



Building customer capital through relationship marketing activities

The case of Taiwanese multilevel marketing companies

Building customer capital

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Abstract

Purpose – To provide a theoretic framework of the development of customer capital and an empirical verification using Taiwanese multilevel firms.

Design/methodology/approach – The authors used survey research to collect data from members of four Taiwanese multilevel companies. They explored the mediating roles of the drivers of customer equity in the “relationship marketing activities-customer capita” effect. A total of 306 valid responses were analyzed using structural equation modeling analysis.

Findings – Four types of relationship marketing activities – core service performances, recognition for contributions, dissemination of organization knowledge, and member interdependence enhancement – have significant influences on relationship equity. Relationship equity in turn affects customer capital. Value equity and brand equity respectively have significant effects on customer acquisition and customer retention. Customer acquisition has a significant “feedback” effect on value equity, and relationship equity affects brand equity positively.

Research limitations/implications – The generalizability of this research is constrained due to a non-probability sample of firms being used to verify the theoretic framework. It is also constrained due to the fact that only customer-side data were collected and proxy measures of customer capital were used.

Practical implications – Effective and ineffective types of relationship marketing activities have been identified. The causal paths between relationship marketing and customer capital have been illustrated.

Originality/value – This paper sheds light on the approach to building customer capital for membership-emphasized organization.

Keywords Customers, Relationship marketing, Equity capital, Multilevel marketing, Taiwan

Paper type Research paper

Introduction

Customer capital, an important component of intellectual capital, has been regarded as a major source of competitive advantage in the “knowledge economy” (Stewart, 1997; Edvinsson and Malone, 1997; Bontis *et al.*, 1999). Customer capital is the value – the contribution to current and future revenues – that results from an organization’s relationship with the customers (Bontis, 1996; Duffy, 2000). Therefore, establishing a profitable lifetime relationship with customers has been the focus of smart twenty-first century organizations.



To build profitable customer relationships, many companies have implemented a customer relationship management (CRM) mechanism in their management processes. However, for CRM to be successful, it goes beyond investment in information technology to keep companies informed of customer response patterns. Proper relationship enhancing activities have to be implemented and business processes to deliver the values that customers want have to be improved. Yet, among myriad customer interaction alternatives, how a firm should choose to accumulate customer capital is not clear. The extant literature on the relationship between customer capital and relationship marketing activities is scant.

During the days of mass market, customers were largely anonymous to marketers, and the efficiency of match between demand and supply was low. To cope with this anonymity, marketers invested in unilateral signaling strategies (Wernerfelt, 1998). They tried to build brand reputations that corresponded to what they thought segments of consumers wanted (Aaker, 1996; Keller, 1998). Although building brand equity potentially leads to higher profits, many firms still suffer from the inefficiency of meeting customer needs due to the lack of precise information and direct ways of interaction with individual customers. This situation has been dramatically improved in the last decade since the cost of data storage has been greatly reduced and two-way communications have become more efficient and more affordable. Thus, marketers have gradually transformed from brand-centric to customer-centric and “customer equity” is expected to be the dominant paradigm guiding marketing management (Bell *et al.*, 2002). Rust *et al.* (2001) also advocate this paradigm. They propose a strategic framework, called the Customer Equity Diagnostic and contend that, by sound management of the three key drivers of customer equity, a firm can increase its value substantially. However, this contention has not been empirically tested so far. This research is intended to examine this proposition in the context of multi-level marketing firms in Taiwan.

Multi-level marketing firms have become an important sector of retailing in Taiwan for more than 20 years. Although such firms are known for focusing on relationship building with their members, little research and few articles have addressed the issue of customer capital development and the general rules for choosing relationship activities to strengthen the key drivers of customer equity. Our research aims at filling this void.

To sum up, this research addressed three questions in the context of multi-level marketing firms:

- (1) What are the relationships between relationship marketing activities and the drivers of customer equity?
- (2) What are the relationships between the drivers of customer equity and customer capital?
- (3) Do the drivers of customer equity play a mediation role in the effects of relationship marketing on customer capital?

