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Impact of Financial and Nonfinancial Constructs on Customer Lifetime Value (CLV): U.S. Retailer's Perspective

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ABSTRACT

Purpose: This customer lifetime value (CLV) study developed and refined an instrument to measure CLV from a *retailer's perspective* using *both* financial and nonfinancial constructs.
Design/methodology/approach: The authors created scale items to measure the financial (monetary value and marketing costs) and nonfinancial constructs (trust, loyalty, purchase frequency, recency, and churn rate). They assessed composite reliability as well as discriminant and convergent validity.
Findings: A varimax rotation indicated strong items for trust and recency under the nonfinancial factors as well as monetary value and marketing costs under the financial factors. Additionally, the measurement model indicated a strong model fit.
Practical implications: The findings reinforce the notion of using financial factors to determine CLV. However, nonfinancial factors are also relevant for explaining CLV. These findings fundamentally shift the argument about the determinants of CLV as well as open the door for further research about the nonfinancial factors of CLV.
Originality: This is the first study to create scale items for measuring the financial and nonfinancial constructs of CLV. The research provides useful theoretical and managerial insights regarding the consideration of nonfinancial factors for refocusing marketing and retailing efforts toward consumers. The study findings reinforce the notion that all customers are not equally valuable.

KEYWORDS
Customer lifetime value; trust; loyalty; churn rate; marketing costs; monetary value

Introduction

Marketers have always believed in the importance of customer retention for remaining competitive and profitable (Dandis & Al Haj Eid, 2022). To increase their likelihood of retaining customers, U.S. companies have moved away from strategies that purely focus on developing quality

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products and strong brands toward those that also focus on the development of sustainable and long-term relationships with customers (Santouridis & Veraki, 2017; Mosaddegh, 2021). Some scholars have even argued that developing a long-term relationship with customers is the perfect recipe for achieving customer loyalty and satisfaction (Herman, 2021; Khan et al., 2022). The customer experience thus becomes a crucial step for achieving customer loyalty and satisfaction. Companies understand the importance of cultivating relationships with customers through varied experiences to encourage their loyalty (Safeer et al., 2021).

Consumer value is a significant concept in the marketing field. It sheds light on consumer attitudes toward products and services in many industries and serves as a determinant of a consumer's intention to purchase. The concept of consumer value has attracted the attention of numerous scholars for decades (Holbrook, 2006; Prahalad & Ramaswamy, 2004; Ravald & Grönroos, 1996; Zeithaml, 1988). However, despite its importance, no universal scale exists for measuring it across sectors, especially in retail. The lack of a scale and the absence of a common understanding among scholars regarding how such value should be measured stem from the concept's complex nature. First, value is perceived as a subjective concept that means different things to different consumers in different buying circumstances (Sánchez-Fernández & Iniesta-Bonillo, 2007). Second, value is assessed through various lenses; for instance, some scholars contend that value is created for consumers through value-in-exchange, where value is predicated on a cost–benefit assessment made by the rational consumer, who seeks to maximize benefits and minimize cost; some through value-in-use, where value is predicated on the consumer experience with the product, and the assessment of a valuable product is made after consumption; some through value-in-context, where the assessment of value is predicated on the role of various actors who contribute to the creation of value and the context in which the actors operate; and some through value in behavior, where value occurs because of the exhibition of a behavior (French & Gordon, 2015; Holbrook, 2006, Zeithaml, 1988). Third, value is perceived as a concept with different connotations, including functional, economic, emotional, social, altruistic, and ecological dimensions (Gordon et al., 2018). As a result, the illustration and analysis of consumer value in the aforementioned studies have mainly been based on outcomes pertaining to consumers' experience with a product and the actors in charge of delivering it. No studies have also investigated value simultaneously from the retailer's perspective. The present study addresses this issue through a comprehensive examination of customer lifetime value (CLV).

Value creation represents one of the ways in which customer experience can be enhanced in the shopping process. Customer value refers to the value that the customer brings to the firm over their lifetime (Safari et al., 2016). Traditionally, it is envisioned as the net present value of the profit stream expected from all transactions over time (Kotler, 1974). CLV is defined as "a measure of the customer segment's profit generation for a business" (Dandis et al., 2022, p. 911), and it plays a significant role in the decision-making process of retail firms for focusing on relationship development and management (AboElHamd et al., 2021; Dahana et al. 2019). Customers are viewed as a critical part of this process as they contribute to the creation of value (Ling-Yee Li et al., 2017). The current conceptualization of lifetime value focuses on the duration of the customer relationship with the firm and the financial contribution of the customer to the firm. Noteworthily, the factors that contribute to the creation of value for the customer from the perspective of retailers are missing from the literature. To date, the "value" in CLV has been estimated through calculation and estimation by the firm based on the customer's shopping habits. However, it also needs to be assessed in terms of how the shopping experience makes customers feel about the company and whether they trust and purchase frequently from it. By using our novel approach and the retailer's perspective of customer habits, we propose a combination of financial and nonfinancial factors for determining CLV, which can be operationalized by retailers. This is the knowledge gap that this study attempts to fill. Moreover, nonfinancial factors seem to have been neglected in the assessment of CLV. The nonfinancial factors identified in this study concerning the customer experience include trust, loyalty, purchase frequency and recency, and churn rate.

Currently, a consensus is lacking among scholars regarding the conceptualization and definition of CLV (Safari, 2016). For instance, in its early stage of conceptualization, Kotler (1974) defined CLV as the "present value of the future profit stream expected over a given time horizon of transacting with the customer" (p. 24). It is apparent that CLV can be estimated using past data for some customers, while for others it can be calculated using their future behavior (Grover & Vriens, 2006). Kumar et al. (2004) define CLV as "the sum of cumulated cash flows – discounted using the weighted average cost of capital – of a customer over his or her entire life with the firm" (p. 61). Similarly, Chang et al. (2012) state that "CLV is a measure of the profit streams generated by a customer across the entire customer lifecycle" (p. 1060).

Moreover, Yoseph et al. (2019) explain CLV using the recency, frequency, and monetary value (RFM) model. RFM is a strong and powerful concept that reflects consumer behavior (Khobzi et al., 2014). Other scholars have considered consumer satisfaction (Raza et al., 2020) and commitment as measures of CLV (Rather et al., 2019). Finally, Dandis and Al Haj

Eid (2022) consider attitudinal and behavioral brand loyalty to be determinants of CLV. In addition to the lack of consensus regarding its definition, scholars struggle to create a standardized concept of CLV across sectors of activity. For example, definitions of CLV differ in the banking sector (Safari Kahreh et al., 2014), the Internet service market sector (Akroush & Mahadin, 2019), and the retail sector. Scholars' divergent views about the dimensions of CLV and the differences in definitions across sectors suggest that a CLV scale needs to be developed, which is the objective of the present study.

In addition, different conceptualizations of CLV have been reported in the marketing and consumer behavior literature (Chang et al., 2012; Ekinci et al., 2014). Although no agreement exists among scholars regarding CLV's measurement, all attempts to measure CLV have similar underlying themes (Safari, 2016). The two common threads across all of the definitions are as follows: (a) the probable financial benefit that certain consumers can help a firm to generate over a certain period, and (b) the fact that the value of a customer should be determined not only by past profits but also by the profits that a firm will generate in the future (Blattberg et al., 2009).

