

# 5

## Creating Customer Value, Satisfaction and Loyalty

### Marketing Management:

An Asian Perspective  
(5<sup>th</sup> edition)

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## Creating Customer Value, Satisfaction, and Loyalty

# 5

Today, companies face their toughest competition ever. Moving from a product and sales philosophy to a marketing philosophy, however, gives a company a better chance of outperforming competition. And the cornerstone of a well-conceived marketing orientation is strong customer relationships. Marketers must connect with customers, informing, engaging, and maybe even energizing them in the process. John Chambers, CEO of Cisco Systems, put it well: "Make your customer the center of your culture." Customer-centered companies are adept at building customer relationships, not just products; they are skilled in market engineering, not just product engineering.



Ritz-Carlton's focus on its guests helped it win the prestigious Boldrigo Award twice and placed it among the Top 20 on the Brand Keys Customer Loyalty Index.

# Learning Objectives:

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- Understand what are customer value, satisfaction, loyalty, and how can companies deliver them
- Understand what is the lifetime value of customers and how marketers can maximize it.
- Understand how companies are able to cultivate strong customer relationships
- Understand how companies can both attract and retain customers
- Understand what is database marketing

# Peppers and Rogers on “creating customer loyalty”

*The only value your company will ever create is the value that comes from customers—the ones you have now and the ones you will have in the future.*

*Businesses succeed by getting, keeping, and growing customers. Customers are the only reason you build factories, hire employees, schedule meetings, lay fiber-optic lines, or engage in any business activity.*

*Without customers, you don't have a business*

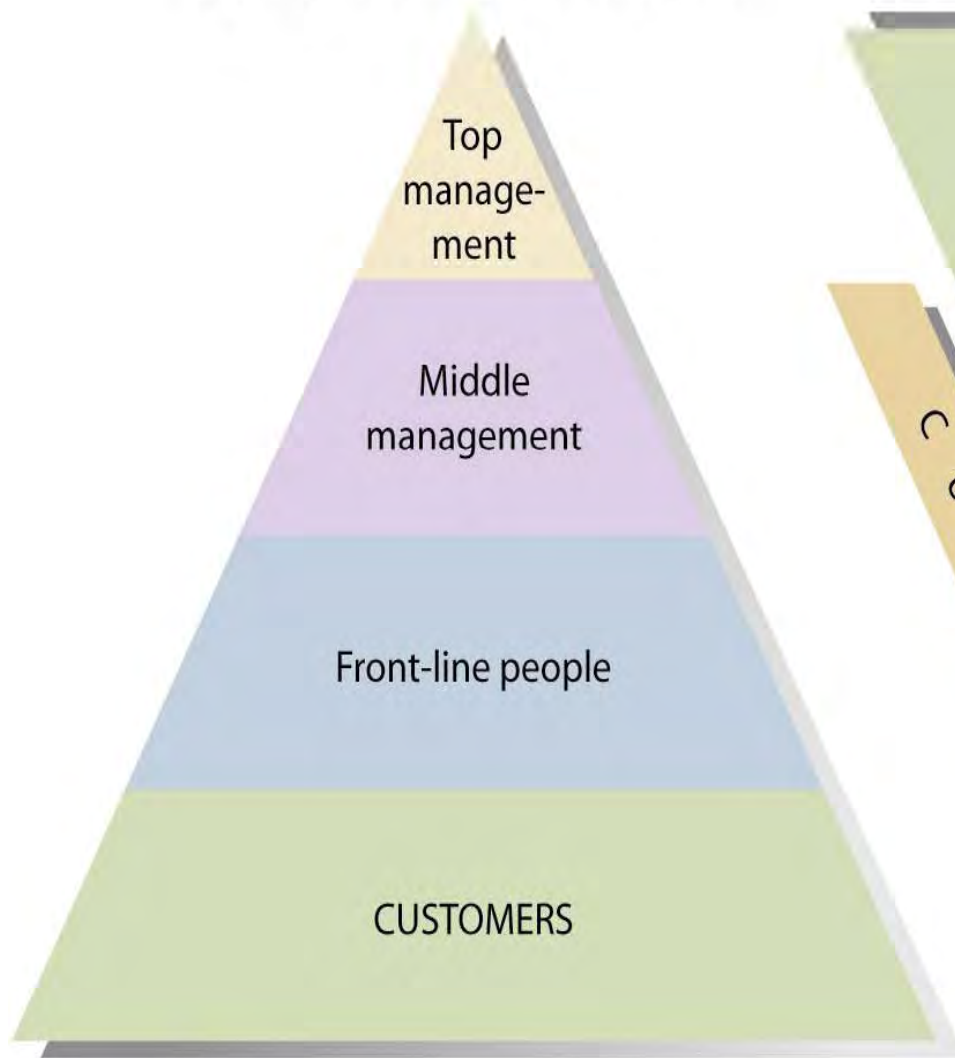
# Building Customer Value, Satisfaction & Loyalty

