

CAN CUSTOMER EQUITY BE THE MEDIATING VARIABLE BETWEEN SOCIAL MEDIA MARKETING ACTIVITIES AND PURCHASE INTENTION?

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ABSTRACT

Technological advances have changed the traditional marketing. The increasing number of social media users becomes an advantage for marketers to create new marketing patterns. This study focuses on the relationship between social media marketing, customer equity and purchase intention. The research was conducted in the mobile phones market in Bandung, Indonesia. The data were collected from the main electronics shopping district in the city of Bandung that has a high purchasing power for branded mobile phones and gadgets. In order to test the validity, reliability and hypothesis, the smartPLS 3.0 program was used. The results show that the significant effect on the three drivers of customer equity is due to social media marketing. In contrast to previous research indicating that from the three customer equity drivers, only value equity has a mediating role between purchase intention and social media marketing. From the three customer equity drivers, only value equity has a significant influence on purchase intention. This research provides theoretical and managerial contributions to the literature.

Keywords: *Social Media Marketing, Customer Equity, Value Equity, Relationship Equity, Brand Equity, Purchase Intention.*

1. INTRODUCTION

Recent years have seen rapid technological advances which result in various changes. The internet and social media provide facilitate effective communication with customers; marketing through social media can affect purchase intentions [11]. Social media such as Facebook, Twitter, Youtube and Instagram have provided product and brand information without place and time restrictions. Social media can also create customer loyalty by establishing long-term relationships between companies and customers better than ever [16].

The smartphone industry has become one of the most powerful industries in the world with increasingly intense competition between brands and companies[1]. Vendors make innovations in terms of specifications, designs and materials even though these innovations are common in the smartphone industry today. According to market research institute IDC (International Data Corporation), until 2017 samsung is still dominant in the smartphone industry, beating its rivals such as Apple, Huawei, oppo, vivo and others. Apart from the case of Samsung's failure in the launch of the galaxy note 7 product in 2016, Samsung

still had a strong position in the smartphone industry until 2017 [8]

In 2013 Econsultancy named samsung as the brand most often referred to in social media. The data is taken from facebook, twitter, youtube and other social media platforms. In 2013, Samsung also outperformed its competitors in terms of sharing video ads on social media. Social media becomes the most effective marketing channel, being the first choice in the category of digital marketing channels used by companies [8].

Marketing through social media has gradually become part of companies' business. Thus, the effect of marketing activities on corporate performance through social media needs to be considered [31]. The purpose of this study is to determine the effect of social media marketing on customer equity and purchase intentions. According to [18], three factors contribute to customer equity, which are value equity, brand equity, and relationship equity. This research contributes to the understanding of the impact of social media marketing activities on performance and directs companies' marketing strategies more effectively on the basis of

Indonesian culture. This study adopted the model that has been designed by [16]. In a study conducted by [16], the developed model was re-examined in various cultural categories, products or services for its theoretical validity and reliability in order to be accepted so that the model could be generalized. As order to find out customer's purchase intention is influenced by social media marketing through customer equity, the problems in this study can be formulated as follows; 1. How social media marketing affects customer equity; 2. How customer equity affects purchase intention; 3. How social media marketing affects purchase intention.

2. LITERATURE REVIEWS

2.1 Social Media Marketing

marketing to be part of individuals' online network. The concept of social media marketing is not generally applicable. In the literature, there are many definitions of social media; one of which is proposed by [4] that social media is aimed at making interactions, ie applications made by users and enrichment by internet users. a web-based application that allows the creation and development of ideological content and technology in web 2.0, user-centric structure [15], and an online place where people share thoughts, interpretations, and ideas shared [33]

Social media, at this point, is an online platform and media application aimed at facilitating interaction, collaboration and content sharing [23]. Social media takes on various forms, including weblogs, social blogs, microblogging, wikis, podcasts, images, videos, ratings and social bookmarks. Business enterprises and government organizations also use social media as a communication tools. Unlike the individual social networkers, these entities actively use social media for marketing and advertising. Social media allows integrated marketing activities with more effort and cost than previous marketing activities [16]. Social media no longer evolved around Facebook. Twitter and Instagram are also highly mobile, more specialized and direct. Marketers use social media as an attractive platform for lifestyle communication, a daily and live communication, influencer identifiers (with the use of social media monitoring), real-time communication, and support of existing campaigns. As the second largest Internet search engine, Youtube is an enhanced search platform. [17] states that the main purpose of marketing activities is to increase sales and profitability.