In the following sections, we first review the related research in customer capital, customer equity, and membership relationship marketing. Then we present the conceptual framework and the rationale of our research hypotheses. Then research methods are described, followed by discussion of research findings. Finally, conclusions and suggestions are drawn.

Literature review

Customer capital

Sveiby (1989, 1997) pioneered the inclusion of customer capital as one aspect of intangible assets of firms, and treated it as “external structure”. Sveiby’s work on customer capital focuses on the classification of customers according to their relative contributions to intangible value creation processes of “know-how companies”. Among three types of customers, the first type improves the learning competencies and ideas of the employees; the second type enhances the external structure through referrals to new customers or establishments of prestige; while the third type enhances the internal structure through leveraging research and development (R&D) projects or projects that support knowledge transfer (Gibbert *et al.*, 2001). Bontis (1999) also contends that customer capital represents the potential an organization has due to ex-firm intangibles i.e. customer capital is developed from the relationships with customers and suppliers external to the firm. In the recent stream of research, the external structure has been broadened to include stakeholders in addition to customers and suppliers, and include the competitors, trade associations, and the government, etc. (Bontis, 1999). Roos and Roos (1997) combines the relationships with external structure and internal structure, and suggests a new term – “relational capital”.

The main theme of customer capital is the knowledge embedded in the marketing channels and customer relationships that an organization develops through the course of conducting business which will enhance its competitive advantage (Bontis, 1998; Bontis *et al.*, 2000; Bontis and Fitz-enz, 2002). Sound management of customer capital requires accurate measurement of knowledge, relationship, and their values. However, not one metric or approach can serve all purposes and all kinds of organizations. Different sets of measurement and indicators have been proposed. Kaplan and Norton (1996) propose the “core measure group”, which includes five sets of indicators – market share, customer acquisition, customer retention, customer satisfaction, and customer profitability. Edvinsson and Malone (1997) develop five basic measurements for the valuation of customer capital, i.e. customer type, customer duration, customer role, customer support, and customer success. The multiplication of the five measurements produces a “customer attraction index”. Some researchers opt for not only measuring the customer responses, i.e. customer duration and customer life-time value, but also the related knowledge and skills used to increase customer values. According to Duffy (2000), customer capital comprises the processes, tools, and techniques that support the growth of customer equity. Duffy suggests that the measurements include the organization’s customer base (customer franchise), customer relationships (customer retention), customer profile, and brand equity. Chen *et al.* (2004) suggest three sets of indices for measuring customer capital, which are basic marketing capability, market intensity (e.g. market share, market potential, brand and trademark reputation), and customer loyalty indices (e.g. customer satisfaction, customer outflow, and investment on customer relationship). To sum up, the measurements of customer capital concern mostly customer responses/relationship, yet the knowledge and the investments in the process of creating customer relationships are also relevant.

Customer equity

In recent years, customer equity management has received increasing attention (e.g. Bell *et al.*, 2002). Hogan *et al.* (2002) attribute this movement to three substantial and

long-lasting changes in the marketplace. First, managers are under increasing pressure to be more accountable to shareholders. They have to be effective and efficient in dealing with competition. Addressing directly to what the customers want is more likely to succeed. Second, detailed information on customer's attitude, preferences, and shopping behaviors is more available and affordable. Finally, emerging technological developments enable a firm to personalize its offering, services, and communications. However, they also raise the expectation and the cost of marketing. Thus, marketing managers are faced with simultaneously greater opportunity and challenge of being more customer-centric, and have to cope with this shift with great deliberation.

According to Rust *et al.* (2001), customer equity is the total of the discounted lifetime values of all the firm's customers. Thus, customer equity could be considered as an important element of customer capital. Customer equity management is a comprehensive approach that focuses the effort of the firm on increasing the lifetime value of individual customers in a way that maximizes customer equity (Hogan *et al.*, 2002). Rust *et al.* (2001) contend that customer equity consists of three key drivers: value equity, brand equity, and relationship equity. By assigning proper strategic roles and resources to the three drivers, a firm can achieve its best performance. According to Rust *et al.* (2001), value equity is the customer's objective assessment of the utility of a brand, based on perceptions of what is given up for what is received. Three key levers influence value equity: quality, price, and convenience. Brand equity is the customer's subjective and intangible assessment of the brand, above and beyond its objectively perceived value. The key levers of brand equity are brand awareness, attitude toward the brand, and corporate ethics. Relationship equity is the tendency of the customer to stick with the brand, above and beyond the customer's objective and subjective assessments of the brand. The key levers are loyalty programs, special recognition and treatment, affinity programs, community-building programs, and knowledge-building programs. A firm sometimes cannot pursue the three drivers of customer equity simultaneously, thus having to make a trade-off decision. Besides, the importance of specific driver depends on industry, the maturity of the firm, and the customer decision process Rust *et al.* (2001).