- Customers are value-maximizers
- Form value expectation & act on it
- Buy from firm perceived to offer highest customer delivered value, defined as

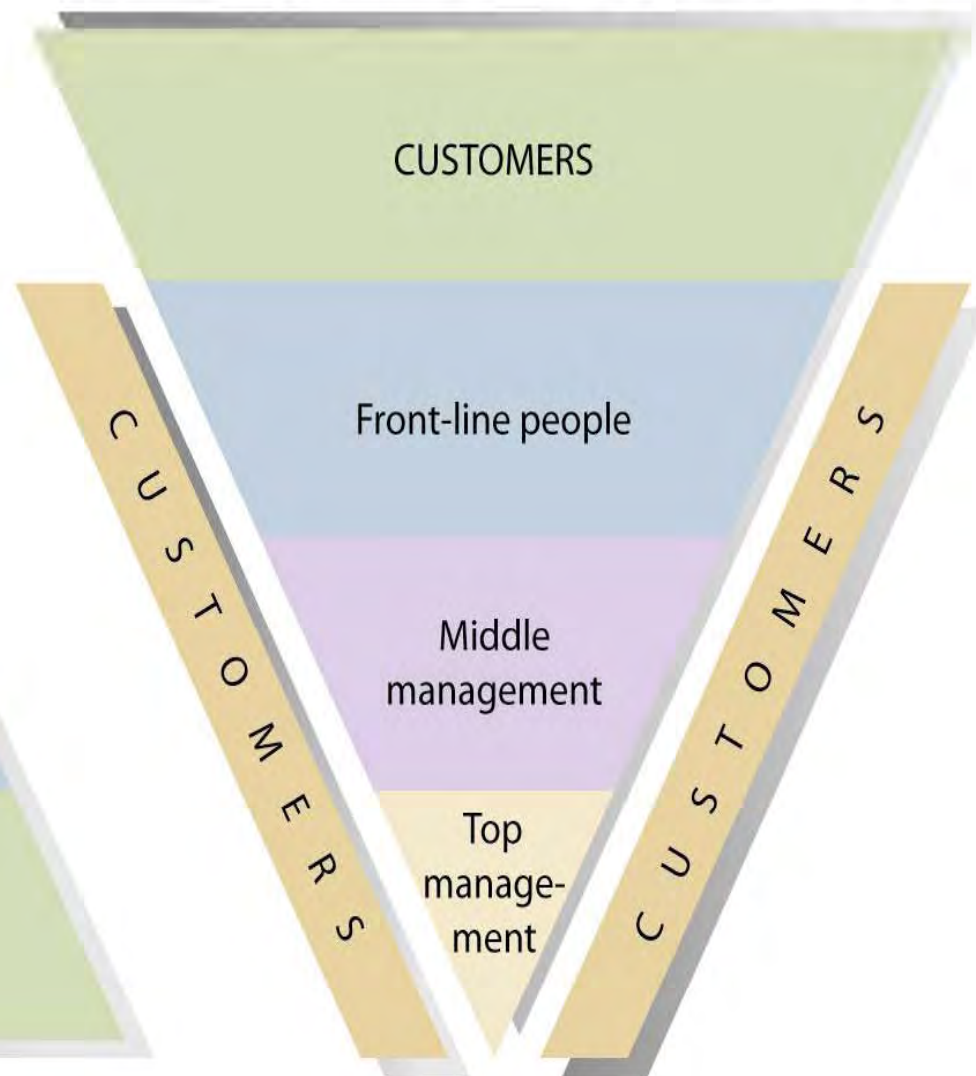
total customer value - total customer cost

