



# Managing Customers for Profit

V. Kumar

Chapter – 14

## **Organizational and Implementation Challenges**

Instructor's Presentation Slides

# Relevant Issues

How can a firm change from the Product-Centric approach to the Customer-Centric Approach?

What does it involve to adopt a Customer-Centric approach?

How to address the implementation challenges while adopting a Customer Lifetime Value Framework?

# Organizational Issues with CLV Implementation

## (Business Dimension)

### A comparison between Product-Centric and Customer Centric Approach

	Product-Centric Approach	Customer-Centric Approach
Basic Philosophy	Sell products; we'll sell to whoever will buy	Serve customers; all decisions start with the customer and opportunities for advantage
Business orientation	Transaction oriented	Relationship oriented
Product Positioning	Highlight product features and advantages	Highlight product's benefits in terms of meeting individual customer needs
Organizational Structure	Product profit centers, product managers, product sales team	Customer segment centers, Customer Relationship managers, customer segment sales team
Organizational Focus	Internally focused, new product development, new account development, market share growth; customer relations are issues for the marketing department	Externally focused, customer relationship development, profitability through customer loyalty; employees are customer advocates
Performance Metrics	Number of new products, profitability per product, market share by product/sub brands	Share of wallet of customers, customer satisfaction, customer lifetime value, Customer Equity
Management Criteria	Portfolio of products	Portfolio of Customers
Selling approach	How many customers can we sell this product to?	How many products can we sell to this customer?
Customer Knowledge	Customer data are a control mechanism	Customer knowledge is valuable asset

Source: Shah Denish et al, (2006) "The Path to Customer Centricity", *Journal of Service Research*, Vol. 9, No. 2, pp 113-124.

# Moving from Product Centric to Customer Centric

For a firm to be customer-centric in its approach, interactions between firm and customer, between customers, and between firms are essential (referred to as their *Interaction Orientation*)

Firms	Key Characteristics
Product-Oriented <sup>3</sup>	<ol style="list-style-type: none"> <li>1) Consumer will choose product that offers the most quality, performance and innovative features</li> <li>2) The product is viewed as a source of business for firm.</li> <li>3) Manage product portfolio and are transaction oriented</li> <li>4) Customer-to-customer linkage is not strategically important, Customer data is considered as control mechanism</li> </ol>
Sales-Oriented <sup>3</sup>	<ol style="list-style-type: none"> <li>1) Sales efficiency and effectiveness is a focus</li> <li>2) The relevance of product or market is of secondary importance</li> <li>3) Pushing the product is more important than creating the / for the product.</li> </ol>
Market-Oriented	<ol style="list-style-type: none"> <li>1) Marketing activities are conducted for a firm's customer</li> <li>2) The customer is viewed only as a source of business for the firm</li> <li>3) The strategic importance of customer-to-customer linkage is not recognized</li> <li>4) The need of coordination is seen as being limited to the functional departments within a firm</li> </ol>
Interaction-Oriented	<ol style="list-style-type: none"> <li>1) Marketing activities are conducted with the customer</li> <li>2) The customer is viewed both as a source of business and as a business resource for the firm</li> <li>3) The strategic importance of customer-to customer linkages is recognized and included in the customer empowerment component.</li> <li>4) The effect of the network economy on the strategic importance of managing and coordinating outsourced production and service is recognized and included in the interaction response component</li> </ol>

# Steps to Improve Interaction Orientation

- 1) Firms can improve their interaction with customers by capturing individual customer transactions and by improving supply chain logistics
- 2) Firms should enable customers to obtain information freely, exercise choices, praise or criticize the firm, product or service, and even participate in designing the product or service
- 3) Marketing should be an activity that is measured and analyzed at the level of the individual customer level



# The Components of Interaction Orientation

## Customer Concept

- It is the belief that the unit of every marketing action or reaction is an individual customer.

## Interaction Response Capacity:

- The degree to which a firm can provide successive product, services and interaction experience based on the previous feedback by a specific customer, and all other customers.

