpha \times e^A), \tag{8}$$

where $LEVC_i$ = Lifetime economic value of i^{th} customer; $m_i = (p_i - c_i)$ = Expected contribution margin per transaction of i^{th} customer; $SOW_i = e^{\alpha+\beta_1 \ln(VP)+\beta_2 \ln(AL_i)}$ = Predicted share-of-wallet of i^{th} customer; $n_i = e^{A+\beta_1 \ln(VP_i)+\beta_2 \ln(I_i)+\beta_3 \ln(N_i)+\beta_4 \ln(PA_i)}$ = Predicted frequency of buying i^{th} customer; COC = Cost of capital; and OP = Opportunity cost.

Research Setting and Database

A non-food category in FMCG sector was the research context of this work. The reasons are, (1) there is no switching cost incurred by customers to buy brands; and

(2) available brands are usually differentiated minimally among themselves in general and product attributes in particular. Therefore, this sector is an ideal context to apply both the models as mentioned above.

Over the study period, there were 10 major brands in the market under investigation. Out of 10 brands; seven were in economy category and three were in premium category. It is worthy to mention that the combined market share of all these brands was more than 80 percent.

Data were gathered from customers of all 10 brands in a non-food product category in FMCG sector for the empirical analysis. All brands in question covered a number of stocks keeping units (SKU) of general merchandize and they were available for buying all year around. We aggregated data over all brands. So the relevancy of brand names is evaporated. Actually, we are not empowered to disclose the names of all brands for the reason of maintaining confidentiality.

The self-recorded data covered one-year window via a longitudinal panel of 400 households. The size of sample was calculated statistically at 95 percent confidence level, the power of the test 0.80, and 5 percent permissible error. Note that the inputs of sample size calculation came from a pilot survey of 30 respondents. Variable-wise data were recorded using a questionnaire/data sheet/consumer diary. It is wise to mention that an observation is the entire purchase history of each household in combination with a set of covariates (e.g., subjective and objective) over one year.

Briefly, the number of purchases of each household varied from 1 to 6. Avg. was 3.2 with standard deviation 2.1. Likewise, avg. inter-purchase time was 90 days and standard deviation was 23 days. The avg. family size was 4, whereas, avg. family income per month was in Indian currency Rs. 27540 (with standard deviation of 2187).

Attitudinal loyalty scale was used to measure attitudinal loyalty (see. Lichtenstein *et al.*, 1991). Scores of all items were measured on a 7-point Likert-type scale (1= strongly disagree to 7=strongly agree). Additionally, ease of purchase construct consists of two items: availability and convenience. Both the items were mapped using a scale of 7-point. Price and quality perceptions were measured through one item on 7-point scale. We found that the mean value proposition was 4.12 (Std. 1.23), mean attitudinal loyalty was 4.76 (Std. 1.44), and mean of ease of purchase was 4.12 (Std. 0.75). Please note that the results of the pilot test were promising as far as variances in these active variables are concerned.

Furthermore, the mean of SOW was realized by averaging the percentages of total expenditures over all brands go to individual brands (Perkins-Munn *et al.*, 2005). SOW was then converted to a score presuming a 7-point scale (see Too *et al.*, 2001).

Average price paid by the customers was materialized from the records of the consumer dairies. Next, the direct cost to serve was calculated using commissions paid to the retailers. Subsequently, unit margin was calculated by subtracting the average cost to serve from the average actual price paid by all customers.

We created two files of 200 observations each. One is called as test sample data-file, which was used for the purpose of estimation of parameters. Another one is called hold-on sample data-file which was utilized to test models' validity and to estimate their predictive power. Note that the respondents who did not buy at least two brands over the study period were not considered. Which is why; few observations were deleted. Finally, we proceed to test our hypotheses with 360 observations. Out of these observations 200 observations were employed to estimate all models and their respective parameters and the rest were used in validation of models and to estimate their predictive power.

Data Analyses and Empirical Results

The rationale of the analysis of data is to test hypotheses and to generate useful information. In doing so, we fitted The 'Equation 2' and 'Equation 4' to data, separately. The results are posted in Table 1 and Table 2, respectively. We fitted log-log models; therefore, the estimated parameter is nothing but elasticity coefficient. Next, the specified models were exercised on hold-on-sample data. Estimation of mean absolute percentage error (MAPE) was the purpose. The results of MAPE are also reported in Table 1 and Table 2. We also reported some models' validation statistics like R2 and VIF here.