## Figure 5.1 Traditional Organization versus Modern Customer-Oriented Company Organization

(a) Traditional Organization Chart



(b) Modern Customer-Oriented Organization Chart





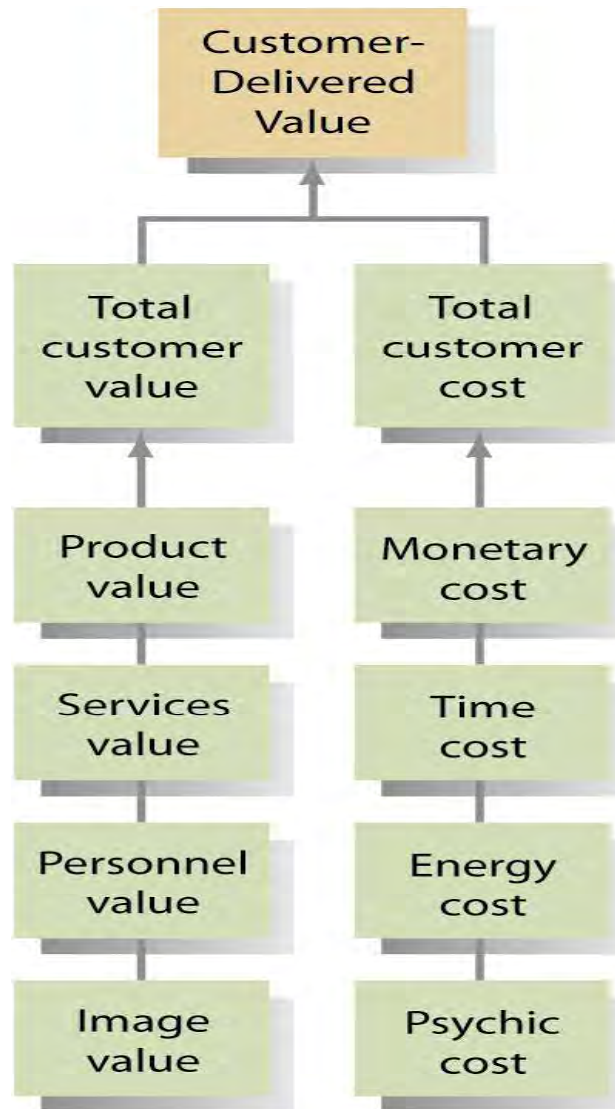
# Building Customer Value, Satisfaction & Loyalty - *Customer Perceived Value*

- **Customer perceived value (CPV)**
  - difference of benefits & costs of offering & perceived alternatives
- **Total customer value**
  - perceived monetary value of economic, functional & psychological benefits expected from offering
- **Total customer cost**
  - costs to obtain & use offering, including monetary, time, energy & psychic costs

# Conducting Value Analysis

- Managers conduct a **customer value analysis** to reveal the company's **strengths and weaknesses** relative to those of competitors. These steps are to help:
  - Identify the major attributes and benefits that customers value.
  - Assess the quantitative importance of the different attributes and benefits.
  - Assess the company's and competitor's performances on the different customer values against their rated importance.
  - Examine how customers rate the company against major competitors on individual attributes or benefits.
  - Monitor customer values over time

## Figure 5.2: Determinants Of Customer Delivered Value



# Choices and Implications

1. Seller finds total value & cost of competitor's offer in buyer's mind
2. Seller, at customer perceived value disadvantage, can increase value or decrease cost

# Delivering High Customer Value

- The value proposition consists of the whole cluster of benefits the company promises to deliver, it is more than the core positioning of the offering.
- The value-delivery system includes all the experiences the customer will have on the way to obtaining and using the offering.



# Customer Satisfaction

1. Satisfaction is a person's feeling of pleasure or disappointment resulting from **comparing** a product's perceived performance (or outcome) in relation to his or her expectations.
2. A customer's decision to be loyal or to defect is the **sum** of many small encounters with the company.

# Tracking Customer Satisfaction

- Companies can monitor the customer loss rate and contact customers who have **stopped buying** and learn why this happened.
- Companies can hire **mystery shoppers** to pose as potential buyers and report on strong and weak points experienced in buying the company's and competitor's products.
- In addition to tracking customer value expectations and satisfaction, companies need to monitor their **competitor's performance** in these areas as well.