2.2 Customer Equity and its Drivers

One of the earliest studies on customer equity was published by [3]. [10] states that customer lifetime value (CLV) which is defined as the present value of all future profits generated from customers is a core concept of customer equity. The lifetime value of existing customers and potential customers in an organization is referred to as customer equity [18]. [18] states that three factors contribute to customer equity, which are brand equity, value equity and relationship equity. In terms of benefiting in the future from customers, customer lifetime value and customer equity concepts have been offered in the last few years [10]. The positive relationship between marketing activities and customer equity has been shown in previous studies. [29] explains that intangible assets such as brand equity can affect marketing activities, customer equity and customer lifetime value.

2.3 Purchase Intention

Intentions are behaviors that appear in response to objects. Purchase Intention is also a re-purchase interest indicating the customer's desire to repeat purchase. Purchase intention is a concept that has an important role in the procurement decision stage [14]. Buying intention is a tendency to buy certain products or services influenced by customer attitudes, satisfaction and customer perceptions [20], [27], [30]. This concept also indicates the possibility to apply for purchases and products or services to the others [6], [22]. The results of prior studies show that preferences and attitudes are closely related. Because of that, the purpose of measuring purchase intentions is to reveal future consumer behavior based on their attitudes. Purchase intention is a variable that is useful for measuring future customer contributions to the brand, while customer equity is a behavioral variable that actually generates the sale. Predicting the future behavior of customers is very important for predicting the future behavior of the company [16]. Predicted future consumer behavior, especially purchasing behavior, is the most important planning dimension. Consumer purchasing perception is an important factor for companies that are looking for consumers, to try to retain consumers and also pursue their lives more competitive.

3. RESEARCH METHOD AND HYPOTHESES

3.1 Research Method

The data analysis in this research employed SmartPLS 3.0 program. PLS or Partial Least Square is a variant-based structural equation analysis that can simultaneously test measurement models and test structural models. The measurement model was used to test the validity and reliability, while the structural model was used to test causality, in this case testing the hypothesis with the prediction model. Furthermore, [9] explains that Partial Least Square is a soft modeling analysis method because it does not require that data be measured on a certain scale; it means that the sample size can be small or below 100 samples.

This study used convenience sampling in the area of electronic shopping center, the main electronic shopping district in the city of Bandung that has a high purchasing power for branded mobile phones and gadgets. Because this research focuses on mobile brands that use social media marketing, the respondents only included individuals who had an experience of buying a branded mobile phone or gadget. Data were collected from questionnaires from 2 December to 9 December 2017.

The scale used to measure the structure in the conceptual model was taken from the literature. The scale of "social media marketing activities" developed by [17] was used. The initial scale of social media marketing activities consists of Kim and Ko's item models designed for five dimensions: Entertainment (four items), Customization (four items), interaction (three items), Word of mouth (two items) and Trendiness (two items). Brand equity and value equity with the scale of items were adapted from [24] and [32]. The terms of [24], [7] and [32] were adapted by the relationship equity operational. This scale was also used by [5]. Purchase intentions were measured by two scale items adapted from [19]. Measurements of the five-point Likert scale ranged from "1 = Strongly Disagree" to "5 = Strongly Agree".

3.2 Hypotheses

Figure 1 shows the research model. The conceptual framework of the study was developed based on research objectives and the current literature. The research model was adopted from [16]. This model explains the mediating role of

customer equity on social media marketing and purchase intention.