Table 1: The Responses of SOW to VP and AL

Predictor	Coefficient	<i>t</i>	<i>p</i>	VIF	<i>R</i> ²	MAPE
Constant	1.18 (0.09)	13.11*	<0.001		0.83	8.72
ln(VP)	0.65(0.07)	9.28*	<0.001	5.7		
ln(AL)	0.41(0.17)	2.41*	<0.001	5.7		

Notes: *p < .01; VIF= Variance inflation factor; SOW = Share-of-wallet; VP = Value proposition; AL = Attitudinal loyalty; MAPE = Mean absolute percentage error; Standard errors in parentheses

The coefficient-of-determinations, i.e., R2 (in Table 1) was quite high. This goodness-of-fit statistic indicates that the model in question gives a good fit to data. Both variance inflation factors (VIF) were less than 10, which mean that both the predictors, i.e. value proposition (VP) and attitudinal loyalty (AL) are not correlated or overlapped. As far as data regeneration is concerned, the model reproduces data reasonably well since the estimated mean absolute percentage error (MAPE) was less than 10 percent. Therefore, this model (Equation 2) is adequate to generate reliable and valid as well as generalizable results. Hence, this model (Equation 1) can be used to forecast SOW.

Table 2: The Responses of FB to VP, I, N, and PA

Predictor	Coefficient	<i>t</i>	<i>p</i>	VIF	R^2	MAPE
Constant	1.23(0.11)	11.18*	<0.001		0.78	9.37
ln(VP)	0.46(0.06)	7.66*	<0.001	7.2		
ln(I)	0.21(0.04)	5.25*	<0.001	2.9		
ln(N)	0.35(0.14)	2.50*	<0.001	4.7		
ln(PA)	0.72(0.21)	3.42*	<0.001	7.8		

Notes: * $p < .01$; VIF= Variance inflation factor; FB = Frequency of buying; VP = Value proposition; I = Family income, N = Family size; PA = Product availability; MAPE = Mean absolute percentage error; Standard errors in parentheses

Table 1 reveals that the coefficient of $\ln(VP)$ (Table 1) was positive and significant at $p < 0.01$ or better (one-tailed tests). This evidence confirms the hypothesis ($H_{1.1}$), that is, 'SOW and VP are related positively'. On the other hand, $H_{1.2}$ (i.e. attitudinal loyalty impact SOW positively) is supported since the coefficient of $\ln(AL)$ was positive and significant again at $p < 0.01$ (one-tailed tests) or better.

Validation statistics of the Poisson regression model (PRM) were reported in Table 2. We found that R^2 was moderately high, i.e., the eq. (4) does have significant variance explanatory power. On a different note; variance inflation factors (VIF) of all independent variables were less than 10 or better. This means that, in combine the explanatory power of all predictors of variance of the predictor is concerned is less than 10 percent. Thus, each predictor is more or less unique in nature. As far predictor error is concerned, we found that MAPE was again less than 10 percent. So, this model (i.e. eq. 4) produces valid, reliable and generalizable outputs as well as predicts FOB indeed reasonably well.

The coefficient of $\ln(VP)$ was found to be significant at $p < 0.01$ or better (one-tailed tests), so $H_{2.1}$ (i.e. frequency of buying and behavioral loyalty are related) is sustained. $H_{2.2}$, that is, 'buying frequency and product availability are associated positively' is proved. We conclude this on the basis of facts that the coefficient of $\ln(PA)$ was positive and significant at $p < 0.01$ or better (one-tailed tests).

We found that the coefficients of family income ($\ln(I)$) and family size ($\ln(N)$) were statistically significant (at $p < 0.01$ or better). These evidences validate the hypothesis, $H_{2.3}$ (i.e. frequency of buying and customer characteristics like income and family size are associated).

To test rest of the hypotheses on CV, SOW, and Freq. of Buying; we considered 'ANOVA' methodology. We classified customers into 10 groups of equal sizes using all three behavioral variables. There are three data files of 380 observations of each. In this context, we performed three 'ANOVA-test' on data; one for each data file. The results are shown in Table 3.