Membership relationship marketing

Relationship marketing has been a major concern in the studies of channel management. Recently, membership relationship management has been receiving increased research attention (Bhattacharya, 1998). Membership relationships have characteristics that are distinctly different from those in the marketing channel area. First, the numbers of customers of concern are different: in channel studies, the focus is typically on a single key account or a small number of accounts. While in the membership relationship, it usually involves the management of hundred or thousands of customers. Second, channel relationships have more to do with the issues of trust, power and dependence, opportunistic behaviors, transaction-specific behavior of the partners (e.g. John, 1984; Doney and Cannon, 1997; Heide and John, 1988). In membership relationship, managers are interested in collective behaviors of members, such as membership retention rates, degree of member participation, and co-production or volunteering behavior. In addition, managers are interested in the psychological bonds of the membership, such as identification and commitment (Bhattacharya *et al.*, 1995; Sheth and Parvatiyar, 1995).

To build membership relationship, an organization needs to expend adequate resources and activities. Scholars in relationship marketing research have suggested several types of efforts: core service performance, recognition for contributions, membership interdependence enhancement, dissemination of organizational knowledge, and reliance on external membership requirements (Parasuraman *et al.*, 1991; Sheth and Parvatiyar, 1995; Gruen *et al.*, 2000). Gruen *et al.* (2000) define “reliance on external membership requirement” as the extent to which the organization attempts to persuade an intermediary to use its influence to encourage or require the individual under its influence/authority to join and maintain their membership. Gruen *et al.* (2000), contend that this type of arrangement may increase the retention rates, yet may engender a negative effect on the level of affective commitment of membership.

Conceptual framework

In addition to the literature review, we also conducted in-depth interviews with managers and members of multilevel marketing firms. Through this exploration process, we developed a conceptual framework to depict the relationship between three sets of key variables as shown in Figure 1.

We propose that relationship marketing activities are positively related to the drivers of customer equity. By nature, membership activities aim at relationship building; they are likely to enhance a firm’s relationship equity, yet have little to do with value equity. Some types of relationship marketing activities may be related to brand equity. Specifically, reliance on external membership requirements is likely to result in better brand awareness, thus contributing to brand equity.

Subsequently, customer equity drivers are positively related to customer capital because customer equity drivers represent the potential of a firm to increase its customer equity or customer capital. Finally, since we address the issue of customer capital from the perspective of individual members, we elect not to use the behavioral data, e.g. aggregate retention rate or new member acquisition rate. We use the intention of customer to stay in the organization (customer retention), to recruit new members (customer acquisition), and to make add-on purchase instead. We expect value equity and brand equity drivers to increase the likelihood of customer acquisition and customer retention, which, however, may not have significant influence on add-on purchase, because add-on purchase involves purchase of new products, which will require higher trust in the firm. Add-on purchase will be more likely when the

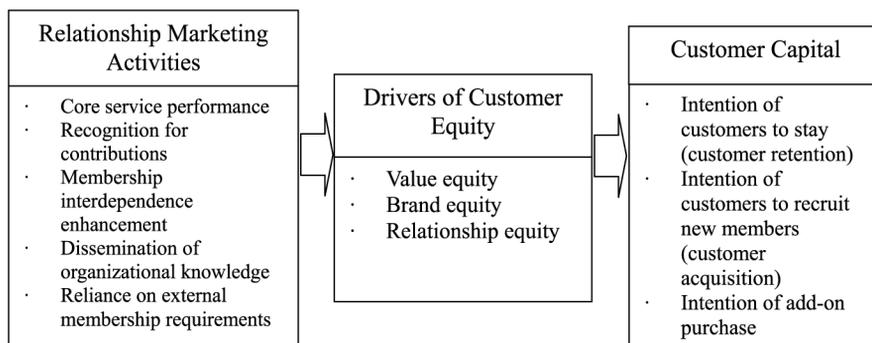


Figure 1.
Conceptual framework of research

relationship equity is stronger. To sum up, we propose that customer equity plays the role of mediation between relationship marketing activities and customer capital. The research hypotheses are thus as follows:

- H1-1.* Core service performance is positively related to relationship equity.
- H1-2.* Recognition for contributions is positively related to relationship equity.
- H1-3.* Membership interdependence enhancement is positively related to relationship equity.
- H1-4.* Dissemination of organizational knowledge is positively related to relationship equity.
- H1-5.* Reliance on external membership requirements is positively related to relationship equity.
- H2.* Reliance on external membership requirements is positively related to brand equity.
- H3-1.* Value equity is positively related to the intention of customers to recruit new members.
- H3-2.* Value equity is positively related to the intention of customers to stay.
- H3-3.* Brand equity is positively related to the intention of customers to recruit new members.
- H3-4.* Brand equity is positively related to the intention of customers to stay.
- H3-5.* Relationship equity is positively related to the intention of customers to stay.
- H3-6.* Relationship equity is positively related to the intention of customers to make add-on purchase.
- H3-7.* Relationship equity is positively related to the intention of customers to recruit new members.
- H4.* Customer equity drivers play the mediation role in the effects of relationship marketing activities on customer capital.

Methodology

The sample

The data used for empirical validation were obtained from a survey on members of four multi-level marketing firms in Taiwan. These multi-level marketing firms are well established in Taiwan, and they sell a variety of housekeeping and personal care products as well as nutritional supplements. The sampled firms typically have more than 10,000 members who have dual roles of consumer and dealer. Members usually renew their membership annually, and are rewarded according to their consumptions, retail sales, and their success in directing members recruited by them.

With the help of managers of one multi-level marketing firm, we were able to distribute our questionnaires to the members during their regular meetings in Taipei and Kaoshung, two major cities in Taiwan. We also obtained help from a company to

distribute and collect questionnaires. In addition, we used snowball sampling to contact members of multi-level marketing firms. Through these methods, we distributed 580 questionnaires and obtained 311 filled-out questionnaires, with 306 valid responses. Therefore, we have an effective response rate of 52.8 percent. Most of our respondents were female (76.7 percent) with age ranging from 20 to over 60. The educational level of the respondents by percentage from high to low was senior high school (45.4 percent), two-years college (32 percent), university (20.1 percent), and graduate school (2.3 percent). The data collection period lasted from April to May 2003.

Measurements development

Relationship marketing activities. We followed Gruen *et al.* (2000) to classify relationship marketing activities into five categories. First, core service performance, by which we mean the quality and quantity of service rendered to members by the firm. Second, recognition for contributions refers to the extent to which the firms show appreciation to members for their contributions to the firms. Third, membership interdependence enhancement, with which the firms offer opportunities, motivations, and capabilities, encourage mutual exchange of values among members. Fourth, dissemination of organizational knowledge refers to the activities of the firms promoting the objectives, policies, values, and programs to members. Fifth, reliance on external membership requirements refers to the attempts of the firms to persuade and encourage members to recruit new members to join the firms and maintain their memberships. We developed specific relationship activities based on the interviews with managers and members of multi-level marketing firms concerning their practices in Taiwan. Five-point Likert scales were used, which included 20 statements for the respondents to express their degrees of agreements.

Drivers of customer equity. Drivers of customer equity are defined as the state of a firm that enables a firm to increase its customer equity. Following Lemon *et al.* (2001), we used the same sets of key levers of value equity, brand equity, and relationship equity to describe the drivers of customer equities in the respondents' firms. We measured value equity with the perceived reasonableness of product price, perceived product quality, and convenience with which the members get goods/services from the firms. We measured brand equities with brand awareness, brand attitude, and ethical image of the firms. To measure relationship equity, we asked the respondents to express their attitudinal and behavioral loyalty, their identifications with the mission of the firm, their participations of brand-community activities, their knowledge sharing with other members, and the special treatments and recognition received from the firm. The measurements were five-point Likert scales, with eight, nine, and 12 items, for value, brand, and relationship equity driver, respectively.