# Recovering Customer Goodwill

1. Set up a 7-day, 24-hour toll-free “hotline” (by phone, fax, or email) to receive and act on customer complaints.
2. Contact the complaining customer as quickly as possible. The slower the company is to respond, the more dissatisfaction may grow and lead to negative word of mouth.
3. Accept responsibility for the customer’s disappointment. Never ever blame the customer.
4. Use customer-service people who are empathetic.
5. Resolve the complaint swiftly and to the customer’s satisfaction. Some complaining customers are not looking for compensation so much as a sign that the company cares.

# Product and Service Quality

- Satisfaction will also depend on product and service quality.
- **Quality is the totality of features and characteristics of a product or service that relies on its ability to satisfy stated or implied needs.**
- **Impact of Quality**
  - Product and service quality, customer satisfaction, and company profitability are intimately connected.

# Building Customer Value, Satisfaction & Loyalty- *Product & Service Quality*

## Quality

Totality of product/service features & its ability to satisfy stated/implicit needs

- *Conformance quality & performance quality*
  - *Eg: Lexus **higher** performance quality than Hyundai*
  - *Same conformance quality if deliver promised quality*
- Total quality key to value & customer satisfaction



# **Building Customer Value, Satisfaction & Loyalty - *Total Quality Management***

**Total Quality Management (TQM)**  
is an organization-wide approach  
to improve quality of  
all processes, products & services

# Marketers **role** in ensuring Quality

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- A) Correctly identifying the customers' need and requirements
- B) Communicating customer expectations
- C) Filling customers orders on time and ensure they are complete
- D) Ensure that customers receive proper training on the product
- E) Stay in touch with the customer after the sales
- F) Gather ideas for new products or service improvements