Table 3: The Results of ANOVA

Dimension	No. of Gr.	No. of Obs./Gr.	<i>F</i>	<i>p</i>
CV	10	38	97.20*	<0.001
SOW	10	38	102.33*	<0.001
FOB	10	38	67.80*	<0.001

Notes: * $p < .01$; CV= Customer value; SOW= Share-of-wallet; FOB = Frequency-of buying

We found that all three 'F-statistic' values were significant at $p < 0.01$ or better. Therefore, we conclude that $H_{3.1}$ (i.e. SOW differs from one customer to another), $H_{3.2}$ (i.e. Frequency of buying differs by customer) and $H_{3.3}$ (i.e. CV differs from customer to customer) are hold up.

At the end of analysis, we performed a 'pair t'-test on the difference between base EVC and incremental EVC of 380 respondents. Numerical value of the 't-statistic' was 3.97 and it was significant at $p < 0.01$ or better (not reported here). This evidence confirms H_4 (i.e. there is a contribution gap between base EVC and incremental EVC to total EVC).

Discussion

We commission this research to understand the value of customer in economic sense, its components and their relative contributions. To do so; we used data on revealed and stated preferences of all brands in a non-food sector of FMCG in India. In this context, the impact of VP and AL on SOW were estimated and the aggregated results were promising. This work also measured the effects of VP, income, family size and PA on FOB. The overall results were significant too. We covered 10 major brands in a product category, which is quite extensive. In addition, data were collected from a sample of 380 households, which is indeed large. Therefore, the insights of this study maybe generalizable across sector with minor adjustments, if required. Here, we use deductive approach to draw inferences from the findings of this work.

The statistical evidences suggest that the impact of VP on SOW is substantial, indeed, moderately big. Furthermore, nature of the impact is positive, which means that both variables move in the same direction. Yet, the degree of responsiveness of SOW to VP is not promising even though statistically significant. Actually, the magnitude of the elasticity coefficient is less than 1. Technically, it means that the nature of the relationship between SOW and VP is inelastic. By in-elastic we do mean that the proportional change in SOW is less than the proportional change in VP. Indeed, the positive sign gives an interesting insight; that is, at present, VP probably is operating below threshold point. Therefore, there is a scope of improvement since VP would be a promising driver of SOW as we observe. Analogous findings were reported in literature (Cooil *et al.*, 2007; Keiningham *et al.*, 2015).

Similar qualitative interpretations could be drawn about the elasticity coefficient and its sign of attitudinal loyalty (AL). It is worthy to cite that 1 percent change in the parameter of AL leads to a change in SOW by 0.46 percent. What's why; such insight into the characteristic of the parameter of AL is very important, in fact to secure stable cash inflow.

Surprisingly, we detect that VP influences SOW more than AL. In other words, SOW responds more vigorously to the manipulation of VP than AL. What we understand is that VP pushes SOW higher than AL as and when equal operational changes do occur in both. This is expected because the findings were derived from a low involvement product category. This insight should of relative important make the resource allocation process between VP and AL much easier but scientifically. Furthermore, we watch that the standard error of AL was larger than that of VP. It implies that investment in AL is more risky than investment in VP. The utility of such information is tremendous for channelizing resources toward more efficient moves.

The significant constant term (α on Equation 2), means that customer exhibits a substantial degree of inertia towards the brand they bought recently. In other words, current SOW does have two components: base level and incremental level. This is an interesting observation. Incremental portion is sensitive to VP and AL whereas, base part would be the outcomes of past marketing actions. Note that by manipulation of VP and AL, managers would be able to influence the incremental portion of SOW that too, only in short-run. Such insight into SOW is indeed invaluable to balance between short-term tactics and long-term strategies regarding VP and AL. However, Keiningham *et al.* (2011) have found that customer loyalty in any form it may be attitudinal loyalty or behavioral loyalty is not enough to grow share-of-wallet.

Significant evidence regarding income and family size prove that customers buy more frequently due to their higher income or larger family size or both. These are expected since we deal with brands on a category which survival is basically depends on the level of consumption. We notice that family size does have higher impact on FOB than income in this category though both are significant. These sorts of insight into impact of these variables on FOB are indispensable in profiling customers for better targeting. Bawa and Gosh (1999) and Manchanda *et al.* (1999) have reported similar findings as we come across.