Marketers used social media marketing to provide product and service information. Social media marketing can create interest and increase company value. [28] states that marketing is an investment that improves customer equity drivers.

H1: Value equity obtained a positive effect from social media marketing activity.

H2: Relationship equity obtained a positive effect from social media marketing activity.

H3: Brand equity obtained a positive effect from social media marketing activity.

Previous studies show differences in findings. [16] found that from the three customer equity drivers, only relationship equity has no significant effect on purchase intention, while [31] found that relationship equity has a positive effect on purchase intention and value equity has a positive effect on purchase intention; only brand equity has no effect on purchase intention.

H4: Value equity has a positive effect on purchase intention.

H5: Relationship equity has a positive affects to purchase intention.

H6: Brand equity has a positive affects to purchase intention.

H7: Social media marketing equity has a positive effect on purchase intention.

Many literatures have investigated the effect of customer equity on purchase intention. It is expected that the three drivers of customer equity mediate SMMA and purchase intention [31]

H8: Value equity has a mediating role in the relationship between social media marketing activity and purchase intention.

H9: Relationship equity has a mediating role between social media marketing activity and purchase intention.

H10: Brand equity has a mediating role between social media marketing activity and purchase intention.

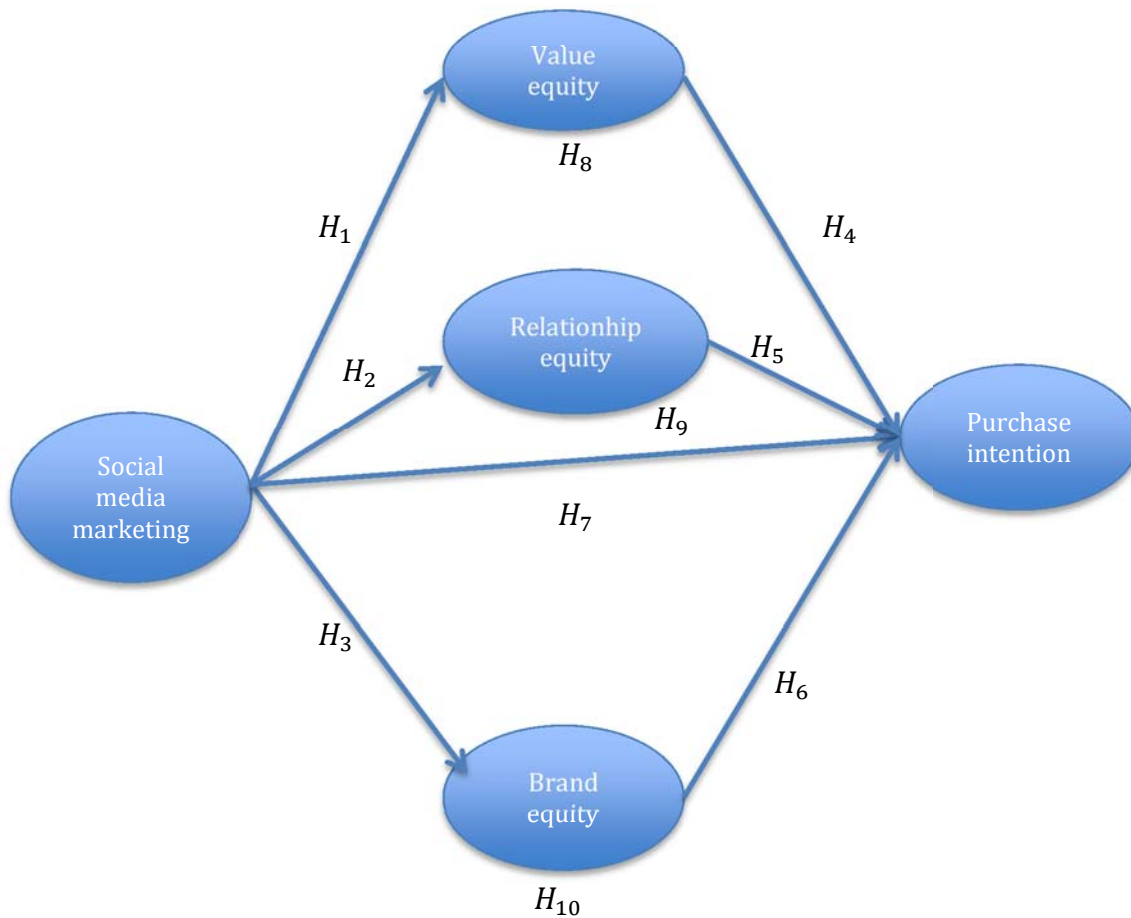


Fig. 1. Research model

4. RESULT AND DISCUSSION

4.1 Descriptive statistics

Table 1 indicates that most of the respondents were male (70%), 47% were in their thirties and 11% were in their forties. From the results of the questionnaire, 60% of respondents have a bachelor's degree. Overall, the participants had a high education status. The total percentage of the respondents whose income was between IDR 5.000.000 to IDR 10.000.000 (a medium income level) was 63%. This is because the research sample represented consumers of smartphones with medium purchasing power. As this research deals with smartphones brands, the its customers are people who love technology, have a high

status in education and have medium income that can afford their needs.

Table 1: Characteristics of Respondents

No	Characteristics of Respondents		Frequency	Percentage
1	Gender	Male	21	70%