Current literature primarily considers customer profitability analysis (CPA) and customer relationship management (CRM) approaches to CLV. However, we argue that these approaches do not holistically capture business owners' perspective, which considers the temporal aspects of the relationship as they primarily focus on firm key performance indicators (e.g., cost and revenue). The current conceptualization of CLV is largely predicated on the RFM model (De Marco et al., 2021). Recently purchased items refer to the difference between the latest and current items purchased (Hu & Yeh, 2014); frequency of purchase refers to the number of transactions; and monetary value refers to the amount spent by a particular consumer over a period of time. The RFM model offers a glimpse into the amount of business the buyer brings to the company (Esmaeili Gookeh & Tarokh, 2013). The merit of using RFM to predict CLV lies in the discovery of customer value (Hughes, 1994). The RFM model is used to segment consumers and identify those that will bring significant value to a business (Lin & Tang, 2006). Although merit exists in using the RFM model to predict CLV, the limits of the model are quite apparent. It relies mainly on data relative to customers' past purchase behavior (Singh & Jain, 2010) and does not consider future purchase behavior in the estimation of CLV (Fader et al., 2005). In addition, the RFM variables represent outcome variables; in other words, they reveal the outcome of the purchase or the result of the shopping experience. The gap in the current CLV literature is that the factors used to measure CLV in the RFM framework do not offer insights into the consumer experience while shopping. There is no indication in the current CLV literature about the customer shopping journey as a predictor of CLV. We contend that customers' shopping experience and brand experience in the context of CLV are critical. To understand CLV, it is vital to shed light on the customer experience in the store. The shopping experience with the retail establishment would assist in understanding some of the underlying factors, such as trust, loyalty, and value.

The overall objective of the present research is twofold: to refine an instrument that measures CLV from a retailer's perspective, and to test the relationship between financial factors and customer value as well as that between nonfinancial factors and customer value. A preliminary literature review suggested that CLV might be influenced by the following dimensions:

- Customer perception of the current relationship with the firm;
- Customer perception of their past relationship with the firm;
- Customer commitment to the firm; and
- Time spent transacting with the firm.

We further organize these dimensions into measurable constructs. Trust and loyalty define the first dimension; purchase frequency and monetary value define the second dimension; marketing costs and predicted gross contribution margin pertain to the third dimension; and recency of purchase helps to explain the fourth dimension. Both financial and nonfinancial constructs are employed in this effort.

This study presents multiple benefits for both customers and firms, especially in the retail arena. It also provides an opportunity to establish a strong metric for measuring CLV in the field of marketing. First, it establishes a benchmark to reinforce the present conceptualization of lifetime value, which is solely based on performance factors; second, it offers a model of CLV that applies to firms in many sectors; and finally, it creates a scale that is particularly valuable for the service industry because of the focus on current and past transactional relationships, which are relevant for predicting loyalty. Today, the creation of a scale for measuring concepts is one of the primary objectives in the marketing and consumer behavior fields (Farley et al., 2008).

The remainder of this paper is organized as follows: Section "Literature review" presents the theoretical framework of the study, including an overview of scholarly contributions to CLV with an emphasis on the commitment-trust theory of relationship marketing; Section "Construct development: nonfinancial and financial factors" presents the foundation and conceptualization of the proposed constructs; and Sections "Research design and methodology," "Scale development methodology," and "Results:

discriminant and convergent validity" explain the research methodology, data, and results, respectively. The paper concludes with a discussion of the main findings in Section "Discussion" and the study's conclusions in Section "Conclusion, limitations, and future directions."

Literature review

The objective of this study is to develop a scale to measure CLV using financial and nonfinancial factors. It is unsurprising that some scholars trace CLV back to concepts such as CPA (Chang et al., 2012) and CRM (Ekinci et al., 2014). CPA is largely based on the notion of a profit and loss statement (P. Wang & Splegel, 1994). Though profit and loss statements are estimated by using aggregate data, they can also be estimated with singular consumer data. In other words, the profit generated by a firm from a single individual can be estimated given the costs of making the product available to that individual (Yan & Yeh, 2009). Theoretically, it is the gross contribution margin deducted from product-related expenses incurred by a firm when marketing a particular offering to a customer (Chang et al., 2012). On the other hand, CRM consists of systematically building a bank of information about customers' actions and interactions with the organization to understand and anticipate their needs. The underlying assumption of CRM is that customers have different needs that must be approached and addressed with different marketing activities (Ekinci et al., 2014). CPA and CRM help assess the profit generated by every single customer using factors such as time, frequency of purchase, and monetary value—which are fundamental elements of CLV (Kang et al., 2021; Marmol et al., 2021). However, we contend that rooting CLV in concepts such as CPA and CRM only sheds light on CLV from firms' pre-established performance factors (Hajipour & Esfahani, 2019). In other words, CPA and CRM only provide a narrow assessment of CLV. This is precisely why the current conceptualizations and calculations of lifetime value consider terms such as profit, loss, costs, and expenses (Nickell & Johnston, 2019). This assessment, however, does not holistically consider the business owners' perspective. Business owners are better equipped to directly characterize the nature of the past and current transactional relationships that their firms have had and continue to have with their customers, and also whether these transactional relationships eventually lead to lifetime value. To develop an effective CLV scale, it stands to reason that business owners' direct perspective should be relied on. Thus, we elected to use this approach. The notion of "lifetime" in the concept of lifetime value suggests not only *the past and current relationship that a particular customer* has had or currently has with a firm but also the *length of the relationship* and their *frequency of* *purchase* (Kwiatek & Thanasi-Boçe, 2019). The notion of “value” in the concept of lifetime value suggests a give-and-take relationship or cost–benefit analysis, whereby the customer opts for an increasing number of transactions with a particular firm because of the perceived benefits received from the transactions (Messner, 2017). As a result, the customer may demonstrate a *strong commitment* to the firm.

In this study, we operationalized CLV through four separate dimensions—namely customer perception of the current relationship with the firm, customer perception of the past relationship with the firm, customer commitment to the firm, and the time spent transacting with the firm. These dimensions are further segmented into subcategories. The first dimension, labeled “current relationship a customer has with a firm,” is based on trust (or distrust) that eventually results in loyalty (or a one-time transaction). Customer trust and loyalty are crucial determinants of customer relationships with a firm (Atulkar, 2020). The second dimension, labeled “past relationship a customer has with a firm,” cannot be explained by trust and loyalty as the relationship no longer exists. The relevant factors in this dimension are the customer’s purchase frequency when the relationship existed and the financial amount spent by the customer. The third dimension, labeled “customer perception of the firm’s commitment to the customer,” is operationalized by marketing costs. Lastly, the fourth dimension, labeled “time” in this study, is explained using the concept of recency.

In addition, trust, loyalty, purchase frequency, recency, and churn are considered the nonfinancial constructs, while the traditional financial constructs of monetary value and marketing costs are the financial constructs. Each of these constructs is explained in more detail in subsequent sections.

Theoretical framework: commitment-trust theory of relationship marketing

There are many components of CLV in the literature (Mulhern, 1999; Reinartz & Kumar, 2000). To make the case that CLV scale items from a business owner’s perspective are required and inform our hypothesis, this study draws on the trust-commitment theory in addition to frameworks related to CRM, RFM, and the concept of customer experience.