One more surprise, i.e., product availability (PA) impact Freq. of buying significantly. It indicates that PA motivates customers to buy more frequently which is shocking. What we can infer is that customer might buy other brands when the preferred brand is not accessible. It also means that customers are not loyal to a particular brand. By simply making product available, managers could acquire customers very quickly in this category. This finding advocates that why it is important to keep brand in retail outlets in acquire or retain customers. Furthermore, we infer that the penetration level is not only important issue but also its operational efficiency is needed to keep customer alive. As per our little knowledge we know that Bruno and Vilcassim (2008) and Matsa (2011) have found alike findings.

In the deciles analysis, 380 households were divided into 10 groups of equal size using average EVC. Note each group consists of 38 households. The results of the deciles analysis (in Table 4) are very interesting and intuitive. The bottom 10 percent customers contribute to total EVC by less than 5 percent. On the other side of the coin, the top 10 percent customers' contribution to total CV is around 26 percent. This information is very insightful at least in cost to serve is concerned. Guerreiro *et al.* (2008) have observed more or less similar finding in their study.

Table 4: The Results of Deciles Analysis

Deciles	1-10	11-20	21-30	31-40	41-50	51-60	61-70	71-80	81-90	91-100
AEVC	365	410	483	512	537	591	630	821	1221	1932
AEVC (%)	4.86	5.46	6.43	6.82	7.14	7.87	8.39	10.99	16.27	25.73

Note: AEVC= Average economic value of customer groups

Table 4 also reveals that the distribution of EVC is highly skewed. What we observe that the structure of the customer base is 70:30. It means that 30 percent customers generate 70 percent EVC and 70 percent customers produce 30 percent EVC. In fact, top 30 percent's contribution to EVC is more than 3 times than that of bottom 70 percent. This structure reveals a lot about customer's heterogeneity with respect to their contribution to EVC. In their study, on managing retailer profitability, Kumar *et al.* (2006) have found that not exactly 20 percent customers produce 80 percent profits as we observe in our research.

On the other hand, deciles analysis indicates that one customer group differs from another by contribution to total EVC. Therefore, we could conclude that all 10 groups are not either equally profitable or equally potential. It also highlights dissimilarities among customer groups; thereby, if-then logic is not applicable. That is why; all groups should not be treated equally because customers should not be considered as manipulable object. To maximize group-wise, differential services need

to be offered to serve each group since EVC differs from group to group. These types of economics insights should have significant role in investing resources in each group or in entire customer base.

The results suggest that both base LEVC and incremental LEVC are substantial. That is, total LEVC consists of two components: base and incremental, which is very fascinating to know. In particular; this decomposition of LEVC into components, visualizes the sources of change in LEVC. Since this practice hints future scenario, it is forward-looking, hence, claims a substantial management attention, indeed, promotes a balancing act between short-term revenue generation and long-term relationship building. In a work, Pfeifer *et al.* (2005) have attempted to decompose CLV for the purpose of treatment acquisition spending not for managing marketing as a whole.

Implications, limitations and Further Research

This study seeks the empirical answers of a few questions: (1) how and to what extent VP and AL shift the SOW curve?; (2) how and to what extent VP, Family size, Income and Product availability rotate the FOB curve?;(3) to what extent EVC differs from one customer-group to another?; and (4) what are the components of LEVC and their relative contributions to total LEVC? This work takes an econometric approach to answer most of the questions. Therefore, the answers of these questions should have some value in managerial practices and in research. We discuss some of them below.

Managerial Implications

Understanding LEVC is one of the prerequisites for allocating fund to each-customer or each-customer group or entire customer-base more accurately. That is why; the findings of this work should assist managers to make decision of which customer or group of customers to be rewarded most through a fixed fund. Furthermore, it would be easier for them to reallocate fund from less value-group to high-value ones to maximize overall economic value of entire customer-base.

Secondly, since EVC is a forward-looking indicator, it lends a hand to do better planning of time management. For instance, it ought to aid managers to deploy sales-force time by account-wise instead of territory-wise for better utilization of resources. In fact, this metric empowers all departments to allocate their resources to serve customer better.