## Customer Empowerment

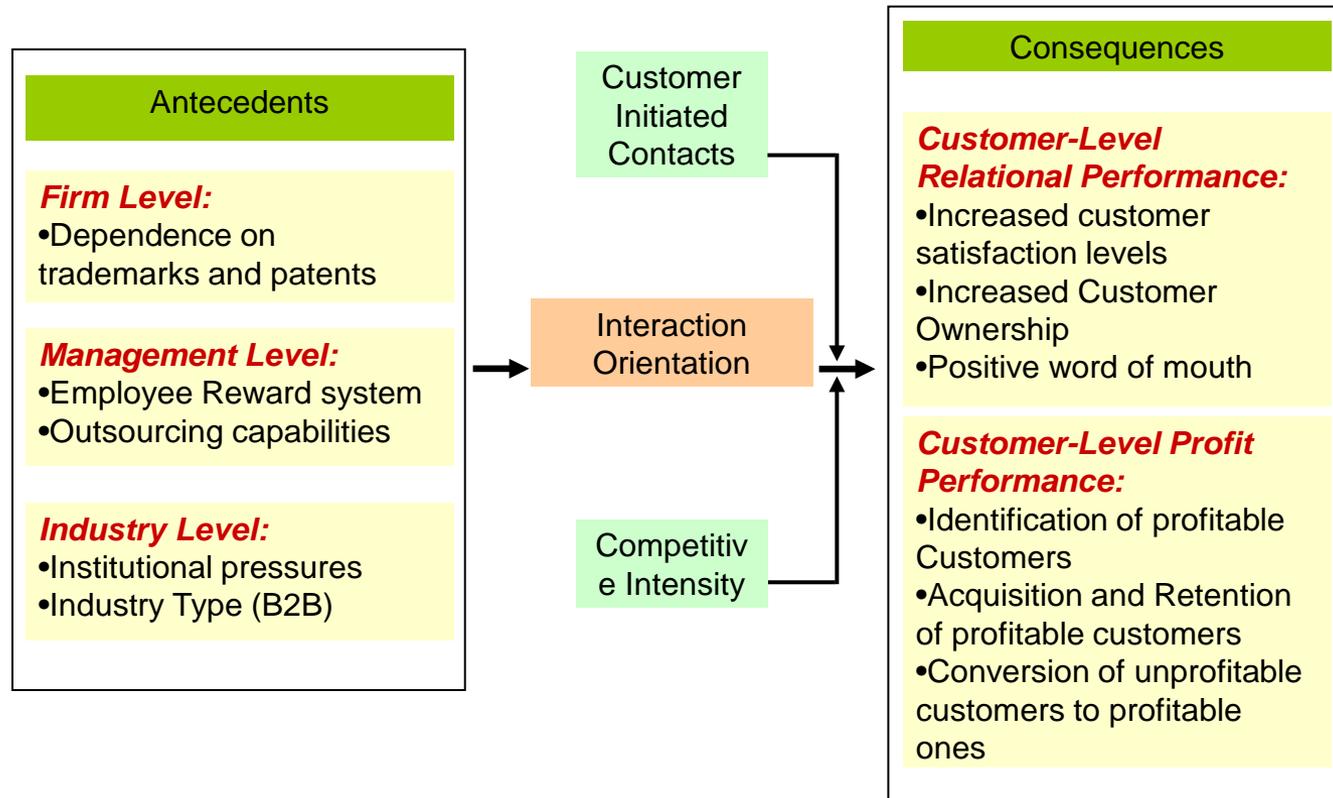
- The extent to which a firm allows its customers to (1) connect with the firm and design the nature of transaction (2) connect and collaborate with each other by sharing information, praise, and criticism about its product and services.

## Customer Value Management

- The extent to which a firm is able to quantify and calculate the individual customer value and use it to reallocate resources to customers who will add higher value in the future.

# Interaction Orientation Process

Figure 14.1  
Interaction Orientation: Antecedents and Consequences



Source: Kumar, V., and Girish Ramani, "Interaction Orientation: The New Measure of Marketing Capabilities", University of Connecticut

# Issues Facing Firms who do not Adopt Interaction Orientation

1. Obligation by the firm to continue serving a large base of unprofitable customers
2. Uncontrolled proliferation of negative word-of-mouth
3. Customers directing competitor's attention to the firm's vulnerable areas
4. Inability to plan for future
5. Poor marketing accountability leading to lower profits and lower returns on marketing investments

# Organizational Issues with CLV Implementation (*People Dimension*)

Steps to Get around the *people dimension of change issues*:

## **Generate awareness of the need to change**

- This can be achieved by effective and elaborate communication with employees.

## **Create desire to participate and support the change**

- Firms can attain maximum participation by communicating the effectiveness of the initiative and the benefits that can be derived from the initiative.

## **Disseminate knowledge of how to change**

- Firms can realize this by creating channels of communication, creating information in a transparent way.

## **Empower ability to implement the change on a day-to-day basis**

- This can be done by giving the employees the power to interact and share the response to customers.

## **Reinforcement to keep the change in place**

- Firms can attain this by following up with the management and employees frequently to discuss the progress and recovering the benefits of implementing the change.

