

## **That's the Way Brand Love Grows: Role of Customer Engagement Across Markets**

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**August 24, 2015**

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## Extended Abstract

For the past several years, assessing the impact of customer engagement with brands has interested marketing practitioners and academics alike. But how does knowledge of such engagement help marketing mix decisions? Conventional wisdom (e.g., Kotler and Keller 2011) in customer relationship management suggests investing in customers that are most responsive to your marketing actions. However, engaged customers may have hit their glass ceiling in purchases, while first-time purchasers have not. In addition, sales conversion from engaged customers could be stronger than those from first-time purchasers. Moreover, both first-time purchasers and repeat purchasers may respond differently to various marketing actions, such as emails and catalogs. As to the end result, engaged customers may convert into sales at a higher or lower rate than new customers do. New customer data sources enable companies to quantify the long-term effects of their marketing actions on customer engagement and brand performance, leading to better marketing decision making. Our goal is to provide concrete directions on how the effectiveness of marketing mix actions can be improved by examining customer engagement using a rich dataset of an International Beauty retailer granted by Wharton Customer Analytics Institute.

Our research methodology consists of three steps. First, we measure customer engagement with RFMC framework. Second, we use clustering techniques to segment the customer base according to customer engagement and demographics. Third, we evaluate the responsiveness to marketing actions in each of the segments. Although many advanced statistical models and data mining techniques have been proposed to estimate customer relationship metrics, recency (R), frequency (F), and monetary value (M) segmentation as a method, is frequently used in practice because of its ease of implementation and its predictive ability. We additionally incorporate the clumpiness (C) metric recently proposed by Zhang, Bradlow and Small (2013, 2014). We combine customer demographics (e.g., location, country, age, gender) with RFMC metrics to segment the customer base. The dynamic interactions and feedback effects are captured in VARX models.

VARX estimation yields a comprehensive picture of the full dynamic system including offline and online marketing actions, and sales performance. In our main specification, we estimate the dynamic interactions among sales and marketing actions using a 4-equation VARX model per segment, where the endogenous variables are sales, promotions, emails, and catalogs. Finally, we examine whether product category characteristics (e.g., involvement, experiential vs. non-experiential) moderate the influence of marketing actions on responsiveness in each of the segments.

By applying the above proposed methodology, managers with access to the relevant information on the costs of each marketing instrument (promotions, emails, and catalogs) can determine the respective appeal of each action. For example, when, how, and to whom (e.g., prospective versus high-value engaged customers) should a brand target the different marketing efforts? Which marketing actions are the most effective to create customer engagement with the brand? Which demographic characteristics (e.g., national culture, urban versus non-urban customers, gender, age) are relevant to understand engagement? And how all does this vary by product category?

In sum, our research helps managers to detect and forecast customer's engagement with the brand, to understand geographic and demographic differences in the link between customer engagement and purchases and to better target marketing actions depending on the level of engagement.