Thirdly, managers usually offer more than one products to a customer at a time. Which is why; we urge managers not to think of each customer as a distinct entity but a member in the portfolio. In addition, they should maximize each customer's contribution to equity at given risks. Insights into EVC of each customer of each product should make managers more competent to device a better strategy to improve the performance of overall customer portfolio. Furthermore, EVC might back them in

identifying the right portfolio of products to be offered to each customer leads to maximize overall revenue of the customer-base.

Fourthly, naive customers do have not only limited experienced but also limited information. Usually, they buy less frequently with less amounts compare to seasoned customers. So, dividing customers into two group using FOB would a great approach to understand of the basic difference between naïve and seasoned customers. In this context, the findings of this work presume to support managers to target both the groups with differential promotion strategies.

Fifthly, to target potential customers, mapping of existing profitable customers is one of the approaches to frame tentative marketing efforts. The findings of this work might be a goldmine to do so. In this situation, the expected EVC of prospects suppose to be the yardstick. Using the findings of EVC, managers might be able to gauge the frequency of buying as well as the duration of doing business of prospects in advance. What's more, EVC might assist managers to set the upper limit of investment for acquisition of each prospect.

Sixthly, SOW varies among customers. Therefore, there might be a number of segments at different level of potentially in the customer-base. This issue becomes very important from a managerial standpoint of managing customers like aligning marketing mix in delivery value to and appropriation of value from customers. Besides, potential-of-wallet (POW) (i.e. 1-SOW) facilitates managers to mark of who are the existing customers to be targeted for additional sales.

Seventh, we wonder how managers target segments without knowing current/future profitability of individual segments. Without CLV, it is impossible to understand of profit potential of each segment as well as to compare one segment to another. Our findings deal with this issue elaborately. That is why; managers should use our findings to select right segments to be targeted with their limited resources.

Eighthly, there are two types of structure of marketing organizations, product-centric and customer-centric. The findings of this work measures each segment value in economic term. This sort of insight provides guidance to managers of how to design customer-centric marketing organization to enhance shareholder value.

Last but not least, the findings of decomposition of total EVC might provide insight into how effective was past marketing efforts in particular. Base-EVC and incremental-EVC push managers to be long-term and short-term oriented simultaneously. The relative important of base-EVC and incremental-EVC should support mangers to allocate fund between long-term strategies and short-term tactics more precisely. Moreover, these interesting findings must help them to understand of how to generate short-term profits as well as build a long-term relationship with customers.

Research Implications

Our approach, methodology and findings should have a number of implications for researchers'. Firstly, the focal point of this work is the economic issue of customer behavior. Please note that to understand of EVC holistically, behavioral characteristics of customer need to be taken in consideration. Our approach shows a path how to understand of, measure in and predict EVC of customers. Which is why; the findings of this work do have some value to the researchers in marketing.

Secondly, censoring left or right or both provide a sensible methodology to do research. Data, models and methods differ by censoring approach. In this research, we did only left censoring, however. We do believe that our left censoring approach must provide some guidelines that could be easily replicable to pursue right censoring one.

Thirdly, there is only one source of revenue that is none rather than a stable customer-base. Expected EVC of individual customers/groups attracts competition. To isolate each and every profitable customer needs better analysis with more sophisticated models. Our findings ought to provide clue to researchers how to see the extent of impact of competition on EVC.

Fourthly, literature suggests that naive managers when use EVC in decision making able to increase average customer value than seasoned managers. So, EVC could be act as substitute of experience. However, this work does not attempt to test this hypothesis but definitely the findings should motivate researchers to do so.

Fifthly, marketers need to be open to a truly equal and dyadic relationship with customers. In fact, there should be a balance between 'giving' and 'getting' in all aspects. If over-exploited, consumers might think that the marketers are greedy rather than engage in serving them authentically. Therefore, the findings of this work ought to be beneficial to researchers.

Sixthly, there is a support that customer-centric marketing organization contributes more to shareholder value than product-centric organization. Actually, we are more inclined to recommend a hybrid kind of marketing organization. Our findings should be a starting point to understand of whether hybrid kind of marketing organization is feasible or not. Furthermore, researcher should utilize our findings along with additional information (e.g., economic inefficiency, complex coordination, competitors' structure, industry profitability) to understand of if shifting to a customer-centric structure is appropriate or not.

Lastly, economic value (EV) of moderately valuable customers could be enhanced by providing better service instead making excessive price concessions or reducing ex post risks. Then, the question is how does EVC influence on service design? The findings of this research at least provide some information so that researchers might be able to proceed to solve issues of service design.