# Implementation Challenges

## Data Driven Factors

1. The data should be at the customer level
2. The data should contain all the transaction information including past customer value, recency, frequency, contribution margin to derive the drivers of profitability
3. The longer the span over which the data is collected the better it is. But, the firms should collect data for at least a two to three year period.
4. Marketing touch information should be included in the data. The data should comprise of all the marketing touch methods used (e.g., mails, emails, etc.) and the date each touch occurred.

# Customer-Level Transition Strategy

Transparency in Execution	Accountability in Execution	Develop a Metrics Dashboard	Share of Hearts, Mind, and Markets	Product and Portfolio Management	Customer Profitability
<ul style="list-style-type: none"><li>• The CRM initiative should be well communicated to the internal and external users.</li><li>• Even the slightest of discrepancies should be communicated so that errors are eliminated</li></ul>	<ul style="list-style-type: none"><li>• Designate a group which would be responsible for the implementation of these initiatives</li></ul>	<ul style="list-style-type: none"><li>• Helps identify and implement key performance measures of a customer that will help manager to track and monitor customers for effective allocation of resources</li></ul>	<ul style="list-style-type: none"><li>• The metrics try to identify the correlation between variables behind market share, and try to explore measure of awareness, attitude and usage, which are major factors while making a decision to select one brand over another</li></ul>	<ul style="list-style-type: none"><li>• Provides Optimal Solutions for:</li><li>• What will be the sale from a new product?</li><li>• Does the launch of new products affect the sales of the existing products?</li><li>• What are the true needs of customers?</li><li>• Is the company able to deliver products and services to cater to those needs?</li></ul>	<ul style="list-style-type: none"><li>• These metrics measure the performance of individual customers</li><li>• Commonly used metrics are Number of customers, RFM, and Customer Lifetime Value (CLV)</li></ul>

# Shifting From Customer Spending Metric to CLV Metric *(at IBM)*

As stated in the IBM example, IBM shifted from Customer Spending Metric to Customer Lifetime Value Metric. The key steps involved in implementing the Customer Lifetime Value framework include the following:

- The firm rank-ordered its existing customer to decide which customer to target and which one to ignore. The ranking was done using CLV method.
- The next step was to identify the high valued customers by understanding their specific characteristics and developing a unique marketing effort to capture those customers. This also helped the firm to identify future customers.
- The firm decides on its optimal contact strategy to these highly valued customers, in terms of type and frequency of communication.
- The final step includes using purchase timing and timing model that helps firms to isolate different time periods when these customers were most likely to buy these products or services.

# Shifting From Customer Spending Metric to CLV Metric *(at IBM)*

Table 14.3

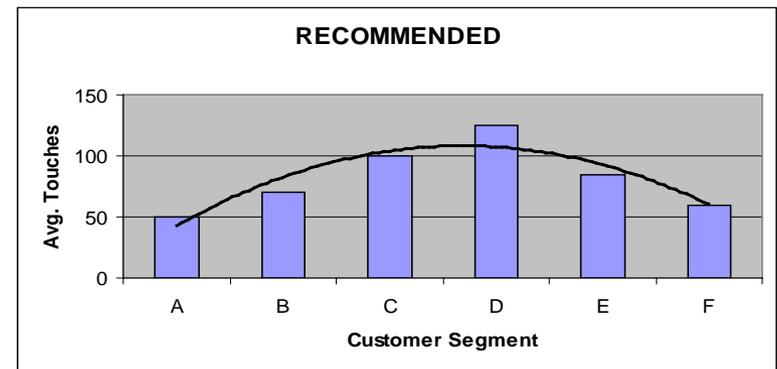
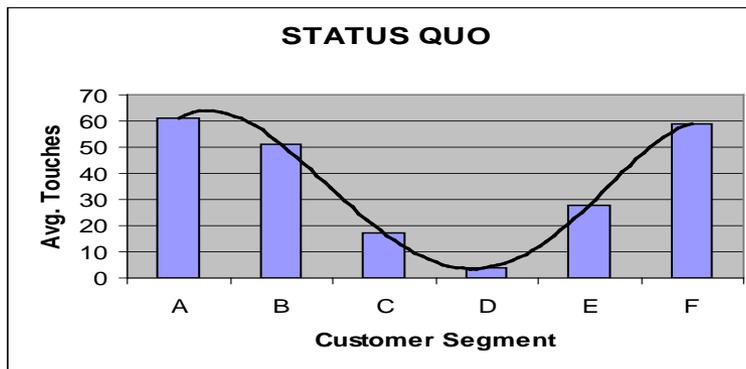
% of Cohort Selected from top)	<i>Using the first 30 months of data to predict the next 18 months of Purchase Behavior</i>				
		Customer Lifetime Value	Customer Spending Score (CSS)	RFM	Past Customer Value
<sup>15</sup>	<i>Average Revenue</i>	30,427	21,789	22,622	23,542
	<i>Gross Value</i>	9,184	6,659	6,966	7,185
	<i>Variable Costs</i>	107	114	110	104
	<i>Net Value</i>	9,077	6,544	6,856	7,081

The reported values are in dollars (expressed as a multiple of the actual numbers) per customer and are cell medians.