Trust-commitment theory

This study is primarily grounded in the commitment-trust theory of relationship marketing (Morgan & Hunt, 1994). Morgan and Hunt (1994) contend that a successful relationship is predicated on the following two main factors: (a) the parties’ commitment, and (b) the trust they have in each other. In the process of developing this theory, Morgan and Hunt (1994) illustrate relationship marketing by demonstrating the distinction between a discrete short-lived transaction and a relational exchange/transaction based on previous agreement(s) that has the potential to last for a long period. As a result, two parties seeking relational exchange must work together for its success. Huang et al. (2011) demonstrate the importance of trust in a relationship in a study about symbiotic marketing, which is relevant to the present study. Moreover, Mahmoud et al. (2018) reinforce this notion and contend that relationship marketing cannot be seen as a single construct; rather, it is a multidimensional construct that includes trust, commitment, and retention. Trust and commitment are critical components of a successful relationship. In addition, trust and commitment significantly determine consumer satisfaction (Rather, 2019).

CRM approach

The CRM approach allows the gathering of customer data to categorize customers based on their needs. Firms use CRM systems for customer analytics, the data mining of customer information, as well as customer profitability analysis (Persson & Ryals, 2014). Customer segmentation is achieved with factors related to demographics, psychographics, benefits, and behavior. One of the primary objectives of segmentation is to determine the appropriate marketing mix to tailor to customers in specific groups. Customers in the same segment share similar characteristics and expectations and are much more likely to agree or disagree collectively on whether the marketing mix used by a firm meets their needs.

RFM model

The RFM model was initially introduced to measure CLV (Hughes, 1994). First, recency refers to the time interval between when the customer made the last purchase and the end of the statistical period. Shorter intervals indicate high value. Second, frequency indicates the number of purchase actions that customers implement during a period. Finally, monetary value represents the total amount spent by customers in each period (Wu & Li, 2018). Because business owners interact with customers in each of the RFM model actions, they have first-hand knowledge about customers' experience with the firm. Additionally, these owners can help to elucidate customers' experience with the firm.

Customer experience

Experience is widely viewed as a subjective feeling tainted with symbolic and hedonic responses (Chan, 2018). Many scholars define customer experience as a multidimensional construct (Meyer & Schwager, 2020;

Pine & Gilmore, 1998; Schmitt, 1999; Verhoef et al., 2009). Some of these authors have conceptualized it as a five-dimensional construct comprising sensory, affective, cognitive, physical, and social identity dimensions. These authors purport that customer experience is a combination of feelings, information processing, and the desire to act and relate to others. Others have posited that customer experience can be approached from a business perspective (Berry et al., 2002) as well as a customer perspective (Schmitt, 1999). The customer experience construct reinforces the notion that customers are at the center of their journey—in the past, present, and future. Lemon and Verhoef (2016) argue that to assess customer experience, past experiences, current experiences, and external factors must be considered. Moreover, Heldt et al. (2021) support the thesis that obtaining both customer value and product-related data enhances the ability of managers to acquire relevant information for improving marketing assets and strengthening CLV models.

The present study adopts this conceptual framework of past, present, and external factors to develop a scale based on customer experience with a retailer. It assesses the RFM factors and CRM methods in customers' past and present experiences. The increased attention of marketers to CLV necessitates an accurate measure of this construct. Most marketers are following the trend of developing long-term relationships with their customers, and CLV is a significant part of this process. It is therefore important to establish a reliable measure of CLV, and using a scale helps to achieve this objective. Not relying on a scale to measure this contrast presents two critical challenges: First, CLV is open to interpretation as long as a common understanding of the concept is lacking, as illustrated by the multiple definitions of the concept (Chang et al., 2012; Ekinci et al., 2014; Jain & Singh, 2002; Kumar et al., 2004). Second, not relying on a scale makes adapting the concept to other industries difficult. The scale developed in this study establishes a baseline for an additional and industry-specific CLV scale to be developed. Financial and nonfinancial factors are significant in the development of the scale.

Construct development: nonfinancial and financial factors

Nonfinancial factors

Trust

The concept of trust is widely researched in consumer behavior (Doney & Cannon, 1997; Glaeser et al., 2000; Morgan & Hunt, 1994; Rauyruen et al., 2011; Simpson, 2012)—in both the business-to-business (B2B; Doney et al., 1998; Heide, 1994) and business-to-consumer (B2C) domains (Ozdemir et al., 2020). Trust requires a belief and confidence in the honesty of one's partners and a mutual belief that the other will fulfill their obligation to fulfill a contract or provide a service (C. T. Liu et al., 2011). Thus, trust is the belief that the obligations will be met without failure, or it develops when the services delivered meet consumers' needs (Anderson & Weitz, 1989).

Doney et al. (1998) further delineate trust in a B2B environment as "a willingness to rely on another party and to take action in circumstances where such action makes one vulnerable to the other party" (p. 4). Trust is also critical in an interorganizational relationship in that it creates opportunities, improves relationships (Heide, 1994), enhances cooperation (McEvily et al., 2003), and ultimately leads to improved performance. Firms engaging in the B2B domain rely on trust for the success of long-term relationships. Communication and coordination are crucial for trust to be sustained in these relationships (Y. Liu et al., 2018).

Trust appears to be different in the B2B and B2C markets mainly because of the personal nature of the concept in B2C. Recent definitions in the B2C domain view it as one party's desire to engage in a potentially risky relationship, with the expectation that the outcome of the relationship will be positive (Melewar et al., 2017). Indeed, trust is characterized in B2C as a cognitive and affective concept (Ozdemir et al., 2020). Cognitive trust occurs when the trustee assesses the contingencies of the partnership rationally and chooses to deliberately partner with the other party in the belief that they are honest and fair (Ozdemir et al., 2020). Affective trust occurs when an emotional connection exists between the parties involved (Lewis & Weigert, 1985). Some authors characterize affective trust using terms such as care, concern, and welfare (Riegelsberger et al., 2003).

Purchase frequency

Purchase frequency is an important construct in the CLV framework and is defined as the number of purchases made within a certain period (Safari, 2016). A higher frequency is thought to indicate greater loyalty in recognition of past behavior often leading to continued behavior (Bult & Wansbeek, 1995). The retail environment and frequency of repurchases can greatly affect this behavior (Martin et al., 2015). As a result, retailers seek strategies for increasing purchase frequency. Altering the shopping environment and offering reward programs are some of the ways in which retailers attempt to increase purchase frequency (Peker et al., 2017). Studies have documented that purchasing frequency can also be used to predict future customer activity, as customers tend to reduce their purchase frequency before terminating a relationship. Purchasing frequency can help to map out different phases in a relationship and relationship life cycles (Dwyer et al., 1987; Jap, 2001). The antecedents of purchase frequency, including elements such as marketing communication, are often used by management to maximize CLV (Venkatesan & Kumar, 2004). Purchase frequency is operationalized as "the total number of orders given by a customer" (Hiziroglu & Sengul, 2012).

Recency

Recency refers to the elapsed time since the last transaction between the customer and the retailer. Recency is considered a significant factor in the RF model because it is a critical determinant of companies' growth (Safari, 2016). Recent customers are more likely to help companies grow. Recency's relationship with CLV is often explained using the "migration model" (Blattberg et al., 2009). When assessing CLV using recency, most retailers are caught in what is commonly referred to as the "recency trap" (Neslin et al., 2013). When customers purchase from a retailer, their chance of purchasing the product in the next period is low (Neslin et al., 2013). Consequently, recency increases and transaction frequency reduces. Recency is often associated negatively with future purchase profitability (Gönül et al., 2000). Given the consequences of the recency trap and churn, firms often end up reducing their profit margins by spending to retain existing customers and bring back old ones (Bult & Wansbeek, 1995).

