Managing Customers for Profit

V. Kumar

Chapter – 1
Introduction

Instructor's Presentation Slides

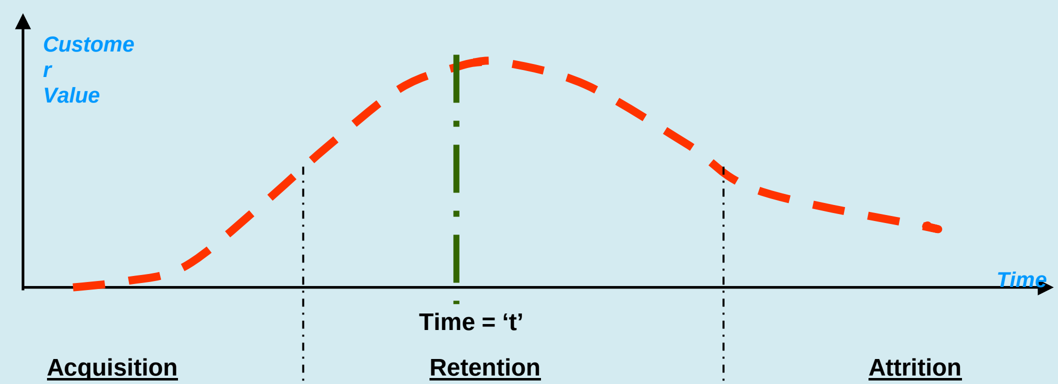
Managing Customers Profitability in Practice

- Continental Airlines' Turnaround
  - In late 1994, Continental Airlines had lost on average $960 million per year for the previous four years.
  - In 2000, Continental Airlines was ranked # 1 in customer satisfaction by J.D. Power.
  - Continental had a superb customer management strategy, however, it was grossly unprofitable
    - Between 2001 and 2005, Continental Airlines reported an average net loss of about $200 Million per year.
  - **The challenge** lies in keeping customers loyal and happy while recognizing positive *growth* and *profits* in the long run

Customer Lifetime Value

- CLV is the net-present value of future profit from a customer

  - CLV is a forward looking metric rather than being based exclusively on past contribution to profit.
  - When correctly measured it allows for marketers to adopt the right marketing activities today to increase future profitability



CLV: A Top- Down Approach

- Begin identification of Customer Equity Drivers at the firm or customer segment level

- Lemon, Rust & Zeithaml define these drivers as value equity, brand equity and relationship equity

- These drivers are measured using surveys on a small but representative sample of customers

- One can also use observed aggregated measures pertaining to customers at firm-level