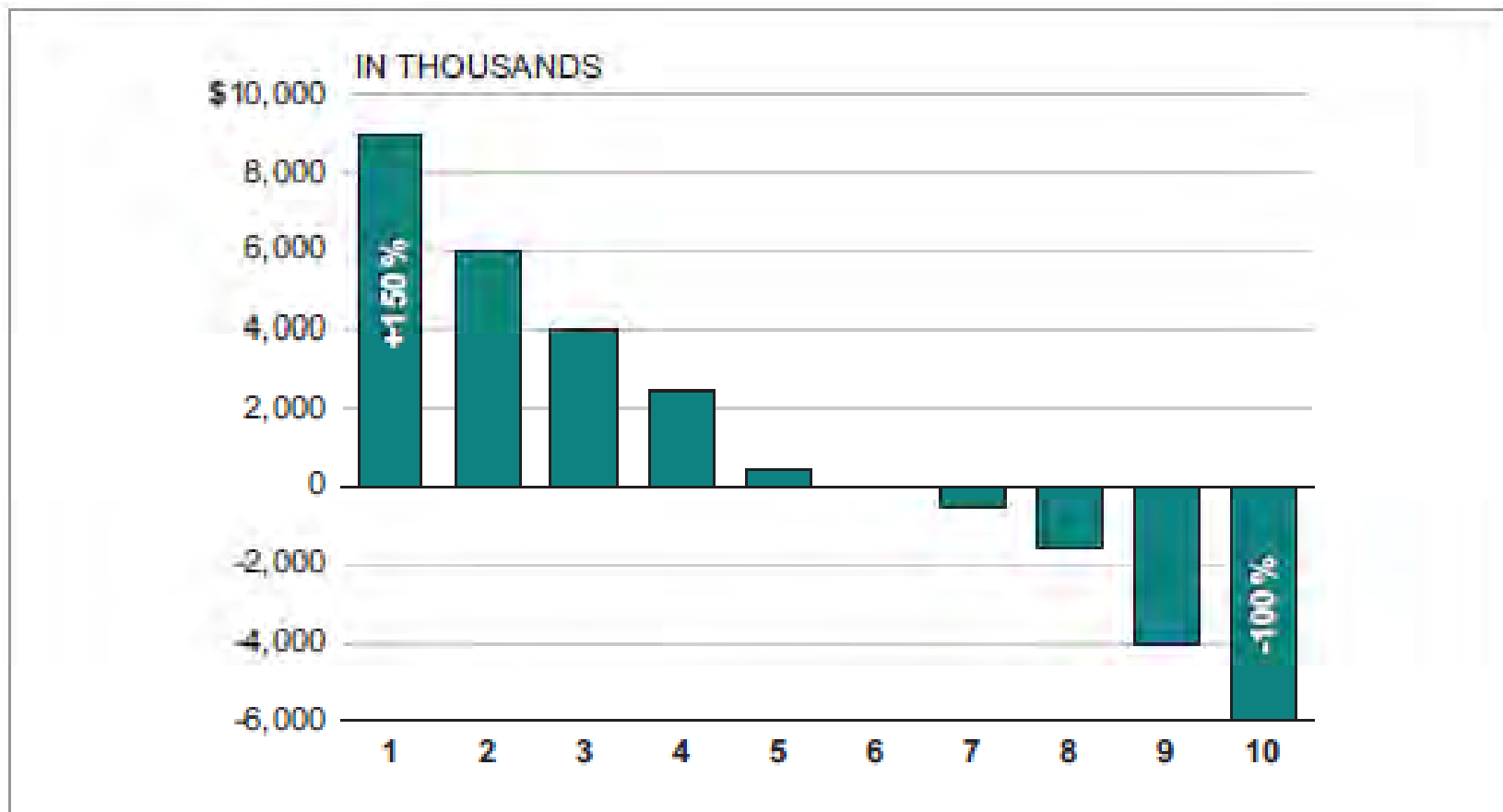
# Maximizing Customer Life Time Value

**Marketing is the art of attracting and keeping profitable customers.**

**The 80/20 rule states that the top 20 percent of the customers may generate as much as 80 percent of the company's profits.**

## **Customer Profitability**

**A profitable customer is a person, household, or company that over time yields a revenue stream that exceeds by an acceptable amount the company's cost stream of attracting, selling, and servicing that customer.**



**Figure 5.3** The 150-20 Rule: "The 20% Most Profitable Customers Generate as Much as 150% of the Profits of a Company; the 20% Least Profitable Lose 100% of the Profits"

# Customer Portfolios

- Marketers are recognizing the need to manage customer portfolios, made up of **different groups** of customers. These customers are defined in terms of loyalty, profitability, and other factors.



		Customers			
		$C_1$	$C_2$	$C_3$	
Products	$P_1$	+	+	+	Highly profitable product
	$P_2$	+			Profitable product
	$P_3$		-	-	Losing product
	$P_4$	+		-	Mixed-bag product
		High-profit customer	Mixed-bag customer	Losing customer	

**Figure 5.4** Customer-Product Profitability Analysis

# Customer Profitability Analysis

- Customer profitability analysis (CPA) is best conducted with the tools of an accounting technique called Activity-Based Costing (ABC).
  - **Platinum customers (most profitable).**
  - **Gold customers (profitable).**
  - **Iron customers (low profitability but desirable).**
  - **Lead customers (unprofitable and undesirable).**

# Competitive Advantage

Company's ability to perform in ways that competitors cannot

- Be seen by customers as ***customer advantage***
- Customer - sees value & satisfied - repeat purchases - company profits

# Measuring Customer Lifetime Values

- Customer Lifetime Value (CLV) describes the **net present value** of the stream of future profits expected over the customer's lifetime purchases.
- CLV calculations provide a formal quantitative framework for planning customer investment and helps marketers to adopt a long-term perspective.

# See **Marketing Memo** on Measuring CLV

Researchers and practitioners have used many different approaches for modeling and estimating customer lifetime value (CLV). Gupta and Lehmann recommend the following formula to estimate the CLV for a not-yet-acquired customer:

$$CLV = \sum_{t=0}^T \frac{(p_t - c_t)r_t}{(1+i)^t} - AC \quad (1)$$

where,

$p_t$  = price paid by a consumer at time  $t$ ,

$c_t$  = direct cost of servicing the customer at time  $t$ ,

$i$  = discount rate or cost of capital for the firm,

$r_t$  = probability of customer repeat buying or being "alive" at time  $t$ ,

$AC$  = acquisition cost,

$T$  = time horizon for estimating CLV.