		Female	9	30%
2	Age	< 30	5	17%
		30 – 40	14	47%
		> 40	11	37%
3	Level of Education	Primary school	2	7%
		Junior high school	3	10%
		Senior high school	7	23%
		Graduate degeree	18	60%
4	Monthly income	< IDR 5.000.000	6	20%
		IDR 5.000.000 – IDR 10.000.000	19	63%
		> IDR 10.000.000	5	17%

4.2 The measurement model

PLS or Partial Least Square is a variance-based structural equation analysis which can simultaneously test the measurement model. The measurement model was used to test the validity and reliability. Once data was entered, raw data was assessed. Some items were deleted as they related to more than a single factor and had low loading coefficient. Also, using the Cronbach's alpha the reliabilities of items were checked. This procedure was done until obtaining clean factor structure [25]. Social media marketing, brand equity, value equity and purchase intention were assessed in the same way.

Some of the indicators were below the threshold value of 0.708, but was not eliminated because their of contribution to the content validity [12]. From the correlation between indicator scores and variable scores, we can see the convergent validity of the measurement model. The indicator is considered valid if it has an AVE value above 0.5. Based on table 1, all indicators in this study have values above or greater than 0.5. It can be concluded that all the variables in this study are valid. The reliability test used for the accuracy of the questionnaire measurement results is closely related with confidence problem. The test level is said to have a degree of confidence if the test gives the right result. A variable is said to be quite reliable if the variable has a reliability value and Cronbach Alpha is greater than 0.6. All variables in this study have Composite Reliability and Cronbach

Alpha value greater than 0.6. Thus, it can be concluded that all the variables in this research are reliable. The results are shown in table 3.

The results of discriminant validity which used the fornell-larcker test satisfied these criteria because AVE was greater than the square of the correlations [7]. Table 4. shows the comparison between correlation with square root AVE.

Table 2: Measurement model cross loadings

	BE	PI	RE	SMM	VE
BE1	0.623				
BE3	0.887				
BE4	0.698				
PI1		0.897			
PI2		0.862			
RE1			0.844		
RE2			0.865		
RE3			0.634		
RE4			0.798		
SMC1				0.650	
SMC3				0.656	
SMC4				0.750	
SME1				0.748	
SME2				0.620	
SME3				0.748	
SME4				0.705	
SMI1				0.621	
SMI3				0.693	
SMT1				0.777	
SMT2				0.704	
SMW1				0.803	
SMW2				0.694	
VE1					0.858
VE3					0.893