Primarily, trust develops when customers feel that they have purchased a product at a fair price and that a continuous and mutually beneficial relationship exists between the customer and the firm (Sauers, 2008). Increased trust increases the frequency of purchase and the desire to deal with one another. This perceived value creation is due to these interactions. Therefore, this study proposed the following hypotheses:

H1: Trust in the firm is positively related to the customer's purchase frequency.

H2: Trust in the firm is positively related to the customer's purchase recency.

H3: Trust in the firm is positively related to the CLV.

Loyalty

The dynamic nature of marketing and the diverse business environment makes it difficult for scholars to agree on a common definition of loyalty (Quach et al., 2021). Loyalty is therefore conceptualized in various ways (Odin et al., 2001; Wu & Li, 2018; Zhang et al., 2016)—especially concerning its elemental dimensions. Loyalty has been found to be a determinant of consumer satisfaction (Kaura, 2013), but most scholars agree on the two main dimensions of loyalty—namely attitudinal and behavioral loyalty (Rathnayake, 2021). Attitudinal loyalty refers to the inner drive that draws consumers toward the product (Quach et al., 2021). In order words, it refers to the positive inclination toward a brand or a retail establishment before the purchase decision (Wu & Li, 2018). Behavioral loyalty represents the manifestation of loyalty or its visible nature (Quach et al., 2021). It is also seen as the repeat purchase of a brand or a purchase from the same retail establishment (Bhattacherjee, 2001; Kim et al., 2006). Scholars such as Richard (1999) have formulated their definition of loyalty to encompass both attitudinal and behavioral aspects. Richard (1999) contends that loyalty is "a deeply held commitment to rebuy or repurchase a preferred product/service consistently in the future, thereby causing repetitive same-brand or same-brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior" (p. 34). Customer loyalty is regarded as the highest level of customer relationship bonding (Kim et al., 2006). Loyalty has been found to be crucial for long-term customer relationship building. Companies offer reward programs, gifts, and tiered services to help build this relationship (Wisker, 2020). Loyalty is a positive attitude, emotion, or preference for a specific brand by a customer to the point that they recommend it to their family and friends and encourage them to buy or use it as well (Liddy, 2000).

Selnes' (1993) conceptualization of loyalty has the following two components: the tendency to purchase the same brand repeatedly and the likelihood of recommending the brand to others (Ojeme et al., 2019). Similarly, Boulding et al. (1993) contend that the two dimensions are willingness to repurchase and willingness to recommend.

Moreover, many scholars perceive loyalty as a key component of relationship marketing (Bardauskaite, 2014; Ojeme et al., 2019). For Bardauskaite (2014), loyalty represents an outcome of relationship marketing. As a firm establishes a strong relationship with its customers, the customers will be more inclined to purchase repeatedly from that firm. This repeat purchasing stems from the nature of the relationship and satisfaction with the shopping experience. Therefore, this study proposed the following hypotheses:

H4: Loyal customers purchase frequently from the firm.

H5: Loyal customers experience lifetime value in their relationship with the firm.

Frequency is the number of purchases made within a certain period, where a higher frequency indicates greater loyalty (Bult & Wansbeek, 1995). Although it is established that repeat buyers are not necessarily loyal customers, they purchase at a high frequency because of the value they experience when using the product. Therefore, this study proposed the following hypothesis:

H6: Purchase frequency is positively related to CLV.

Churn rate

Customer churn traditionally refers to the idea of a customer defecting to another product or service (Neslin et al., 2013). Churn has often been defined in terms of customer activity and is often based on a threshold criterion. Simply put, if a certain customer activity falls below the threshold (or equal to zero), the customer is a churner (Glady et al., 2009). Some studies have argued that a churner is one who has closed all of his or her accounts (Van den Poel & Larivière, 2004), while others have coined the term "partial defector" for those whose purchase frequency falls below the average and has an above-average ratio of the standard deviation of the inter-purchase time to the mean (Buckinx & Van den Poel, 2005). Churn probability—defined as the customer's probability of terminating their relationship with the firm in a given period (Ho et al., 2006)—is often used. In a non-subscription-based service, if customers have recently bought an item, their proclivity to buy that item reduces—hence reducing the churn rate. As churn increases (i.e., customers start to defect to competing products or services), the recency of purchases from the original seller reduces. Therefore, this study proposed the following hypotheses:

H7: Churn rate is negatively related to purchase recency.

H8: Churn rate is negatively related to CLV.

Miglautsch (2000) highlights that recency is often considered a prominent variable in the RFM model as recent customers drive growth. The inconsistency in customers' purchase behavior over time influences the estimation of their lifetime value with the firm. To account for this inconsistency, we created scale items that reflect customers' buying actions from period to period (e.g., "*Many quarters passed since our customers' last order"; "Our customers placed an order in the last two months"; and "Our customers do not place orders in some quarters*)." Therefore, this study proposed the following hypothesis:

H9: Purchase recency is positively related to CLV.

Financial factors

Monetary value

Many scholars have used the RFM concept to determine CLV (Hajipour & Esfahani, 2019; Marmol et al., 2021; Moro et al., 2015; Safari, 2016).

The "M" in RFM stands for monetary value—which is the amount of money spent by a customer with the same retailer over a specific period (Safari et al., 2016). Alternatively, it is the revenue gained from a customer during a lifecycle (Hiziroglu & Sengul, 2012). The monetary value is estimated by comparing the amount spent by a customer with the marketing cost incurred by the retail establishment. High customer spending over marketing costs indicates a potential profit for the retailer on the transaction as well as a demonstration of strong consumer interest—a sign that the firm should focus on that particular customer (Bult & Wansbeek, 1995). Scholars have operationalized monetary value in various ways (Hiziroglu & Sengul, 2012). We operationalize it as the amount of money that the customer is willing to pay. In our operationalization, the willingness to pay a premium price, an above-average price, and the likeliness of making a purchase irrespective of the price are three major dimensions that we capture. Monetary value is indicative of consumers' perception of value experienced during the buying process. When value is experienced by consumers, the likelihood of the purchase habit increasing is also high. Therefore, this study proposed the following hypotheses:

H10: The monetary value (amount spent by a customer) is positively related to the customer's purchase frequency.

H11: The monetary value (amount spent by a customer) is positively related to the customer's purchase recency.

H12: The monetary value (amount spent by a customer) is positively related to CLV.

Marketing costs

It is costly to attract and retain customers (Riebe et al., 2014). Having a loyal customer base guarantees revenue and profit stability. Firms employ various promotional tools to attract customers, including discounts, sweepstakes, contests, sampling, and free trials. Datta et al. (2015) demonstrate that promotional tools are effective at attracting customers. They even suggest a correlation between the method used to attract customers and the probability of retaining them (Schweidel et al., 2008). The marketing method used to attract customers determines whether they will remain loyal or defect. Some promotional methods are more expensive than others. Internet, social media, and online methods are expensive strategies. In addition to attracting customers, efforts are also invested in retention as it is less expensive to keep existing customers than to attract new ones. Many marketers offer loyalty programs to retain existing customers. Retailers even offer targeted deals to a specific group of customers to make them stay (Lo et al., 2007).

