

COMMUNITY BASED MARKETING AND CUSTOMER LIVE TIME VALUE: AN ANALYSIS ON THEIR POTENTIAL FOR IMPROVING THE ECONOMY OF EAST JAVA PROVINCE

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Abstract

The purpose of this study is to analyses the typology and factors determining the formation of customer communities, to know the patterns and forms of costumer communities, and to examine product penetration to customer communities in East Java province. This study uses a mixed method research with an exploratory approach. A qualitative approach is used to find answers to the objectives of the study. Typology of communities based on factors forming the communities can be due to similarities in brand or product consumed. Product penetration in each community can be done without any intervention or direct relationship with the company. The relationship between companies and communities can be divided into three forms. First, companies do not undertake any relationship with communities. Second, companies provide sponsorship and assistance for community activities incidentally. Third, companies build continuous collaboration with communities to organize joint activities. Quantitative testing of the 16 (sixteen) hypotheses shows that only 6 (six) hypotheses are supported by this study model. These results are expected to represent the contribution of Community Based Marketing in improving the Customer Lifetime Value and its implications for the economy of East Java Province.

Keywords: Community typology, Community Based Marketing, Customer Lifetime Value

1. INTRODUCTION

These days, consumers should be regarded as a partner, not merely as a user or object of the target market. It encourages a paradigm shift in the marketing system into a many-to-many system that allows the company to interact more intensely through the horizontal approach and low-cost-high-impact with customers. The implementation often used is the formation of communities. In an era such as this, Community Based Marketing is considered as one of the alternatives in the application of appropriate marketing strategies. This approach refers to marketing activities that focus on groups or communities that exist in the society, not just limited to the offline but also online community.

Furthermore, Community Based Marketing strategy is indicated to affect the increase in Customer Lifetime Value. In general, Customer Lifetime Value shows the values and behaviors of the company to maintain a good relationship as a partner with customers for a relatively long period of time. In the perspective of marketing,

Customer Lifetime Value is measured by increasing the quantity on the use of the product (quantity usage), loyalty, the willingness to recommend (word of mouth) and purchase intention (Kim and Cha, 2002; McDonald, 1996; Wu and Li, 2011).

Moreover, to achieve competitive and comparative advantages in the competition to win the hearts of customers, companies must be capable of implementing good governance involving all components of the company, specifically human resources, and are expected to increase the added value for all interested parties (stakeholders) such as employees, shareholders, customers and communities.

By managing Community Based Marketing that will stimulate Customer Lifetime Value, then the long-term implications to be expected are the increase in customer demand, company's productivity, healthy competition, good investment climate, as well as technological and industrial infrastructure—all are the key catalysts in improving the economy of a region or country.

With so many benefits and significance of Community Based Marketing approach, this study is important in terms of seeing how far the Community Based Marketing has been implemented at each typology community located in East Java Province. In addition, this study also analyzes the potential for Community Based Marketing to increase Customer Lifetime Value in particular and the economy of East Java Province in general. Furthermore, this study also investigates the patterns and relationships that occur between each typology of community with a specific product or brand and the effectiveness of each approach of the company.

2. LITERATURE REVIEW

2.1. Community Based Marketing

Bryan (2004) explains that Community Marketing is a marketing strategy to bind or engage the customers with other customers or between customers with prospects, in a community with various forms of activities. If the strategy of marketing communications such as advertising, promotions, public relations, and sales all focus on attracting new customers (acquisition and penetration), Community Marketing focuses on meeting the needs of existing customers (retention).

Kertajaya (2010) adds that communitization is a marketing practice that is more horizontal in which what happens is the formation of a community of a group of people who care for each other with common purposes, values, and identity, in contrast to the segmentation in which each segment members may not care about each other. Individuals, who are equal one to another, in a horizontal manner, carry out communitization.

Furthermore, Bryan (2004) states that the devices used in the Community Marketing are varied. First, it is the online social network—that is using the Internet as a medium of communication (mailing list and blog). Second, it is a tool for special community features in which to increase community participation, many companies offer tools and features exclusively to members of the community such as webcasts, podcasts, and email bulletins. The key success of these devices is the value of the message that is beneficial to the members. Third, it is community and government infrastructure in which some community asks

for participation from their members by choosing the chairperson, advisory board members, and community service groups. Fourth, it is a partnership which refers to public relations activities with a consumer protection organization.

2.2. Customer Lifetime Value

Kotler (1997) suggests the definition of Customer Lifetime Value as the net income derived from certain customers over time as long as they continue to purchase products from the company. Levin (1999) states that Customer Lifetime Value is profit generated from all of the steps required by companies to maintain relationships with customers. Dwyer (1989) proposes that Customer Lifetime Value is the net value of the expected profits of companies subtracted by their associated costs.