Table 3: Construct Reliability and Validity

Variable	Cronbach's Alpha	Composite Reliability	AVE
Brand Equity	0.619	0.785	0.554
Purchase Intention	0.708	0.870	0.771
Relationship Equity	0.804	0.868	0.624
Social Media Marketing	0.917	0.928	0.501
Value Equity	0.697	0.868	0.767

Table 4: Values for Fornell-Larcker test

	BE	PI	RE	SMM	VE
BE	0.744				
PI	0.454	0.879			
RE	0.593	0.479	0.791		
SMM	0.539	0.109	0.512	0.708	
VE	0.576	0.708	0.535	0.419	0.876

4.3 The structural model

[12]states that the smartPLS algorithm calculated measures for each endogenous variable and the path coefficients for each path within the model for purchase intention was 0.598, which is considered moderate. Bootstrap method was used to calculate the significance of each path coefficient. There are some unsupported hypotheses. The results are shown in Table 5.

Since only value equity was used as the mediator between social media marketing and purchase intention, we ran the bootstrap. First, the model was run without value equity; then, it was run with value equity.

All paths in Fig. 3. were significant at $p < 0.05$, supporting the hypothesis that value equity is a mediator. We then calculated the Variance Accounted For (VAF) factor, as follows:

$$\text{Variance Accounted Factor} = ab/(ab+c') = 72\%$$

Table 5: Support of hypotheses

Hyphoteses	Path	Result
H1	SMM -> VE	Supported
H2	SMM -> RE	Supported
H3	SMM -> BE	Supported
H4	VE -> PI	Supported
H5	RE -> PI	NS
H6	BE -> PI	NS
H7	SMM -> PI	Supported
H8	SMM -> VE -> PI	Supported
H9	SMM -> RE -> PI	NS
H10	SMM -> BE -> PI	NS