# The Marketing Memo – calculating CLV

**Table 5.1** A Hypothetical Example to Illustrate CLV Calculations

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Number of customers	100	90	80	72	60	48	34	23	12	6	2
Revenue per customer		100	110	120	125	130	135	140	142	143	145
Variable cost per customer		70	72	75	76	78	79	80	81	82	83
Margin per customer		30	38	45	49	52	56	60	61	61	62
Acquisition cost per customer	40										
Total cost or profit	–4,000	2,700	3,040	3,240	2,940	2,496	1,904	1,380	732	366	124
Present value	–4,000	2,454.55	2,512.40	2,434.26	2,008.06	1,549.82	1,074.76	708.16	341.48	155.22	47.81

# Cultivating Customer Relationships

- Maximizing customer value means cultivating long-term customer relationships.
  - Companies are moving to **more precision** marketing designed to build strong customer relationships.
  - **Mass customization** is the ability of a company to meet each customer's requirements—to prepare on a mass basis individually designed products, services, programs, and communications.

# Customer Relationship Management

- Customer relationship management (CRM) is the process of managing detailed information about individual customers and carefully managing all customer “touch points” to maximize customer loyalty.

# Four step framework for One-to-One Marketing:

1. **Identify** your prospect and customers
2. **Differentiate** customers in terms of their needs and their value to your company
3. **Interact** with individual customers to improve your knowledge about their individual needs and to build strong relationships.
4. **Customize** products, service, and messages to each customer.

# Increasing the **Value** of the **Customer Base**

1. Reducing the rate of customer defection.
2. Increasing the longevity of the customer relationship.
3. Enhancing the growth potential of each customer through “share-of-wallet, cross-selling, and up-selling.”
4. Making low-profit customers more profitable or terminating them.
5. Focusing disproportionate effort on high-value customers.