Customer capital. Among the indicators of customer capital, loyalty and/or customer retention are most often used (Chen *et al.*, 2004; Edvinsson and Malone, 1997; Kaplan and Norton, 1996; Duffy, 2000). We also adopted this approach. We used the intention of customers to stay, to make add-on purchase (which means customers would buy more of the current and future products/services of the firm) and the intention to acquire new members for the firm as the indicator of customer loyalty, which is also the cornerstone of customer capital. The measurements are modified from the scales used in Zeithaml *et al.* (1996) and Boltan *et al.* (2000) according to the

opinions of the professionals in Taiwanese multi-level marketing firms. Five-point Likert scales were used, which consisted of seven items.

The measurements were pre-tested by seven members of multi-level marketing firms, and modified accordingly. Cronbach's α s of all the multi-item scales were in acceptable range; with the exception of one (recognition for member's contribution) which was 0.6382, the rest were all greater than 0.7110.

Data analysis

We used Lisrel 8.0 to analyze data and test the hypotheses. First, confirmatory factor analysis (CFA) and second-order CFA were conducted to verify the construct validity. Then, structural equations were estimated and hypotheses examined.

Results and discussion

Measurement models

Using second-order CFA, we analyzed the measurement models of the research. The statistics of model-data fitness are shown in Table I. We dropped some items that were lowly correlated with other items in the same constructs. For example, we deleted the item "completeness of product assortment" from the measurement of "product quality", thus increasing the reliability of the measurement models. In all, we dropped one item from driver of value equity, two from relationship equity driver, and three from relationship marketing activities. The modified measurement models all have good fitness statistics (GFI > 0.85, RMR < 0.40) except for "relationship marketing activities", which has more complicated structure but its goodness of fit still falls in acceptable range. The convergent validity of all measurement models is confirmed since the coefficients of the indicators of latent variables are all significant.

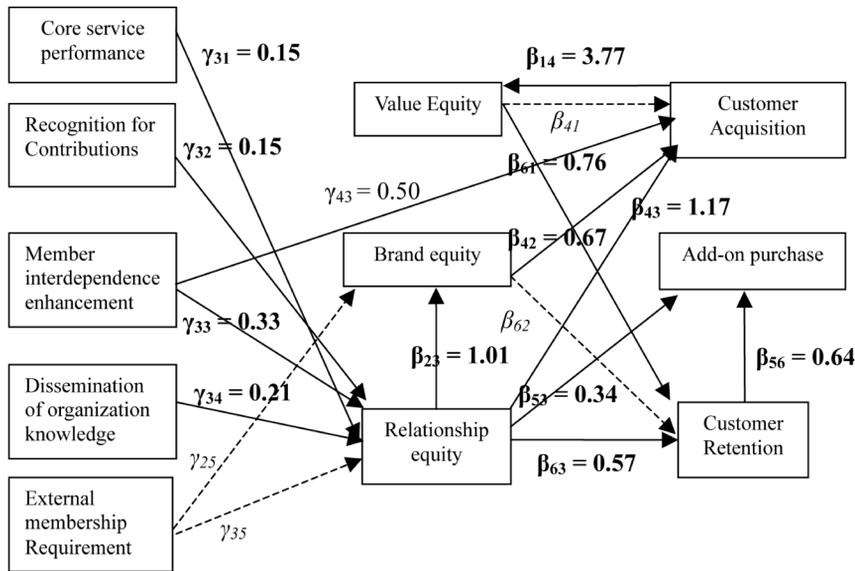
Structure models

Since the measurement models are well confirmed, we used the average of the scores of the indicators to represent the constructs, and conducted a structural analysis of the conceptual framework. The results are illustrated in Figure 2, and the coefficients of the paths are shown in Tables II and III.