Marketing costs are the expenditures on marketing campaigns and other strategies implemented to maintain customer satisfaction (Ho et al., 2006). Marketing activities such as promotions, customer feedback, and brand management are all included in these costs. The Federal Reserve Bank indicates that the total marketing expenditures of U.S. businesses represent 8% of the gross domestic product. Businesses mobilize their resources to attract new customers. Most view customers as their firms' assets (Riebe et al., 2014). Therefore, increasing marketing costs is seen as an investment. We operationalize "marketing costs" as a construct that emphasizes the expensive nature of the methods that businesses use to attract customers' attention. Therefore, this study proposed the following hypotheses:

H13: Marketing costs are positively related to customers' purchase frequency.

H14: Marketing costs are positively related to lifetime value experience.

Research design and methodology

The objective of this study was to develop and refine a scale for measuring CLV using both financial and nonfinancial constructs. The financial constructs were monetary value and marketing costs, whereas the nonfinancial constructs were trust, loyalty, churn rate, frequency, and recency of purchase. Each construct was measured using pretested items extracted from the marketing and consumer behavior literature. Reliability and validity tests were conducted to ensure that the items measured the underlying constructs. Some items were eliminated in the first iteration of the reliability test. We collected the data in July 2021. Prior to collecting the data, the authors obtained IRB approval from the Office of Research Integrity and Outreach (ORIO. Protocol number 21-061700) from the University of Southern Maine in Portland, ME. Each participant received a consent form. Information about the research objective, purpose, and the research process was included in the consent form. The participants were notified that their responses would remain anonymous and that they could discontinue their participation at any time.

Survey development and measurement

We generated and adapted pretested items to measure the respective constructs of CLV. Strong reliability scores were observed in the respective studies in which they were developed. The items used to measure monetary value came from a study by Zúñiga (2016), who measured the impact of cultural cues on consumers' attitude toward the brand and their intention to purchase. The items used to measure monetary value were borrowed from a study by Habel et al. (2016). We contend that consumers' perception of price when firms engage in corporate social responsibility is determined by the price markup that the firms include in the price. The trust items were taken from two studies (Bach, 1998; Darke & Dahl, 2003); loyalty was measured with items from a study by Umashankar et al. (2017); the items used to measure frequency came from a study by Heinberg et al. (2016); the items used to measure recency came from a study by Etkin and Sela (2016); and finally, the items used to measure churn rate came from a study by Datta et al. (2015).

Data collection and sample

Churchill (1979) and DeVellis (2003) have suggested two conditions that a sample needs to meet during the scale development process. The first is the need for an adequate sample, and the second is that the sample used for scale development does not overlap with that used for testing the model. We used a pilot sample to pretest and validate the scale items before launching the study on a full scale; in total, 50 respondents participated in the pretest.

In recent years, researchers have found that survey response rates have dropped dramatically. Researchers across disciplines have used professional data collection agencies to assist in collecting relevant responses. Dynata (previously Research Now SSI) has been collecting and supplying quality data for scientific empirical investigation for many years across multiple disciplines (Eyal et al., 2022). Dynata has also provided quality data for scale development in multiple studies (Alnawas & Al Khateeb, 2022). For this study, we approached Dynata, which disseminated the online survey to its curated panel. The panel members are highly familiar with the online survey methodology because they have participated in prior data collection with the agency. The profiles of the participants in this study were very diverse. Many of the participants were store managers, sales managers/specialists, sales associates, and merchandise managers who worked in brick-and-mortar retail stores as well as online stores. They were also omnichannel shopping specialists, suppliers, and wholesalers.

The target sample frame consisted of participants who work in the textiles and apparel retail industry. The textile and apparel industry presents shopping environments wherein aspects of CLV—such as customer trust, churn rate, frequency, and loyalty—are relatively easier for the retailer to observe. Furthermore, the participants were in positions such as merchandise manager, store manager, or sales manager/specialist in wholesaling, distribution, supply, online retail, brick-and-mortar, and/or omnichannel shopping environments. Additionally, the decision to target retail firms originated from the logic that retailers are, by their position, aggregators of information. Over a series of transactions with customers, the retailer is not only able to aggregate information pertaining to a single customer over time but also across multiple customers. This provides the retailing firm with key insights into buyer behavior and, in turn, into what provides better value to the customer over a series of transactions. Given their positions in the respective firms, the participants were exposed to the concepts of recency of purchase, frequency of purchase, and churn rate, and could judge customers' trust in the firms as well as their loyalty behavior.

For pretesting, the survey link was sent to Dynata's panel members. To ensure an adequate sample size, Dynata sent several reminders to its panelists. The survey questionnaire contained a screening question to ensure that only participants who had CLV information about their shoppers answered the questions. Dynata targeted only these respondents in their panel. Additionally, participants were asked about the position of their firm in their respective supply chain as well as other demographic questions, such as their position in the firm, firm size, and location. These details are provided in Table 1. To measure the items, we used a 7-point Likert-type scale that ranged from strongly disagree to strongly agree. Some of the items were reverse-coded (Zhang et al., 2016).

In total, 588 responses were received over a 2-week data collection period. A multistep method was employed to remove responses that did not fulfill our criteria. Those from other industries, those in positions that could not have allowed them to aggregate information pertaining to the customer, as well as those who demonstrated extreme response bias were removed case-wise. After removing the responses that did not qualify as well as incomplete surveys, the final sample size was 541 for a response rate of 92%.

Scale development methodology

This study provides evidence that CLV can be measured by both financial and nonfinancial factors. The selection of the nonfinancial factors is predicated on the framework that scholars have used to measure CLV. Most CLV studies rely on the RFM framework. Loyalty is included in addition to RFM as it is theoretically related to the frequency of purchase. The following sections cover the intermediate steps followed for the scale development. Specifically, we followed the scale development steps suggested by Rossiter (2002) and Churchill (1979).

Table 1. Respondent demographic factors.

Demographic factors	Items	Percent
Ethnicity	Caucasians	76.3
	African Americans	11.6
	Hispanics	6.5
	Other	5.0
	Native Americans	0.6
Income	\$40,001–\$60,000	28.8
	\$60,001–\$80,000	28.8
	\$20,001–\$40,000	14.8
	\$80,001–\$100,000	12.0
	>\$100,000	11.1
	<2\$0,000	3.5
Highest education	4 Year college degree (BA/B.S.)	51.2
	High school diploma	37
	Graduate degree	11.8
Profile	Sales associate	30.7
	Store manager	24.0
	Merchandise manager	18.5
	Sales manager/specialist	17.7
	Other	9.1
Firm type	Brick-and-mortar store retailer	26.6
	Omni channel retailer (Online and brick-and-mortar)	22.0
	Wholesaler	15.9
	Online retailer	15.5
	Manufacturer	7.8
	Distributor	6.5
	Supplier	5.7

Generation of items

One of the objectives of this study was to improve the scale used for measuring CLV. We relied on reliable scale items that have previously been developed and tested. Using existing items to measure CLV in this study corresponded to the experts' item generation phase of the scale development process proposed by Rossiter (2002) and Churchill (1979). To ensure that relevant items were selected, the authors of this study—with our expertise in marketing and supply chain management—discussed the items with a textiles and apparel retail establishment owner. We then proceeded to create a list of items to measure each of the constructs considered in this study. To ensure that the constructs were measured accurately, we conducted literature research to establish the items. In this initial stage of the research, we generated some items to measure nonfinancial and financial factors. The items are captured in Tables 2 and 3.

Scale pretesting

We followed Churchill's (1979) suggestion that a single item in the scale development process is unreliable, and therefore, items measuring a construct must be pretested. Before launching the survey on a full scale, a scale validation test was conducted with a nationwide sample of 50 participants.

Table 2. Initial nonfinancial factors.