Limitations and Scope of further Research

As we know, no study is completed in all aspects. This work has some limitations too. As far as limitations are concerned, the approach we applied here is appropriate only when a meaningful difference exists between customers. Moreover, it is better suited to handle customers than products. We assume that firms' ability to dole out customers is ample. So, the findings reported here might fall short if firms do not have required resources. Therefore, whether firms do have adequate resources to round off customers optimally would be an interesting area for further research.

Secondly, Zeithaml *et al.* (1996) have advocated that customer satisfaction (CS) leads to purchase intentions. In the same line, Ittner and Larcker (1998) report a positive relationship between CS and account retention, and revenues. This study does not attempt to realize of whether CS impact on EVC significantly or not. We recommend that future researchers should see the impact of CS on EVC.

Thirdly, we do strongly believe that there might be some impact of quality of relationship between firms and customers on EV. We do not consider this issue in estimating EVC here; hence, our findings are not free from missing variables biasness. We hope that researchers should do research on this matter in future.

Fourthly, Rust *et al.* (2004) suggest that a consumer-base can be segmented using their perceptions on various factors of customer equity. Probable criteria are value equity, brand equity, and retention equity. This work does not attempt to incorporate none of these criteria in segmenting customers into groups. So, this gap opens a door for further research.

Fifthly, customer may be undervalued or overvalued since we do not take into consideration of WOM/referral/ knowledge value. The approach we take here is called transaction-oriented. It is highly recommended that researchers should pursue a relationship-oriented approach to extent this research in future.

In a competitive scenario, EVC might provoke managers to invest more in customer acquisition tactics. Thus, these tactics lead to increase in cost-to-serve of customers. Subsequently, reduce profits at least in short-run. We urge researchers to test this proposition in future.

Seventhly, in this research, we do not consider the fact of that some customers are more likely to be loyal/ do word-of-mouth (WOM)/ open to accept additional offers. Tentatively, these customers generate more EV than others. Future researchers should take into consideration these factors in estimating EVC.

Finally, we do decompose EVC into base-EVC and incremental-EVC. But, some issues like how does competition impact on both is left out. That is why; our recommendation of allocation of fund on marketing efforts is not so precise. More research is required to extend this work in this line.

Conclusion

The aim of this work was to make customer lifetime value is a highly valuable management issue and to develop a framework to measure this value across brands and across sectors. A scientific research approach was commissioned. This research produces evidence such as 'lifetime economic value (EVC) differs by group and the impact of its drivers also differ'. The most interesting finding of this research is that 'LEVC does have two elements and their contributions to total LEVC are not equal'. Furthermore, VP, AL, product availability and customer characteristics explain the variation in LEVC partially. Managerially, economic value of individual customers helps in dividing a customer base into groups; therefore, adds precision in customer segmentation. It could also be the basis of managing firms. However, we draw a conclusion that is, "no firm capable enough to capture full economic value of each customer as well as its customer base".

Furthermore, the findings confirm some strategic drivers of LEVC using strategic model of CLV in this work. It is interesting to note that most of the previous studies mainly utilize DCF model to estimate CLV. This point of differentiation creates a few more contributions of this research. Firstly, it suggests a theory that is "customer economic value does have a structure and components of this structure are numerous". Secondly, this work enhances our knowledge of how to manage the customer-financial link scientifically though partially. Thirdly, the study stimulates managers design skill to manage portfolios of customers. On the other side of the coin, this research warns managers not to set the upper limit of their marketing expenditures using LEVC as the sole criterion. It will produce sub-optimal value to shareholder in the long-run and may de-motivate employees in the implementation of managing by customer economic value policy.

As we know, most of the studies in this area mainly dealt with the methods of estimating LEVC till date. There is little research on what the composition of LEVC; how managers could use both base LEVC and incremental LEVC in marketing mix innovation; and what the strategic levers of LEVC are. To some extent, our research fills this gap, which is why; it adds value to the existing literature of customer equity. However, this work does not cover all aspects of managerial and research issues of LEVC. More research is required as we think. In the end, we recommend that researchers in this area should explore the role of economic value (EV) in the generation of profit preference function (PPF) of each customer portfolios in reference to spatial and temporal market dimensions.

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