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Do social media marketing activities enhance customer equity? An empirical study of luxury fashion brand ☆

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ABSTRACT

In light of a growing interest in the use of social media marketing (SMM) among luxury fashion brands, this study set out to identify attributes of SMM activities and examine the relationships among those perceived activities, value equity, relationship equity, brand equity, customer equity, and purchase intention through a structural equation model. Five constructs of perceived SSM activities of luxury fashion brands are entertainment, interaction, trendiness, customization, and word of mouth. Their effects on value equity, relationship equity, and brand equity are significantly positive. For the relationship between customer equity drivers and customer equity, brand equity has significant negative effect on customer equity while value equity and relationship equity show no significant effect. As for purchase intention, value equity and relationship equity had significant positive effects, while relationship equity had no significant influence. Finally, the relationship between purchase intention and customer equity has significance. The findings of this study can enable luxury brands to forecast the future purchasing behavior of their customers more accurately and provide a guide to managing their assets and marketing activities as well.

1. Introduction

The luxury market has attained maturity, along with the gradual expansion of the scope of its market and a rapid growth in the number of customers. Luxury market is a high value-added industry basing on high brand assets. Due to the increased demand for luxury in emerging markets such as China, India, and the Middle East, opportunities abound to expand the business more than ever. In the past, luxury fashion brands could rely on strong brand assets and secure regular customers. However, the recent entrance of numerous fashion brands into the luxury market, followed by heated competition, signals unforeseen changes in the market.

A decrease in sales related to a global economic downturn drives luxury businesses to change. Now they can no longer depend solely on their brand symbol but must focus on brand legacy, quality, esthetic value, and trustworthy customer relationships in order to succeed. A key element to luxury industry becomes providing values to customers in every way possible.

As a means to constitute customer assets through effective communication with consumers, luxury brands have tilted their eyes toward social media. Marketing communication using social media such as Twitter, Facebook, and YouTube has already been evaluated as business take-off tools for luxury fashion brands. Traditional designer houses such as Louis Vuitton provide live broadcasting fashion shows on their blogs. Ralph Lauren, Chanel, Donna Karan, and Gucci have worked with Apple to create iPhone applications.

Many luxury houses create their own Twitter accounts or post themselves on Facebook. Brands and customers are communicating with each other without any restriction in time, place, and medium so that old-fashioned one-way communication is changed to interactive two-way direct communication. In this way, brands and customers are working together to create new products, services, business models, and values. Meanwhile, brands can gain exposure and strengthen relationships with customers. Social media marketing (SMM) is a two-way communication seeking empathy with young users, and even enforcing the familiar emotions associated with existing luxury brands to a higher age group. In addition, social media activities of brands provide an opportunity to reduce misunderstanding and prejudice toward brands, and to elevate brand value by creating a platform to exchange ideas and information among people online.

With the increased use of SMM by luxury brands, it has become highly necessary to quantitatively analyze the effects of the social media. Thus, the purpose of this study is to identify the constructs of perceived SMM activities of luxury fashion brands, and to evaluate

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the influence of those activities on customer equity and purchase intention. As the luxury business environment is undergoing a rapid change, this research will redefine the properties of luxury brands that affect their performance so as to guide businesses to manage and elevate them. This research will propose a strategy to enhance brands' performance by defining specific factors relating to customer equity and purchase intention. Moreover, the findings will enable luxury brands to forecast customer purchasing behavior and manage their customer equity and social media activity as well.

2. Social media marketing activities

2.1. SMM activities and their effects on firm performance

Social media are online applications, platforms and media which aim to facilitate interactions, collaborations and the sharing of content (Richter & Koch, 2007). They take a variety of forms, including weblogs, social blogs, microblogging, wikis, podcasts, pictures, video, rating and social bookmarking. As their use increases exponentially, not only existing social networkers but even business firms and governmental organizations are joining and using them as communication tools. Unlike individual social networkers, these entities actively make use of the media for advertising and marketing. While commercial messages and interactions with consumers partner with media, events, entertainment, retailers, and digital services through social media, it is possible to perform integrated marketing activities with much less effort and cost than before.