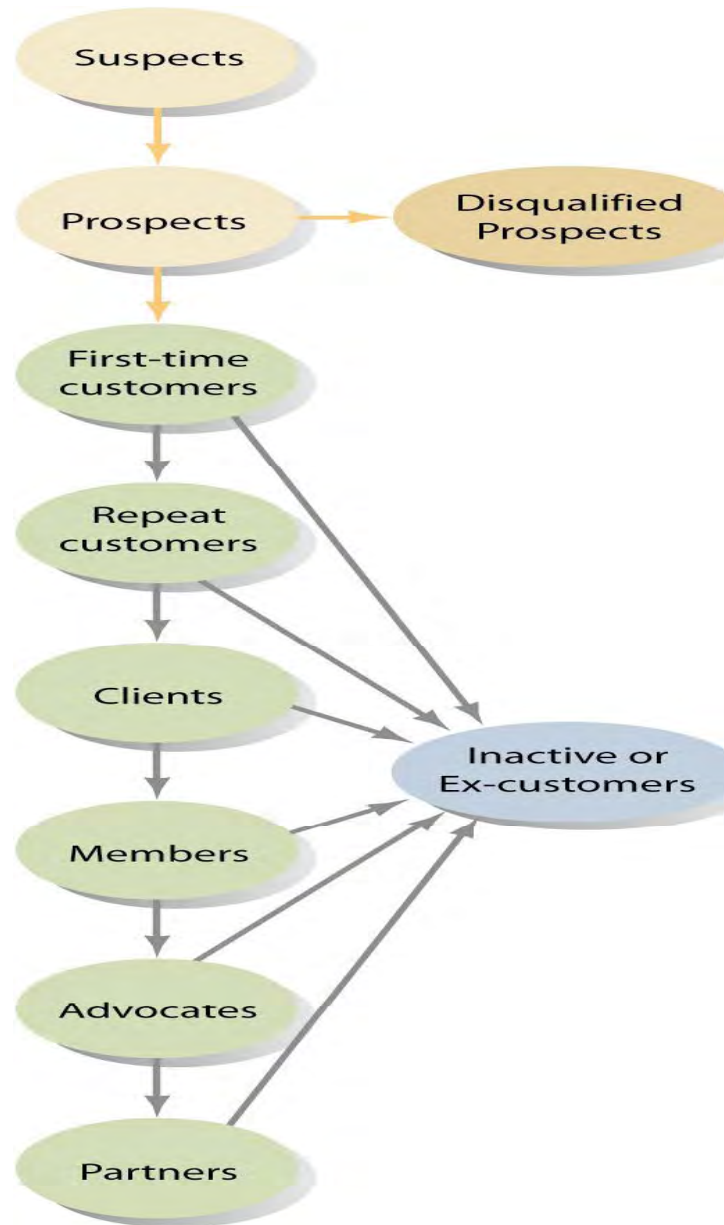
# Attracting and Retaining Customers

- Companies seeking to expand profits and sales have to spend considerable time and resources searching for new customers.
  - **Suspects** are people or organizations that might conceivably have an interest in buying but many not have the means or real intention to buy.
  - **Prospects**—customers with the motivation, ability, and opportunity to make a purchase.
  - **Customer churn—high** customer defection.

# Reducing Defection

- The company must define and measure its retention rate.
- The company must distinguish the cause of customer attrition and identify those that can be managed better.
- The company needs to estimate how much profit it loses when it loses customers.

**Figure 5.5:  
The  
Customer  
Development  
Process**





# Importance of Customer Retention:

1. Acquiring new customers **can cost five times more** than the costs involved in satisfying and retaining current customers. It requires a great deal of effort to induce satisfied customers to switch away from their current suppliers.
2. The average company **loses 10 percent** of its customers each year.
3. A **5 percent reduction** in the customer defection rate can **increase profits by 25 percent to 85 percent**, depending on the industry.
4. The customer profit rate tends to increase over the life of the retained customer.

# Building Loyalty

- Four important types of marketing activities that build customer loyalty and retention:
  1. **Interacting with customers**
  2. **Developing loyalty programs**
  3. **Personalizing marketing**
  4. **Creating institutional ties**

Companies that want to form strong customer bonds need to attend to the following basics:

- Get cross-departmental participation in planning and managing the customer satisfaction and retention process.
- Integrate the "Voice of the Customer" to capture their stated and unstated needs or requirements in all business decisions.
- Create superior products, services, and experiences for the target market.
- Organize and make accessible a database of information on individual customer needs, preferences, contacts, purchase frequency, and satisfaction.
- Make it easy for customers to reach appropriate company personnel and express their needs, perceptions, and complaints.
- Run award programs recognizing outstanding employees.

**Figure 5.6** Forming Strong Customer Bonds

# Interacting with customers

- Listening to customers
- **Marketing Memo: Creating customer evangelists**
- A customer evangelist not only buys a company's product but believes in them so much that she is completed to spread the word and voluntarily recruit friends and family.

# Developing **loyalty benefits**

- Two customer loyalty programs that companies can offer are frequency programs and club marketing programs.
  - **Frequency programs (FPs)**
    - FPs – reward for frequent & substantial buys
  - **Club membership programs**
    - Club membership - open to everyone, group or those who pay a fee

# Personalizing Marketing

- Company personnel can create strong bonds with customers by individualizing and personalizing relationships.
- Turn customers into clients

***Customers may be nameless to the institution; clients cannot be nameless. Customers are served as part of the mass or as part of larger segments; clients are served on an individual basis. Customers are served by anyone who happens to be available; clients are served by the professional assigned to them***