Peppers and Rogers in Pfeifer et al. (2005) state that customers are not the same as each other and companies can benefit by learning to identify and exploit differences in customers. According to the principle of 80/20 (Pareto Principle), 20% of customers can bring 80% of the total profit customers may bring (Berry, 1995). Therefore, to determine how to retain 20% of the customers and how to measure Customer Lifetime Value is a very important topic for companies.

Furthermore, research by McDonald (1996) evaluating Customer Lifetime Value based on customers' perspective, and it shows that usage quantity, loyalty, purchase intentions, and word of mouth serve as an index for measuring Customer Lifetime Value. McDonald (1996) proposes that Customer Lifetime Value can be evaluated by two (2) important aspects, namely:

- (1) Core Relationship, consisting of two items:
 - a) Usage factor is the duration and strength of the company's relationship with its customers, namely, contact frequency or usage quantity.
 - b) Fan identification that refers to the personal commitment of customers such as loyalty.
- 2) Extension Relationship, consisting of two items:
 - a) Product merchandising, that refers to purchase intention) affected by marketing and communication tools.

- b) Word of mouth, which is used to measure the effects of the products and services provided by the company based on existing customers to potential customers.

In a study by Kim and Cha (2002), Customer Lifetime Value is measured by the number of customer purchases, continuity of relationships, and word of mouth. Moreover, in their research on the influence of hotel preferences to Customer Lifetime Value, Wu and Li (2011) measure Customer Lifetime Value using dimensions of usage quantity, loyalty, word of mouth, and purchase intentions. In this study, the measurement of Customer Lifetime Value is adapted from the research by Kim and Cha (2002), McDonald (1996), and Wu and Li (2011).

3. RESEARCH METHODS

This study is carried out with an exploratory approach. The exploratory approach is conducted in two sequential phases, qualitative, and quantitative phase. In this design, the results of the analysis of qualitative data are used to help to determine the focus and the type of data collection in the quantitative phase. The first year of study with qualitative descriptive analytic approach puts an emphasis on the analysis of data from direct observations, literature studies, interviews and focused group discussion. In the second year of the study, it continues using a quantitative approach.

To have effective implementation of primary data collection, the research is planned in East Java, consisting of three areas namely Kota Kediri, Surabaya, and Malang. In addition, the study site selection was based on considerations such as 1) Kediri, Surabaya, and Malang are the main cities with the highest level of Gross Regional Domestic Product (GDP) in East Java; 2) the number of youth organizations in East Java is relatively high, and 3) the number of productive age population (15-65 years) is relatively high in East Java.

The study population is the whole community of customers in Kota Kediri, Surabaya, and Malang focusing on customers who have been a customer of a product of a particular company in 2014. In this study, the population and samples are assumed as unknown due to unavailability of official data on the number of customer communities in East

Java that direct observation needs to be done first.

The sampling method in this study is a purposive sampling approach. Purposive sampling is a method of sampling using specific criteria as the basis for sample selection. Sampling in this study is conducted by approaching directly members of the community to be interviewed and asked to fill out a questionnaire with the help of enumerators.

4. RESULTS AND DISCUSSION

Research in this first phase has made observations of community groups in Kota Malang, Kediri, and Surabaya and Focused Group Discussion (FGD) with samples of different backgrounds. The list of communities interviewed by the origin of the city is described in Table 1.

Table 1. Name of Community and Town of Origin

	Malang	Surabaya	Kediri
Name of Communities	Jzone	Pit Angker	Komik
	Stasiun	(Fixie	(Komunitas
	Asosiasi	bicycle)	IT Kediri)
	Model	Starlet	Komunitas
	Malang	Surabaya	Asli Kediri
	Aerosol		
	Malang		
	Oracle		
	Iphone		
	Malang		
	Die Casting		
	Malang		
	Airsoftgun		
	Malang		
	Community		

4.1. Typology Based on Factors Forming the Communities

Based on the results of FGD (Focused Group Discussion) with existing community groups, the researchers found several factors that make up the typology based on the occurrence of a community.