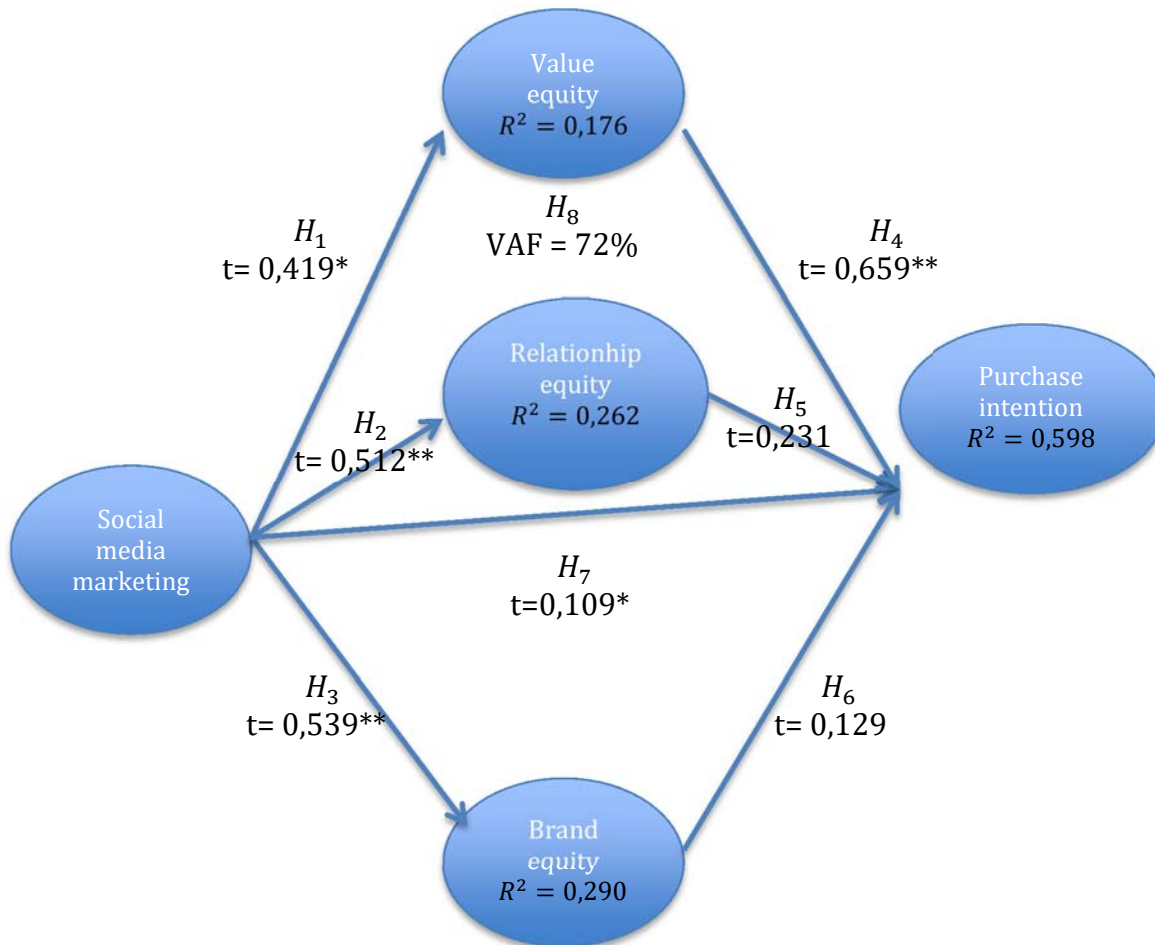


Fig. 2. Results of analysis of structural model. * Represents significance of $p < 0.05$.

** Represents significance of $p < 0.01$

5. NOVELTY

Basically, the novelty of this research leads to a purchase intention model that is influenced by value equity and social media marketing. The novelty of this research emphasizes that in order to increase purchase intention, value equity must be supported by good social media marketing. Therefore, the company's social media marketing activities are more directed at conveying product values such as price, convenience and product quality, in order to increase customer purchase intention.

6. CONCLUSION

This research examines the social media marketing effects on customer equity drivers and purchase intention. The research also examines the mediation roles of customer equity driver between purchase intention and social media marketing.

In this research, social media marketing consists of five constructs which are stated by [16], which are entertainment, customization, trendiness, interaction, and word of mouth. The finding of this research indicates that social media marketing affects all drivers of customer

equity. The finding is in line with the findings of previous studies such as [16], [31] and [2]. This result show that social media marketing is effective for increasing value equity, brand equity, relationship equity and purchase intention. Social media marketing offers new things. This research has shown that Samsung mobile that entered the smartphone market obtained more profit through social media marketing because smartphone is one of means for accessing social media.

The next finding is that from the three customer equity drivers, only value equity that has an effect on purchase intention. The significant effect of value equity on purchase intention is similar to the findings of previous studies such as [16], [31] and [2]. Relationship equity does not have a significant effect on purchase intention. This is in line with the findings of [16]. Brand equity is also insignificant to purchase intention. This finding is similar to that of [31]. Cultural differences and product types allow this to happen, customers can be more concerned with value and quality than brands and relationships between customers and suppliers. As was the case in 2016 when Samsung launched the Samsung Galaxy Note 7, the product defect issue made customers unwilling to buy the product despite the lure of big brands and good relationships between customers and suppliers. In the smartphone industry, innovations such as specifications, designs and materials are highly demanded by customers. Therefore, value and quality become key factors in determining purchasing decisions.

The next finding is that from the mediating variables (value equity, relationship equity, brand equity), only value equity mediates social media marketing and purchase intention. Increasing value equity can create purchase intention. Using social media marketing as a marketing communication method can help attract consumers. With advances in technology, customers get more information about the products they will use, so that customers are now smarter in making choices. Customers determine purchases based on offer, price and convenience, brands are no longer the basis for determining product purchases. The results of this study are still limited to Indonesian culture or society, so it is necessary to conduct research on different cultures and countries so that the research model can be generalized.

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