The result of structure equation analysis confirms our conceptual framework. The statistics of models-data fitness is good ($\chi^2/df = 2.38$, GFI = 0.96, AGFI = 0.91, IFI = 0.99, CFI = 0.99, NFI = 0.98, and RMR = 0.019). The expected effects of relationship marketing activities on relationship equity (driver) are mostly significant, except for the effect of reliance on external membership requirement (EMR) on relationship equity (γ_{35}). Judging from the coefficients of the paths, member interdependence enhancement has the strongest effect on relationship equity ($\gamma_{33} = 0.33$, $t = 5.68$), and dissemination of organization knowledge ranks the

Measurements	χ^2/df	GFI	AGFI	IFI	CFI	NFI	RMR
Value equity	13.07	0.87	0.70	0.92	0.92	0.91	0.040
Brand equity	10.00	0.85	0.72	0.94	0.94	0.93	0.026
Relationship equity	8.75	0.85	0.73	0.92	0.92	0.91	0.033
Customer capital	12.78	0.89	0.72	0.97	0.97	0.96	0.009
Relationship activities	9.56	0.71	0.60	0.83	0.82	0.81	0.114

Table I.
Statistics of goodness of fit of the measurement models



Chi-Square = 61.79, d.f. = 26, P-value = 0.00010

———— Denotes significant path, at $\alpha = 0.05$

----- Insignificant path

Figure 2.
Paths of effects of the research model

second ($\gamma_{34} = 0.21$, $t = 3.91$). The insignificant effect of EMR on relationship equity can be understood from two perspectives. First, it is found that there are two groups of members of multi-level marketing firm – a pure-consumption group and a profit-motivated group. For the first group, there is no motivation for them to engage in recruiting new members; therefore, they might feel the EMR compulsory.

This is consistent with the findings of Deci (1975), who contends that EMR has a negative impact on the affective commitment to the firm. However, for the second group of members, they are likely to welcome the EM because it is consistent with their goal. Thus the two opposite directions of influence of EMR on relationship equity result in insignificant effect. EMR has no significant effect on brand equity (γ_{25}) as originally expected. The reason for the insignificant effect might be the same as stated above. EMR might be a driver for the multi-level marketing firm to engage in building company reputation (brand equity); yet, it might also because of this strong driver leads the public to regard that the growth of the company are basically through the strong EMR and not based on the competitive advantage. Thus, EMR might end up with insignificant effect on brand equity. To sum up, *H1-1*, *H1-2*, *H1-3* and *H1-4* are supported, while *H1-5* and *H2* are not.

The effects of the drivers of customer equity on customer capital are mostly confirmed, with two insignificant effects and one unexpected effect. That is, the effect of value equity on customer acquisition and that of brand equity on customer retention are not significant. However, customer acquisition has a positive effect on value equity. This implies that if a member of multi-level marketing firm eagerly recommends new

Table II.
The effects of
relationship marketing
activities on customer
equity (γ s)

Dependent variable	Core service performance	Recognition for contribution	Independent variable			External membership requirements
			Member inter-dependence enhancement	Dissemination of organization knowledge		
Brand equity	-	-	-	-	-	NS
Relation equity	$\gamma_{31} = 0.15$ $t = 2.93$	$\gamma_{32} = 0.15$ $t = 2.48$	$\gamma_{33} = 0.33$ $t = 5.68$	$\gamma_{34} = 0.21$ $t = 3.91$	-	NS
Customer acquisition	-	-	$\gamma_{43} = 0.50^a$ $t = 4.29$	-	-	-
Add-on purchase	-	-	-	-	-	-
Customer retention	-	-	-	-	-	-

Notes: ^a Represents those not expected in the original model; - Represents those not estimated in the model; NS represents "not significant"; The rest are all significant

Dependent variable	Independent variable					
	Value equity	Brand equity	Relationship equity	Customer acquisition	Add-on purchase	Customer retention
Value equity	-	-	-	$\beta_{14} = 3.77^a$ $t = 6.36$	-	-
Brand equity	-	-	$\beta_{23} = 1.01^a$ $t = 21.32$	-	-	-
Relationship equity	-	-	-	-	-	-
Customer acquisition	NS	$\beta_{42} = 0.67$ $t = 2.30$	$\beta_{43} = 1.17$ $t = 3.43$	-	-	-
Add-on purchase	-	-	$\beta_{53} = 0.34$ $t = 7.31$	-	-	$\beta_{56} = 0.64^a$ $t = 15.66$
Customer retention	$\beta_{61} = 0.76$ $t = 4.93$	NS	$\beta_{63} = 0.57$ $t = 2.62$	-	-	-