Table 2. Typology Based on Factors Forming the Communities

Typology Based on Factors Forming	Excerpt
	".... all iPhone users can join..." (RYS, 24 years old, Iphone Malang Community)
Same Brand	"... in addition to gatherings, we can always share the use of applications on gadget..." (C, 24 years old, Iphone Malang Community)
	"... it shouldn't be expensive or certain brands, it depends on what you like, this is simply a hobby. If we have free time, we hang out and talk..." (RF, 20 years old, Malang Airsoftgun Community)
Same Interests	"It used to be the only fixie. Just a few people you know. Then, we ask more people, no fixie is OK. Now it's lots of fun. We have more people coming..." (FA, 22 years old, Pit Angker Fixie Community)
	"...the members are the chair of the agency, in Malang and Batu ..." (RD, 51 years old, Asosiasi Model Malang)
Same Jobs	"....we exchange information and business opportunities..." (MS, 46 years old, Asosiasi Model Malang)
	"....yaaa, different backgrounds, we gather as we all come from different areas, you know, remembering our hometowns..." (KM, 48 years old, Komunitas Asli Kediri)
Same Conditions	

Source: Processed Data (2014)

The first type found is the same interests. This type is most prevalent in communities that serve as research objects. In this community, common interests or hobbies such as sports, games or other non-formal activities unite group members. Due to its non-formal type, the community members have heterogeneous background member in terms of age, income, and jobs.

The second type is the same jobs. In this community, group members have the same job. This community can take the form of formal organizations and non-formal for supporting the activities of their jobs or professional development.

The third type found is the same brands. In this community, group members are united by

the ownership of a product with a particular brand. Group activities focus on the use of the product, generally to maximize the functions of the product.

The fourth type found is the same conditions. In this community, members are united by common conditions, such as equality.

4.2. Patterns of Product Penetration Usage / Brand on Communities

Based on the research, three patterns of penetration of the products consumed en masse in the community have been found. First, the products or brands are consumed by members of the community without any intervention or direct relationship with the company. At this type, the majority of members can consume products or brands as they happen to already use them or due to a recommendation from each other as fellow users. Second, the products or brands are consumed by community members because one of the members of the community is the owner, agent, or reseller of the concerned company. At this type, one member informs, persuades, or even suppresses other members to use that particular product or brand. Third, the products or brands are consumed by members of the community due to the promotional efforts were undertaken by the company directly to the community. At this type, active promotion by companies causes the majority of community members to use the product.

Table 3. Patterns of Product Penetration Usage / Brand on Communities

Patterns of Product Penetration Usage	Excerpt
Without any interference or direct relationship with the company	"...we can only find that particular brand in Malang in just one store. Other brands are not as good as this one, what else can we do..." (FA, 26 years old, Aerosol Malang)
One of the members of the community is the owner, agent, or reseller of the concerned company	"...what else shall we use? The best for the Internet connection in Kediri is Speedy." (BR, 32 years old, Komik Kediri) "...we use US games, that's the standard... it happens that I'm a reseller for Malang area." (A 31yers old, Oracle Community)
Promotional efforts were undertaken by the company directly to the community	".... after that promotional program, we all use Cloud KitKat as the offer is promising." (AA, 32 years old, Stasion)

Source: Processed Data (2014)

4.3. Forms of Relationship between Companies and Communities

Based on the findings, some forms of relationship between companies and communities are found. Some communities decide not to deal with certain companies to avoid commercialization while other communities look actively to build a relationship with a company in order to provide mutual benefits. Based on the intensity and forms of intimacy, the relationship between companies and communities can be divided into three forms, namely (1) companies do not undertake any relationship with communities; (2) companies provide sponsorship and assistance for community activities incidentally; and (3) companies build continuous collaboration with communities to organize joint activities (co-creation).

Of the three forms of relationships, the researchers identified three indicators that can be used to measure the closeness of the relationship between companies and customers. Those indicators are (1) initiation, who initiates joint activities; (2) continuity, how often companies engaged in activities done by companies; and (3) contribution, how much money, time, and energy spent by companies to carry out activities together with communities.

Table 4. Forms of Relationship between Companies and Communitie

Forms of Relationship between Companies and Communitie	Excerpt
Companies do not undertake any relationship with communities	<i>"...up to now, US Games has never contacted me, and I've never heard they cooperate with other communities..."</i> (A, 31 years old, Oracle Community)
Companies provide sponsorship and assistance for community activities incidentally	<i>"...we use Café X for our events as they provide the facility, such as the stage..."</i> (AR, 28 years old, JZone)
Companies build continuous collaboration with communities to organize joint activities (co-creation)	<i>"...every month, Telkom asks for cooperation so they can have more people coming to their training..."</i> (BR, 32 years old, Komik Kediri)

Source: Processed Data (2014)

4.4. Quantitative Phase Testing Results

This study is conducted by involving 138 respondents from 37 communities in Kota Malang, Surabaya, and Kediri. Validity test results show that all the variables in the questionnaire are valid. The result of Cronbach alpha reliability for Community Based Marketing is 0.511 and 0.569 for Customer Lifetime Value.