Drivers of Customer Equity

↓

Total Customer Equity

↓

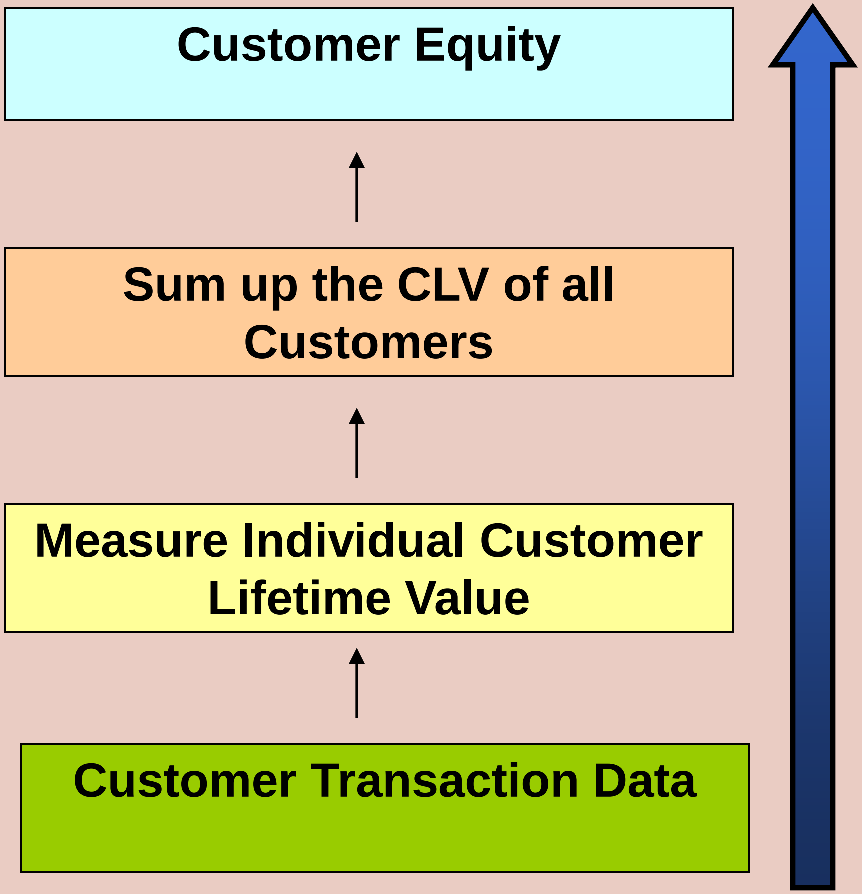
Divide by the number of Customers

↓

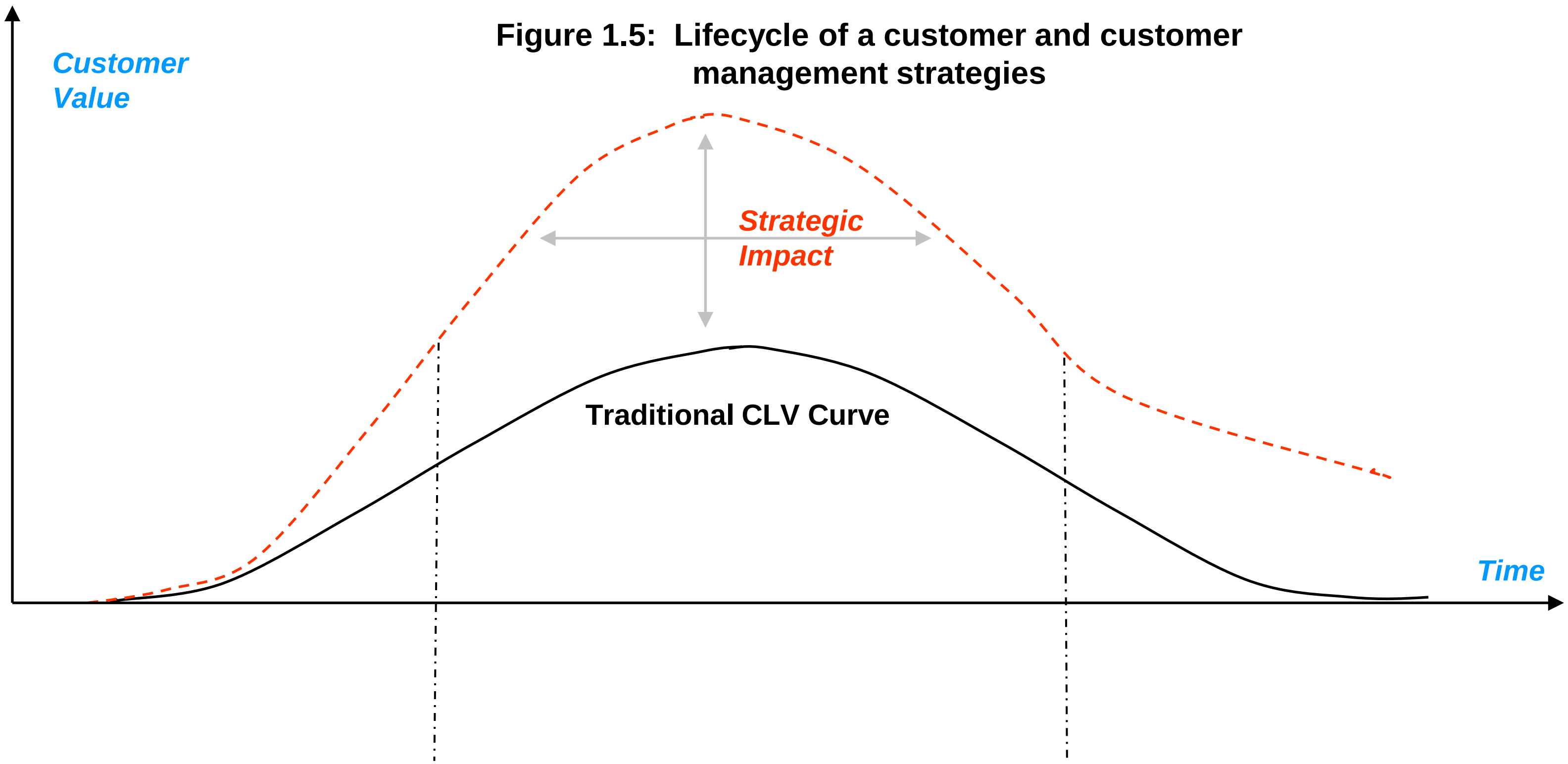
Average Customer Lifetime Value

CLV: A Bottom-Up Approach

- First identify the Lifetime Value of each individual customer
- A key requirement is data is required at the customer level
- Obtaining Customer-Level data is time consuming and difficult but provides rich insights often lost in aggregated approaches
- Technology has made this rich information possible to obtain and has allowed firms to focus on customers rather than exclusively on products



Typical Customer Lifetime Scenario



- Based on the location of the customer on the life cycle plot the firm can implement an appropriate strategy (*acquisition, retention, win-back*) in order to *speed acquisition*, *increase revenue during retention*, or *delay attrition*.

•The net result is a lift in customer value

End of Chapter 1