Managing Customers for Profit

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Chapter – 5
Maximizing Customer Profitability

Instructor's Presentation Slides

Relevant Issues

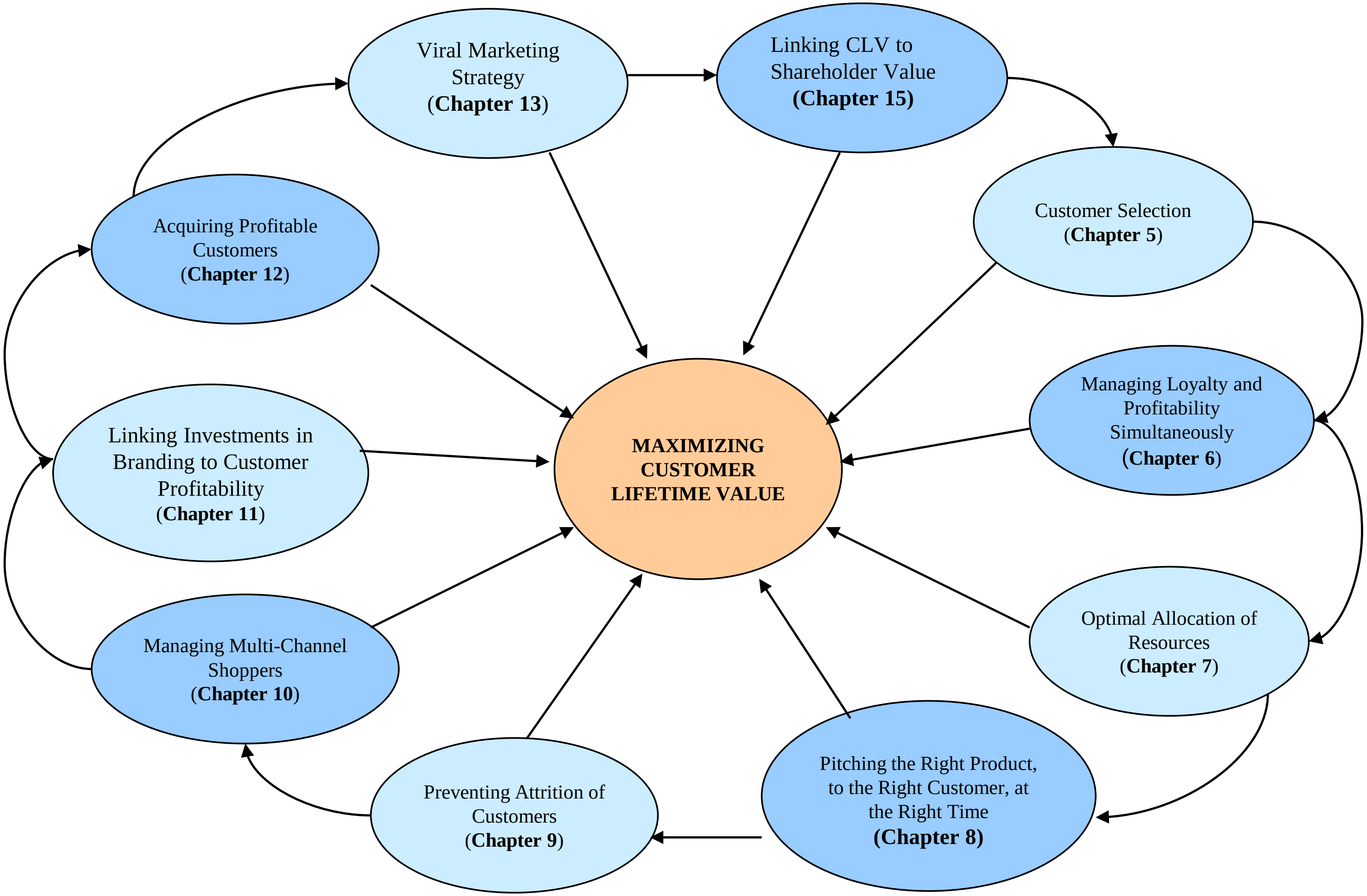
Why do we need a customer lifetime value (CLV)-based approach to manage customer profitability?