To show the influence of variables, multiple linear regressions are used. The regressions consist of four (4) independent variables consisting of typology of community forms (x1), the pattern of product penetration (x2), forms of relationships between companies and communities (x3), forms of promotion of companies (x4), and of four (4) the dependent variables consisting of usage quantity (y1), loyalty (y2), word of mouth (y3) as well as purchase intentions (y4).

The results of the t-test show that six (6) hypotheses are accepted and ten (10) hypotheses are rejected. Of the six accepted hypothesis are a typology of community forms (x1) significantly affects usage quantity (y1); forms of relationships between companies and communities (x3) significant affect loyalty (y2), and forms of promotion of companies (x4) significantly affect y1, y2, y3 and y4. Hypothesis model of the significant relationships after t-test can be described in Figure 1.

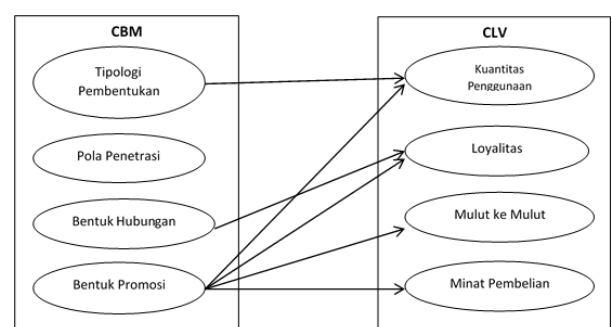


Figure 1. The Model of Hypothesis Test Results

Hypothesis test results of this study indicate that the implementation of CBM has not been able to fully support CLV. A more detailed elaboration of CBM variables that could affect CLV is as follows. First, the same interests, same jobs, same brand, and same interests as constituent variables of the typology of community forms can support the level of

frequency of product usage and purchase intentions as a factor supporting usage quantity. Second, the pattern of penetration of the community in the form of a reference member shows no company involvement does not support an increase in CLV. Third, a good relationship between companies and communities make community members feel that the company is the best option so it can increase loyalty. Fourth, promotion of the company to the community is a variable that is considered the most successful of CBM to affect the formation of CLV. Based on the hypothesis testing, it is known that the promotion forms have such significant effect on CLV. The promotion that involves unconditional donation, sponsorship, barter products or services, special pricing, and competition by holding community support are very supportive toward CLV quantity.

5. CONCLUSIONS AND RECOMMENDATIONS

Based on an analysis using direct observation, literature study, interviews, and focused group discussions with various communities in three towns of East Java, this study is able to picture a model typology of Community Based Marketing which can be summarized as follows:

1. A typology based on the forms of communities is due to (a) the same brand used or product consumed, (b) the same interests, (c) the same jobs, and (d) the same conditions.
2. Patterns of product penetration can be done (a) without any interference or direct relationship with the company, (b) one of the members of the community is the owner, agent, or reseller of the concerned company, and (c) promotional efforts were undertaken by the company directly to the community.
3. Forms of the relationship between companies and communities are (a) companies do not undertake any relationship with communities; (b) companies provide sponsorship and assistance for community activities incidentally, and (c) companies build continuous collaboration with communities to organize joint activities (co-creation).
4. A significant effect is found in six (6) variables of Community Based Marketing; this could be the basis for the decision makers in a company to make effective Community-Based Marketing strategy.

Here are the recommendations are given based on the afore-mentioned discussion:

1. This study can be used as a preliminary study for similar studies. Further research on this topic should be using different research methods in order to examine further Community Based Marketing strategies applied in the communities.
2. Intensive studies are needed, in particular by measuring Customer Lifetime Value and analyzing the implications for the regional economy of East Java in which the measurement is performed on the next phase of research.
3. By knowing the typology of Community Based Marketing implemented in communities to increase Customer Lifetime Value, it is necessary to formulate a model of which approach is the most ideal for use as a Community Based Marketing tool, especially in East Java Province.
4. The study only focuses on testing Community Based Marketing to Customer Lifetime Value, but the value of R square on the model is only 30%. This shows that Community Based Marketing is not too powerful in shaping Customer Lifetime Value directly.
5. This study has tried to develop the measurable concept of Customer Lifetime Value and produced variables and indicators of measurement of Customer Lifetime Value. However, this study is still in the form of grounded research and empirical evidence is still needed to further strengthen the concept.

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