Notes: ^a Represents those not expected in the original model; - Represents those not estimated in the model; NS represents “not significant”; The rest are all significant

Table III.
The effects of customer equity on customer capital (β s)

members into the organization, he/she is likely to consider the value of the firm high, but the other way around is not necessarily true. A member may consider the value of the firm good, yet may not have strong intention to recruit new members into the organization. However, if a firm has strong relationship equity, it is easier to get new members from the old members ($\gamma_{43} = 1.17, t = 3.43$), or if it has strong brand equity, it may also achieve the same result ($\gamma_{42} = 0.67, t = 2.30$). Therefore, *H3-1* and *H3-4* are not supported, and *H3-2, H3-3, H3-5, H3-6, and H3-7* are all supported.

As shown in Figure 2, the model confirms the mediation role of drivers of customer equity in the effects of relationship marketing activities on customer capital. Only “member interdependence enhancement” has a direct effect on customer acquisition, while all the other relationship activities influence the customer capital through the routes of relationship equity and/or brand equity. This conclusion is reached during the process of model estimation, where we found that adding direct effect path actually worsened the performance of the model. Therefore, *H4* is substantially supported.

We also find some unexpected relationships existing. Relationship equity has a positive effect on brand equity ($\beta_{23} = 1.01, t = 21.32$). This effect has not been empirically examined before. However, it is consistent with the branding literature. Aaker (1996) suggests that good CRM is indispensable for building strong brand equity. Another effect not hypothesized is between customer retention and customer add-on purchase ($\beta_{56} = 0.64, t = 15.66$). That is, the more a customer is willing to stay in the organization, the more likely he/she will purchase more of the current and new products of the firm. Therefore, to retain customer is the first step to building stronger relationship and higher customer profitability.

Conclusions

Customer capital is one of the most important sources of values that contribute to the growth of an organization. Since customer capital is resulted from interaction between an organization and its customers, it is important to know how to build effective customer relationships. We used multilevel marketing firms as an example to clarify the relationships between relationship marketing activities and customer capital. We hypothesize that relationship building activities affect customer capital through the effects of drivers of customer equity. The hypotheses are mostly supported. We find that four types of relationship marketing activities – core service performances, recognition for contributions, dissemination of organization knowledge, and member interdependence enhancement – significantly influence relationship equity of a firm. The latter, in turn, affect customer capital, i.e. intention to retain their membership, intention to acquire new members for the firm, and intention to purchase more of the current and future products of the firm. The other two drivers of customer equity, brand equity and value equity drivers, also have effects on customer acquisition and customer retention, respectively. The only type of relationship marketing activity that has no significant effect on customer equity is reliance on external member requirement. The implications of this finding is that compulsory requirement for the member to recruit new members may not be helpful for enhancing customer equity. We also find that increase of member interdependence has a direct effect on new member acquisition. This implies that interdependence can increase the eagerness and confidence of members to obtain new members, which results in higher customer capital.

Customer capital has a feedback effect on value equity. That is, the more the customers are willing to acquire new members, the more they believe in the value of the firm's products/services. This is consistent with the theory of cognitive dissonance. Therefore, firms should try to encourage their customers to introduce new customers because this will strengthen their preference for the firm's products and services.

The research finds relationship equity to be positively related to brand equity. This confirms the theory of branding literature that keeping good relationship with customers is an effective approach to building strong brand equity. Customer retention positively affects add-on purchase. This suggests that marketers should make customer retention its top priority. After this end is achieved, add-on purchases are more likely to occur, and greater customer capital can be expected.

The generalizability of the findings in this research should be examined with more replications in other types of membership organizations or other types of businesses. Our research is from the perspective of individual customers; it would be beneficial to conduct a parallel research from the point of views of the firms to compare the results. Other research methods and data, for example, objective and historical data may be used to shed more light on the effects of different types and quantity of relationship activities on customer equity drivers and customer capital.

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