What are the strategies that can be used to maximize CLV?

Strategies to Maximize CLV

Across-Customer Strategies	Within-Customer Strategies
• Target customers with high profit-potential	• Maximize profits by increasing revenue
• Manage existing sets of customers and rewarding them based on their profit-potential	• Maximize profits by increasing profit
• Invest in high-profit customers	• Maximize profits by both increasing revenue and profit

The Wheel of Fortune –
Strategies Used for Maximizing CLV



Customer Selection

- Managers have to make choices as to where and on whom to spend their limited resources
- Not all customers are equally profitable.
- Firms traditionally rank order customers based on their profitability
- CLV , however, is forward looking and therefore is the most successful at predicting future customer profits

Managing Loyalty and Profitability Simultaneously

Often Managers believe loyalty is the true measure customer profitability….This is not true! Instead…

Segment customers based on their loyalty and profitability to the firm.

Build a loyalty program that aims at maximizing the overall profitability of the firm. Remember… not all customers are equally profitable!!

A two-tiered loyalty program is optimal

Optimal Allocation of Resources

Identify the most profitable and responsive customers

- Only those customers who are both profitable and responsive should receive communiqué

Identify the right mix of different channel contacts for each customer

- E-mail, direct mail, telephone, direct visit by a salesperson.
- How cost-effective are these channels?

Determine frequency of contact, and the inter-contact time

- Also, upgrading (to a higher product category) and cross-selling (in a different category) etc. needs to be analyzed

Right Product, Right Customer, Right Time

Estimate the probability that a customer will choose to purchase a particular product

Estimate the probability that a customer will make a purchase at a particular time

Preventing Customer Attrition

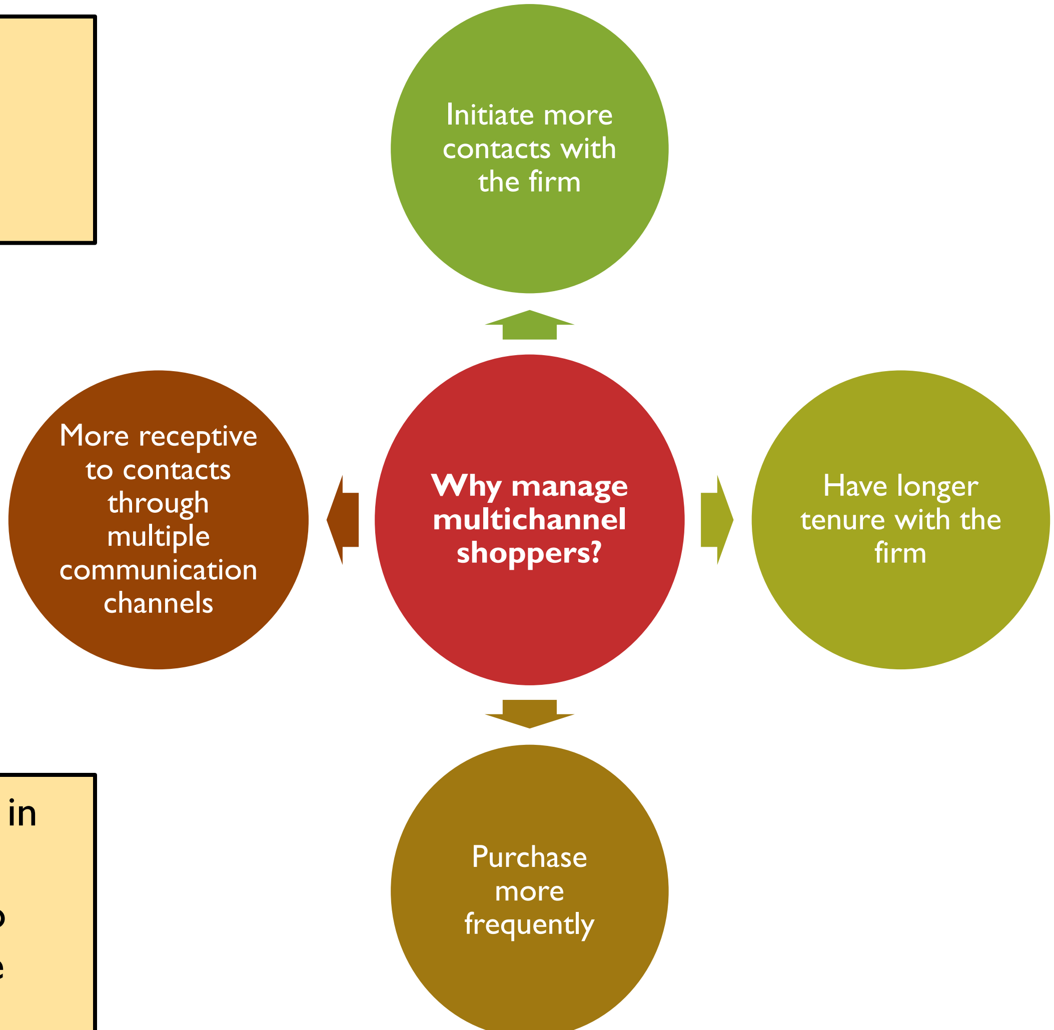
Study the customer's quitting tendencies