**Table 5.4** Breaking Down Customer Relationship Management: What Customer Relation Management Really Comprises

CRM Imperative				
Acquiring the right customer	Crafting the right value proposition	Instituting the best processes	Motivating employees	Learning to retain customers
You Get It When ...				
<ul style="list-style-type: none"> <li>• You have identified your most valuable customers.</li> <li>• You have calculated your share of their wallet for your goods and services.</li> </ul>	<ul style="list-style-type: none"> <li>• You have studied what products or services your customers need today and will need tomorrow.</li> <li>• You have surveyed what products or services your competitors offer today and will offer tomorrow.</li> <li>• You have spotted what products or services you should be offering.</li> </ul>	<ul style="list-style-type: none"> <li>• You have researched the best way to deliver your products or services to customers, including the alliances you need to strike, the technologies you need to invest in, and the service capabilities you need to develop or acquire.</li> </ul>	<ul style="list-style-type: none"> <li>• You know what tools your employees need to foster customer relationships.</li> <li>• You have identified the HR systems you need to institute to boost employee loyalty.</li> </ul>	<ul style="list-style-type: none"> <li>• You have learned why customers defect and how to win them back.</li> <li>• You have analyzed what your competitors are doing to win your high-value customers.</li> <li>• Your senior management monitors customer defection metrics.</li> </ul>
CRM Technology Can Help ...				
<ul style="list-style-type: none"> <li>• Analyze customer revenue and cost data to identify current and future high-value customers.</li> <li>• Target your direct marketing efforts better.</li> </ul>	<ul style="list-style-type: none"> <li>• Capture relevant product and service behavior data.</li> <li>• Create new distribution channels.</li> <li>• Develop new pricing models.</li> <li>• Build communities.</li> </ul>	<ul style="list-style-type: none"> <li>• Process transactions faster.</li> <li>• Provide better information to the front line.</li> <li>• Manage logistics and the supply chain more efficiently.</li> <li>• Catalyze collaborative commerce.</li> </ul>	<ul style="list-style-type: none"> <li>• Align incentives and metrics.</li> <li>• Deploy knowledge management systems.</li> </ul>	<ul style="list-style-type: none"> <li>• Track customer defection and retention levels.</li> <li>• Track customer service satisfaction levels.</li> </ul>

**Source:** Darrel K. Rigby, Frederick F. Reichheld, and Phil Scheffer, "Avoid the Four Perils of CRM," *Harvard Business Review*, February 2002, p. 106.

# Creating Institutional Ties

- Providing software, special computer links or hardware to customers to help them manage key functions adds to retaining customers.

*Example **Nestlé in Asia***

- *Support retailers*
- *Help in inventory management*



# Creating structural ties

1. *Create long-term contracts*
2. *Charge lower price to consumers who buy larger supplies*
3. *Turn product into long-term service*

# Customer Database

- A customer database is an organized collection of comprehensive information about individual customers or prospects that is current, accessible, and actionable, for such marketing purposes as lead generation, lead qualification, sale of a product or service, or maintenance of customer relationships.

# Database Marketing

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- Database marketing is the process of building, maintaining, and using customer databases and other databases for the purpose of contacting, transacting, and building customer relationships

# What a customer database should be:

- Customer databases are **not customer mailing lists**.
  - A customer mailing list is simply a set of names, addresses, and telephone numbers.
    - Ideally, a **customer database** contains the consumer's past purchases, demographics, income, family members, psychographics, mediagraphics and other useful information.
  - A **business database** would contain business customers' past purchases, past volumes, prices and profits, buyer team members' names, and other useful information.

# Data Warehouses and Data Mining

**Data warehouse:** Organized collected data

**Data Mining:**

- Extract information on individuals & trends
- **Statistical & mathematical** techniques
  - Cluster analysis & neural networking

## Data bases are used in 5 ways:

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1. To identify prospects.
2. To decide which customers should receive a particular offer.
3. To deepen customer loyalty.
4. To reactivate customer purchases.
5. To avoid serious customer mistakes

# Problems in using CRM

## 4 problems in using CRM:

### FIRST PROBLEM:

- Build & maintain database
- Large technology investment & skilled staff
- Difficult to collect right data
- **Problem worse in Asia**
  - At least 4 major differences in nature of customer relationships compared to the West

## **4 differences in Asia compared to the West**

- 1. Language preference - complex but important**
- 2. Identify by name - challenge - racially diverse**
- 3. Some jurisdictions allow > 1 marriage**
  - Wealthy males >1 address - intricate arrangements
- 4. Bias against flaunting wealth**
  - Reluctance to declare to strangers, government



# Problems of using CRM

## **SECOND PROBLEM:**

- Difficult to get all to be customer-oriented

## **THIRD PROBLEM:**

- Not all want relationship with company
- May resent company has personal information

## **FOURTH PROBLEM:**

- Assumptions behind CRM - not always true

# Perils of CRM

- Implementing CRM before creating a customer strategy.
- Rolling out CRM before changing organization to match.
- Assuming more CRM technology is better.
- Stalking, not wooing customers.

# Take a Position

1. *Privacy is a bigger issue in the online world than the offline world versus privacy is no different online than offline.*
2. Consumers on the whole receive more benefit than risk from marketers knowing their personal information.