Variable	Description
Trust	Our customers know that they can trust us
	Our customers know that we are reliable
	Our customers depend on us
	Our customers know that we have high integrity
	Trusting the retailer is not important for all our customers
	Retailer's reliability is not important for some of our customers
	Most of our customers do not feel like they depend on us
	The retailer's integrity is not important for our customers
Frequency	Our customers will buy from us at any time
	Our customers buy from us frequently
	Our customer purchase frequently from us than our competitors
	Our customers always consider many retailers to buy from
	Our customers will buy more from us than our competitors
Recency	Our customers placed order last year
	Our customers placed order in the last two months
	Many quarters passed since our customers' last order
	Our customers place order occasionally
	Our customers place order randomly
	Our customers do not place orders in some quarters
Loyalty	There is chance our customers will schedule their next shopping visit with us
	Our customers are very loyal
	Our customers never consider trying different retailers
	Our customers do not care the retailers they schedule their next shopping visit with
	Our customers are very loyal to all the retail establishments they visit
	Our customers shop from multiple retail stores
Churn Rate	Our customers are likely to switch and visit other retailers
	Under the right conditions our customers will switch to different retailers
	There is no chance our customer will switch and visit different retailers in the near future

Table 3. Initial financial factors.

Variable	Description
Marketing costs	We spend significantly in marketing to improve our relationship with our customers
	We spend significantly in marketing to improve our reputation with our customers
	We spend significantly in marketing to improve our standing with our customers
	We spend significantly in marketing whether it helps improve relationship with our customers or not
	We spend significantly in marketing whether it helps improve our reputation with our customers or not
	We spend significantly in marketing whether it helps improve our standing with our customers or not
Monetary value	Our customers are willing to pay premium price
	Our customers are willing to pay more than the average price
	Our customers would likely purchase from us regardless of the price
	Our customers would not pay a premium price
	Our customers would pay substantially less for certain products
	Customers would not purchase from us if the price is too high

They came from companies of different sizes (large, medium, and small), had different occupations (sales associates, managers, and sales specialists), and had various backgrounds (brick-and-mortar stores, omnichannel retail, wholesalers, online retailers, manufacturer, distributors, and suppliers).

Scale refinement and purification

The items were tested using a soft launch with 50 participants. All of the items were retained after the soft launch because the participants answered all of the questions. There were no missing values. A quick test of the results of the soft launch revealed strong reliability scores for each construct. We conducted exploratory factor analysis (EFA) with varimax rotation to ensure that the items gravitated toward their designated constructs. The initial EFA results indicated that frequency and loyalty items loaded on the same construct. We therefore dropped these two constructs and retained recency and trust. Recency and trust were considered the primary measures of nonfinancial factors in this study. Most of the items used to measure monetary value and marketing costs migrated toward the respective constructs. The items initially created under these constructs that migrated toward other constructs were dropped (Figure 1).

Results: discriminant and convergent validity

Convergent validity

The measurement model in this study was developed using the four constructs of trust, recency, marketing costs, and monetary value. Confirmatory factor analysis was conducted using AMOS and STATA 16. The results indicated that the measurement model had a strong fit: Cmin/df = 253.10/71, CFI = 0.94, GFI = 0.93, NFI = 0.92, TLI = 0.93, and RMSEA = 0.06.

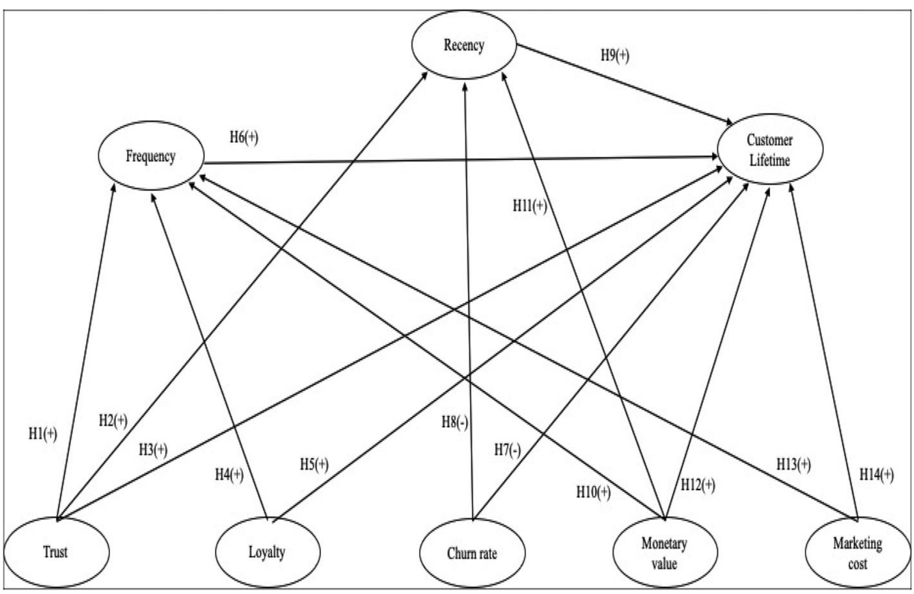

Figure 1. Customer lifetime value (CLV) model.

The reliability scores (Cronbach's alpha) for the financial and nonfinancial factors were all above 0.70 (trust = 0.76; recency = 0.71, monetary value = 0.76, and marketing costs = 0.91; Bonett & Wright, 2015). In addition, the average variance extracted (AVE) and composite reliability (construct reliability) determined a strong convergent validity. In other words, the internal consistency in the scale items was strong in this study. Both measures of internal consistency (Cronbach's alpha and composite reliability) had strong scores, as evidenced in Table 4.

Discriminant validity

Discriminant validity measures the extent to which constructs are distinct from each other. As recommended by Fornell and Larcker (1981) when checking for discriminant validity, it is crucial to compare the shared variance between each pair of constructs with the AVEs of the two pairs (Bove et al., 2009). As Table 5 indicates, the shared variances between all of the constructs were less than the average of the AVEs of all pairs. The constructs and their items are presented in Table 6.

Structural equation modeling results

The relationship between trust and each of the dependent variables was positive. H1 suggested a positive relationship between trust and purchase frequency. The structural equation modeling (SEM) results demonstrated that this relationship was significant ($\beta = 0.41$; $p < 0.05$) and that customers purchase frequently from retailers they trust. H2 suggested a positive relationship between trust and recency of purchase. The SEM results indicated that this relationship was significant ($\beta = 0.36$; $p < 0.05$)—customers who trust their retailers have recently purchased from them. Finally, H3 suggested a positive relationship between trust and CLV. The SEM results

Table 4. Comparison between the squared correlation and the average AVEs.

Constructs	Squared correlation	Average AVEs
Trust <–> Marketing costs	0.17	0.58
Recency <–> Trust	0.36	0.57
Monetary value <–> Recency	0.33	0.54
Recency <–> Marketing costs	0.18	0.60
Monetary value <–> Marketing costs	0.46	0.57
Monetary value <–> Trust	0.30	0.56

Table 5. Comparison between reliability score (Cronbach alpha and composite reliability).

Constructs	Cronbach alpha	Composite reliability
Marketing costs	0.91	0.91
Trust	0.76	0.76
Monetary value	0.76	0.76
Recency	0.71	0.73

Table 6. CFA factor loadings and results for rotated component matrix.