Can create a value proposition at the time of intervention that would not exceed the CLV

Firms have to identify when the intervention has to be made

Managing Multichannel Shoppers

Study in a B2B setting shows that multichannel shoppers are more profitable than single-channel shoppers.



Understanding customer behavior in each channel can help managers to migrate low-value customers to low-cost channels and thus reduce cost.

Linking Investments in Branding to Customer Profitability

Build Brands or Build the Customer Base?

- Address these issues is to establish a link between brand value and CLV to manage individual customer brand value
- This results in maximizing the customer lifetime value
- This strategy explores the link between Individual Brand Value (IBV) and Customer Lifetime Value (CLV) and, offers insights towards bridging the gap between IBV and CLV.
- Measurements on components of an individual's brand value are suggested so that a firm can identify how its customers value the brand.
- Based on these results, the firm can redesign its communication strategies to cater to the needs of such customers.

Acquiring Profitable Customers

Don't over emphasize short-term cost nor under-emphasize long-term gain

Firms should use customer profiles to identify the customers who are most likely to be profitable

- It was found that the largest segment (32%) was made up of customers who were easy to acquire and retain. But, they accounted for only 20% of the total profits. On the other hand, 40% of the total profits came from the smallest group of customers (15%) who were expensive to acquire but cheap to retain.

Link acquisition and retention to profitability to target and retain profitable customers

- Efficient allocation of the marketing budget across acquisition and retention initiatives maximizes profitability.

Viral Marketing Strategies

Limitation of the CLV metric: It fails to measure data on customer attitudes

The concept of Customer Referral Value (CRV), which is defined as the value of the referral behavior for a specific customer, is introduced in implementing this strategy

This metric enables managers to measure and manage customer referral behavior.

This dictates that customers be valued based on their indirect impact on the firm's profits, through savings in acquisition costs and addition of new customers by way of customer referral.

Implementation / Interaction Orientation

- Interaction Orientation:

  "Interaction between the firm and the customer, which helps in developing organizational resources for successful customer management strategies"

- An organizational capability which is a composite of
  - The firm's belief in the customer concept
  - The firm's investments in an interaction response capacity based on dynamic database systems
  - The firm's customer empowerment practices that shape customer-to-firm interactions and customer-to-customer interactions
  - The firm's customer value management practices that guide marketing resource allocation decisions

Organizational Capabilities: Complex bundle of skills and accumulated knowledge exercised through organizational processes that enable firms to coordinate activities and make use of their assets (Day 1994)

End of Chapter 5