# Shifting From Customer Spending Metric to CLV Metric (at IBM)

Similarly, by using CLV metric the productivity from similar marketing investment increased as is shown in Figure 14.2.

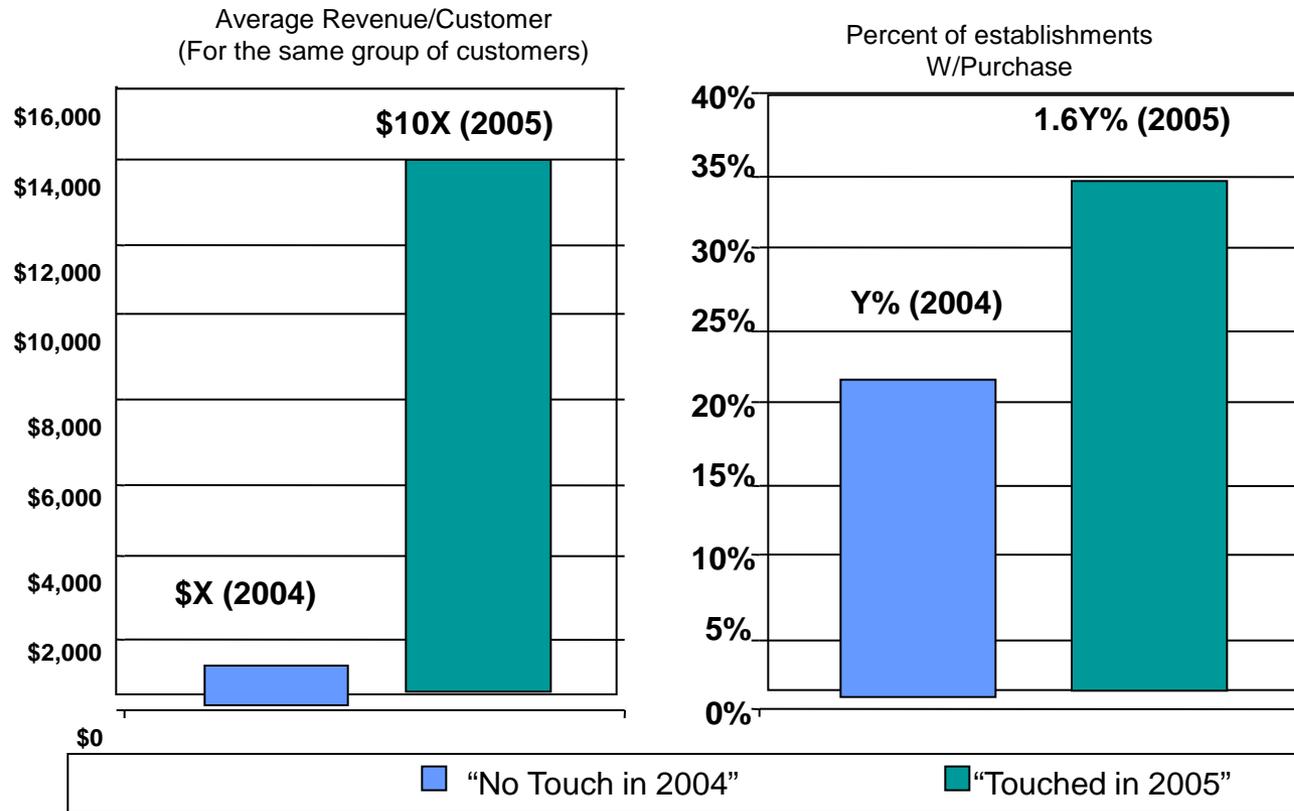
Figure 14.2



Source: Kumar, V., Rajkumar Venkatesan, Timothy Bohling and Denise Beckmann, "The Power of CLV: Managing Customer Value at IBM", forthcoming, *Marketing Science*.

# Shifting From Customer Spending Metric to CLV Metric (at IBM)

Figure: 14.3  
**Profit Margin by adopting CLV Framework**



Source: Kumar, V., Rajkumar Venkatesan, Timothy Bohling and Denise Beckmann, "The Power of CLV: Managing Customer Value at IBM", forthcoming, *Marketing Science*.



# *End of Chapter 14*