Items	CFA factor loadings	Component 1	2	3	4
MC1. We spend significantly in marketing to improve our relationship with our customers	0.84	0.85			
MC2. We spend significantly in marketing to improve our reputation with our customers	0.80	0.81			
MC3. We spend significantly in marketing to improve our standing with our customers	0.76	0.79			
MC4. We spend significantly in marketing whether it helps improve relationship with our customers or not	0.80	0.82			
MC5. We spend significantly in marketing whether it helps improve our reputation with our customers or not	0.79	0.82			
MC6. We spend significantly in marketing whether it helps improve our standing with our customers or not	0.79	0.83			
T1. Our customers know that they can trust us	0.78	0.80			
T2. Our customers know that we are reliable	0.69		0.81		
T4. Our customers know that we have high integrity	0.70		0.78		
MV1. Our customers are willing to pay premium price	0.76			0.77	
MV2. Our customers are willing to pay more than the average price	0.72			0.82	
MV3. Our customers would likely purchase from us regardless of the price	0.68			0.78	
R1. Our customers placed order last year	0.66				0.88
R2. Our customers placed order in the last two months	0.85				0.81

revealed that this relationship was supported ($\beta = 0.27$; $p < 0.05$)—trust in a retailer's products and services results in loyalty.

Furthermore, the relationship between loyalty and each of the dependent variables (frequency of purchase and CLV) was also positive. H4 suggested a positive relationship between loyalty and frequency. The SEM results indicated that this hypothesis was supported ($\beta = 0.18$; $p < 0.05$). Customers who are loyal frequently purchase from the same retailers. H5 suggested a positive relationship between loyalty and CLV. The SEM results indicated that this relationship was not significant ($\beta = -0.02$; $p > 0.05$)—customer loyalty does not necessarily translate into lifetime value for the retailer.

Moreover, H6 suggested a positive relationship between purchase frequency and CLV. The SEM results indicated that this hypothesis was supported ($\beta = 0.33$; $p < 0.05$). Customers who provide lifetime value to retailers purchase frequently from them. H7 suggested a negative relationship between churn rate and recency of purchase. The SEM results indicated that this hypothesis was not supported ($\beta = -0.04$; $p > 0.05$). H8 suggested a negative relationship between churn rate and CLV. The SEM results indicated that this relationship was not supported ($\beta = -0.01$; $p > 0.05$).

In addition, H9 suggested a positive relationship between recency of purchase and CLV. The SEM results indicated that this relationship was significant ($\beta = 0.12$; $p < 0.05$)—customers who purchased recently from the retailers tend to provide lifetime value to them. H10 suggested a positive relationship between monetary value and the frequency of customer purchase. The SEM results indicated that this relationship was supported ($\beta = 0.13$; $p < 0.05$)—customers purchase frequently from retailers that deliver value to them.

Additionally, H11 suggested a positive relationship between monetary value and recency of purchase. The SEM results indicated that this hypothesis was supported ($\beta = 0.13$; $p < 0.05$), which indicated that most participants purchased recently from retailers that deliver value to them. H12 suggested a positive relationship between monetary value and CLV. The SEM results indicated that this hypothesis was not supported ($\beta = 0.05$; $p > 0.05$).

Furthermore, H13 suggested a positive relationship between marketing cost and frequency. The SEM results indicated that this relationship was supported ($\beta = 0.15$; $p < 0.05$). Retailers' financial effort to attract customers is rewarded because consumers tend to buy frequently from them once they are convinced about the retailer's product value. Lastly, H14 suggested a positive relationship between marketing cost and CLV ($\beta = 0.08$; $p < 0.05$). The SEM results indicated that this relationship was supported. The result is presented in Table 7.

Discussion

The results of the study suggest two critical directions for CLV in the retail industry. The first is the ability to measure CLV constructs with continuous scale items, and the second is the direct effect demonstrated between the financial factors, nonfinancial factors, and CLV. In other words, the

Table 7. Result of the structural model.

Structural paths	Path coefficients	95% Confidence interval	Hypothesis confirmed
Trust→Frequency (H1)	.41***	(0.31, 0.49)	Yes
Trust→Recency (H2)	.36***	(0.25, 0.46)	Yes
Trust→CLV (H3)	.27***	(0.17, 0.36)	Yes
Loyalty→Frequency (H4)	.18***	(0.08, 0.26)	Yes
Loyalty→CLV (H5)	−.02 ns	(−0.08, 0.06)	No
Frequency→CLV (H6)	.33***	(0.24, 0.42)	Yes
Churn rate→Recency (H7)	.04 ns	(−0.02, 0.14)	No
Churn rate→CLV (H8)	−.01 ns	(−0.09, 0.4)	No
Recency→CLV (H9)	.12***	(0.04, 0.20)	Yes
Monetary value→Frequency (H10)	.13***	(0.06, 0.21)	Yes
Monetary value→Recency (H11)	.13**	(0.06, 0.23)	Yes
Monetary value→CLV (H12)	.05 ns	(−0.02, 0.13)	No
Marketing cost→Frequency (H13)	.15***	(0.08, 0.21)	Yes
Marketing cost→CLV (H14)	.08*	(0.00, 0.15)	Yes

Model fit—$\chi^2 = 4.14/df = 3$; p-value > 0.24; CFI = 0.99; TLI = .99; GFI = .99; AGFI = .97; RMSEA = 0.02.
Asterisks denote significance at the 0.001 (***), 0.01 (**), and 0.05 (*) levels.

financial and nonfinancial items measure CLV. The convergent and discriminant validities confirmed the importance of the items retained in this study.

With regard to the first direction, studies have widely discussed the concept of CLV, and financial factors have been considered measures of this construct (Chang et al., 2012; Ekinci et al., 2014). These studies, however, have failed to consider nonfinancial factors as measures of CLV. The definition of CLV has been consistent among scholars. Kumar et al. (2004) defines it as “the sum of cumulated cash flows—discounted using the weighted average cost of capital—of a customer over his/her entire life with the firm” (p. 61). According to Jain and Singh (2002), CLV is “the net of the revenues obtained from a customer over the lifetime of transactions with that customer minus the cost attracting, selling, and servicing that customer, taking into account the time value of money” (p. 37). In both of these definitions, CLV is a function of the frequency of customer purchases. Thus, the literature suggests that a high purchase frequency implicitly reflects loyalty (H. Wang et al., 2016). It is therefore important to consider nonfinancial factors as measures of CLV.

We demonstrated this claim through this research by developing constructs to measure the nonfinancial factors that affect CLV. This study documented that items such as trust and recency of purchase are also critical nonfinancial factors measuring CLV. These findings are in line with those of Segarra-Moliner and Moliner-Tena (2016), who find that intentional loyalty explains marketing productivity. They find customer equity drivers on consumer perception, defined by customer perceived value, customer-based brand equity, and relationship quality, to be major predictors of CLV, rather than the three economic approaches of value, brand, and relationship equity (Segarra-Moliner & Moliner-Tena, 2016). Additionally, studies by Cambra-Fierro et al. (2021) as well as Yuan et al. (2016) have highlighted the competitive advantage that firms can attain by optimally promoting customer profitability and CLV through customer equity drivers.

With respect to the second aspect of the findings of this study, noting the important direct and indirect effects that trust, loyalty, purchase frequency, recency, monetary value, and marketing costs have on CLV is worthwhile. This study is the first to not only establish nonfinancial factors as determinants of CLV but also to demonstrate the combined effect of nonfinancial factors and financial factors as determinants of CLV. The results—especially among the nonfinancial factors—must be highlighted. The construct of trust has been well established as a determinant of consumer value; however, trust as a determinant of CLV goes far beyond the basic understanding of value as a difference between costs and benefits.