According to Kim and Ko (2010a), social media can have a dramatic impact on a brand's reputation. One-third of survey participants posted opinions about products and brands on the brand's blog, and 36% thought more positively about companies that have blogs. A recent study by DEI Worldwide (2008) provides the following statistics: 70% of consumers have visited social media sites to get information; 49% of these consumers have made a purchase decision based on the information they found through the social media sites; 60% said they were likely to use social media sites to pass along information to others online; and 45% of those who searched for information via social media sites engaged in word-of-mouth. The report states that companies not engaging in social media as part of their online marketing strategy are missing an opportunity to reach consumers. With a significant percentage of people passing along information to others through social media, the value of one customer is worth far more than what he or she initially spends. Thus, firms and brands now need to factor in the value of customers and also the influence of social media on them.

2.2. SMM activities of luxury brands

Technology development benefits the world of fashion by attracting customers to interact with the brands. Fashion brands' involvement in such things as tweeting, blogging, and networking has led luxury brands to participate in the current trend. At first, most of the brands were somewhat reluctant to use technology; however, the industry has come to consider technology as an opportunity rather than a threat. Unlike the first predictions, social media do not act against the positive reputation of brands. Interaction with customers via social media sites such as Facebook and Twitter actually builds up friendly attention, even affection, toward brands and stimulates customers' desire for luxury.

Luxury brands' use of social media began to surge in 2009. Gucci created a multicultural social network site, "Guccieyeweb.com," as Gucci launched a new sunglasses collection targeting digital generation customers. Gucci updates its Facebook site as often as three times a day and is constantly tweeting on Twitter. Burberry launched a social network site, "Artofthetrench.com," in November 2009, with the purpose being noncommercial: to elicit admiration for the design of their trench coats and create Burberry fans while communicating its culture with customers. Online sales increased after the site was launched and the participation of customers online resulted in broadened insights for Burberry as Burberry creates more stories of the brand (Samsung Design Net, 2009).

Dolce & Gabbana uses social media in order to get direct feedback from its customers. Dolce & Gabbana invites fashion bloggers to the front seats of its fashion shows, and the bloggers instantly upload feedback from the show on Facebook and Twitter. In that way, customers get to see their favorite brand modeled directly without the involvement of fashion editors or merchandisers, and the company builds purchase intentions right away. Chanel, Louis Vuitton, Yves Saint Laurent, and Stella McCartney now have Facebook as well as Twitter accounts.

3. Customer equity and its drivers

The value a customer brings to a firm is not limited to the profit from each transaction but is the total profit the customer may provide over the duration of the relationship with the firm (Kumar & George, 2007). Thus, customers are seen as the intangible assets a firm should wisely acquire, maintain, and maximize just like other financial assets (Blattberg et al., 2001). Customer equity, usually defined as the discounted sum of customer lifetime values, has been considered the most determinant of the long-term values of the firm (Kim, Park, Lee, Knight, Xu & Jeon, 2010; Lemon et al., 2001).

3.1. Drivers of customer equity

Lemon et al. (2001) defines three types of equity—value, brand, and relationship—as key drivers of overall customer equity. First, "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 (Vogel et al., 2008). Three key influences on value equity are quality, price, and convenience (Lemon et al., 2001).

Second, relationship equity expresses the tendency of customers to stay in a relationship with a brand, going beyond objective and subjective assessments of it. Usually, loyalty programs under a firm's control may enhance relationship equity; however, loyalty toward a certain brand grows weaker than yesterday as a variety of alternatives are offered to customers. What is necessary is to build strong customer relationship through special treatment or recognition, and community programs can be an efficient way to boost relationship equity.

Third, brand equity is a customer's subjective and intangible assessment of the brand over and above its value (Kim et al., 2008; Lemon et al., 2001). Brands are the best at building images that make customers identify that specialty from among others (Keller, 1998). The key actionable levers of brand equity are brand awareness, attitude toward the brand, and corporate ethics (Lemon et al., 2001).

4. Purchase intention

Purchase intention is a combination of consumers' interest in and possibility of buying a product. As a result of many studies, it strongly relates to attitude and preference toward a brand or a product (Kim, Kim & Johnson, 2010; Kim & Ko, 2010b; Kim & Lee, 2009; Lloyd & Luk, 2010) so that measuring purchase intention assumes consumers' future behavior based on their attitudes. Purchase intention is an attitudinal variable for measuring customers' future contributions to a brand, whereas customer equity is a behavioral variable accounting for actual purchasing record. As forecasting of consumers' future behavior becomes a critical issue for a firm, that future behavior should be estimated more punctually (Park, Ko & Kim, 2010).