As a determinant of CLV, trust puts both the customer and the firm on the same page. The firm is aware of the trust that customers have for them and vice versa. The firm also knows what contributes to a high level of trust, such as reliable service and high integrity on the part of the provider.

Additionally, loyalty as an indirect determinant of CLV was significant in this study. While repeat buyers are not necessarily loyal customers, frequency of purchase mediates the relationship between loyalty and CLV. Studies have demonstrated the direct relationship between consumer loyalty and consumer value and vice versa. The unique contribution of this study is the opportunity for the retailer/firm to turn frequent buyers into lifetime buyers. Such a behavior might not be directly predicated on the traditional dimensions of loyalty, such as commitment, emotional attachment, and resistance to competitors' offerings.

Moreover, monetary value as a direct determinant of CLV is significant in terms of the willingness and desire of customers to pay what the firm asks. Marketing and consumer behavior scholars have empirically determined different consumer groups, including lead, iron, gold, and platinum consumers. The commitment and desire to purchase from a firm increase as consumers advance from the lead group to the platinum group; however, never before has consumers' willingness to spend what the firm asks been established empirically. The ability to identify these consumers guarantees profit for certain firms.

Overall, one of the key contributions of this study lies in demonstrating that nonfinancial factors such as trust, loyalty, recency, and frequency of purchase are critical in the determination of CLV. We demonstrated that both the financial and nonfinancial factors, when considered simultaneously, lead to customer lifetime. No prior study about CLV has reached this conclusion. One of the implications of this finding is that the scale developed to measure the variables used under financial and nonfinancial sectors could be used to assess CLV in other sectors; for instance, the scale could be adapted to CLV in other fields, such as the service industry (e.g., hospitality, food service, and banking and insurance), the textiles and apparel industry (e.g., department stores), and the sport industry (e.g., to measure season ticket holders' attitude toward sport organizations).

In addition, using nonfinancial measures to understand CLV helped to overcome the inadequacies and limitations of the financial factors as a single determinant of CLV. The outcomes of this study clearly indicate that CLV cannot be captured by financial factors alone. Depending on factors such as the industry, store atmospherics, and consumer psychographics, CLV may be successful if variables inherent to consumer attitude are considered, including loyalty, churn rate, trust, recency, and frequency of purchase. The nonfinancial factors help to bridge this gap by elucidating the behavioral effects of consumers' attitude when engaging in business transaction with retailers. By contrast, the financial factors are a reflection of the data gathered by retailers about consumer shopping habits to calculate returns, while the nonfinancial factors reflect consumer attitude toward the retailer's offerings.

Notably, the efficiency of nonfinancial factors as a measure of CLV depends on the quality of the service provided by the retailer, as nonfinancial factors such as loyalty, trust, and purchase frequency are service-based. A service is successfully measured when multiple approaches are considered (Lexutt, 2020). Using multiple-measure systems ensures a holistic assessment of CLV.

Conclusion, limitations, and future directions

Customer retention through the development of long-term sustainable relationships is central to today's companies' strategy (Dandis & Al Haj Eid, 2022; Mosaddegh, 2021). Customers are viewed as assets that are worth investing time and money in. A measure of the ability of a firm to retain a customer and derive value over the relationship is CLV (AboElHamd et al., 2021). In the literature, CLV is defined as "a measure of the customer segment's profit generation for a business" (Dandis et al., 2022, p. 911).

Even though this measure is important given the customer-centric focus of the strategy, the literature has provided mixed evidence for an agreement regarding its conceptualization and measurement. Using the ideas of CPA and CRM, we proposed a novel approach for measuring CLV using both financial and nonfinancial factors. This approach differs from prior treatments of this measure, as they focused on either the financial or nonfinancial factors—not both. Considering both provides a holistic approach to measuring the value generated by the relationship. To explain CLV from revenue creation alone without considering psychological and attitudinal constructs that determine said revenue creation offers only a limited view of CLV. Incorporating nonfinancial factors provides a comprehensive argument in support of a holistic view of CLV.

When determining CLV, studies have traditionally focused on the customer's perception of the retailer and the ensuing transactions (Sun et al., 2022). Although CLV is a crucial performance measure for retailers, most studies also use the customer perspective. By using trust-commitment theory (Morgan & Hunt, 1994), concepts related to CRM, and the RFM approach (Hughes, 1994), we argue for the need for a retailer-oriented conceptualization of CLV. When viewed from the retailer's perspective, factors such as trust and recency of purchase take on a new meaning. By incorporating trust (e.g., our customers know they can trust us; our customers know we are reliable; our customers depend on us; our customers know we have high integrity) and recency of purchase (our customers placed an order last year; our customers placed an order in the last 2 months) into the measurement of CLV, this study fundamentally aligns with the definition as a measure of customer segment profitability and argues for a change in the conceptualization of CLV.

Given these two critical theoretical implications of this study, there are a few interesting implications for practice to mention. When considering new measures and their utility in the field, managers need to use those that are repeatable and consistent and that measure what they are intended to measure. The measures that we proposed demonstrated strong convergent and discriminant validity, which indicates that marketers can rely on these items to assess their customers' lifetime value. Furthermore, we are confident in the measures proposed as the data were collected from respondents across diverse industry backgrounds (e.g., wholesalers, suppliers, brick-and-mortar suppliers, omnichannel retailers, online retailers, and manufacturers). Furthermore, as these measures capture both financial and nonfinancial aspects, practitioners will be able to develop a holistic view of the relationship.

Second, marketers in these positions must win their customers' trust to establish lifetime value. The measures proposed are key. Using a combination of surveys and financial information collected, marketers can assess the trust of their customers. The outcomes of these measures can help marketers to determine the long-term value that changes in various aspects (e.g., in-store planning, inventory management, and the merchandise planning process) create for the customer.

Although this study contributes to the marketing literature, it is not without limitations. Primarily, the data were collected through a survey that was distributed using a data collection agency. The survey respondents considered were geographically limited to the United States and the responses were collected over 3 months in 2021. Thus, the measures that we have suggested remain robust only in this context. Additional research must be conducted to test the validity and consistency of these measures across other geographical and industrial contexts. We were unable to do this due to limitations concerning the data collection process.

In addition to testing the measures in alternate contexts, during our study, we used a few preexisting items from the literature due to time limitations. While we verified the importance of these items through an informal exchange of ideas with a practitioner, those interested in pursuing this line of research are encouraged to develop new, more holistic items based on in-depth interviews with store managers, sales specialists, sales associates, and merchandise managers among others. We believe that such a process will greatly enhance the holistic nature of the measures developed. Additionally, our study limited the diversity of measures used to financial and nonfinancial ones. We agree that in future studies, nonfinancial factors such as consumers' shopping orientations, social factors, and even store atmospherics would be key to developing even more holistic measures. A potential confounding factor that arises given the nature of the data collected is that of the COVID-19 pandemic, which affected how firms conducted their business. Given that the study was cross-sectional in nature, and as no comparable studies conducted in the prepandemic period used both financial and nonfinancial constructs, it is relatively difficult to understand the specific effects of the pandemic. Emerging studies do indicate a change in customer behavior (Gordon-Wilson, 2022)—and our study, given the period in which it was conducted, reflects the muddiness of the period. If the changes that the pandemic generated are here to stay, then our study remains relevant. Current literature points to a definite shift in customer behavior compared with the prepandemic period.

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