



# Managing Customers for Profit

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Chapter – 6

Managing Loyalty and Profitability Simultaneously

Instructor's Presentation Slides

# Relevant Issues

How not to choose the wrong customers?

How to choose the right customers?

How to manage profitable customer loyalty?

# Loyalty

## Truly loyal customers

- Customers “who feel so strongly that you (the company) can best meet their relevant needs
- Your (the company’s) competition is virtually excluded from the consideration set;
- These customers buy almost exclusively from you (the company)

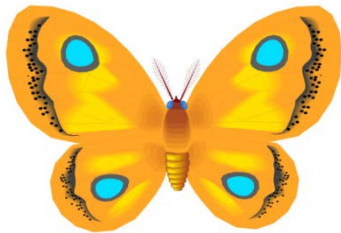
## Attitudinal loyalty

- Indicates a higher-order and long-term commitment of a customer towards the firm
- This commitment cannot be inferred from just observing the purchase behavior of the customers

## Behavioral loyalty

- By itself cannot be a measure of “true” loyalty, and
- Can be an unreliable predictor of customer profitability.

# Customer Segmentation



## **BUTTERFLIES**

### Cell 2

- Good fit of company offering and customer needs
- High profit potential
- Action:
  - Aim to achieve transactional satisfaction, not attitudinal loyalty.
  - Milk the accounts as long as they are active.
  - Key challenge: cease investment once inflection point is reached

## **TRUE FRIENDS**

### Cell 3

- Good fit of company offering and customer needs
- Highest profit potential
- Actions:
  - Consistent intermittently spaced communication
  - Achieve attitudinal *and* behavioural loyalty
  - Delight to nurture/defend/retain

## **STRANGERS**

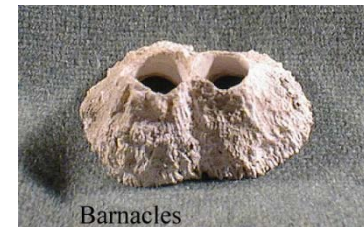
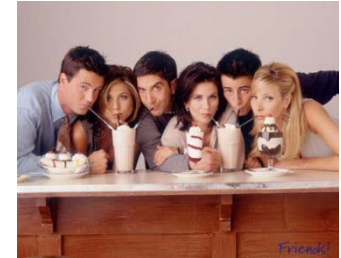
### Cell 1

- Little fit of company offering and customer needs
- Lowest profit potential
- Action:
  - No relationship investment
  - Profitize every transaction

## **BARNACLES**

### Cell 4

- Limited fit of company offering and customer needs
- Low profit potential
- Action:
  - Measure size and share-of-wallet
  - If share-of-wallet is low, specific up-selling and cross-selling
  - If size of wallet is small, strict cost control



Barnacles

# Building and Sustaining Loyalty

Building and Enhancing Customer Loyalty



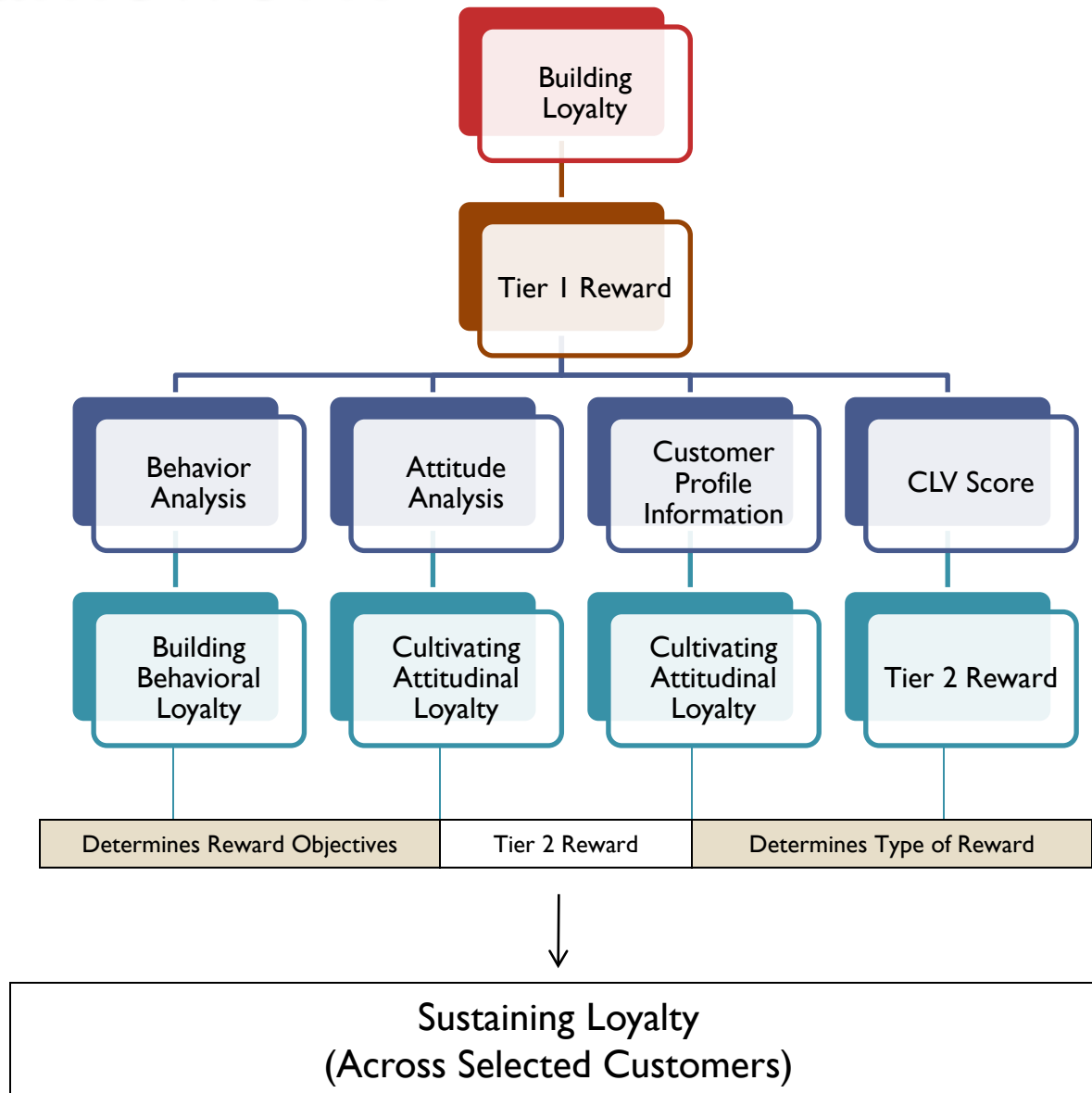
Cultivating Attitudinal Loyalty



Linking Loyalty to Profitability

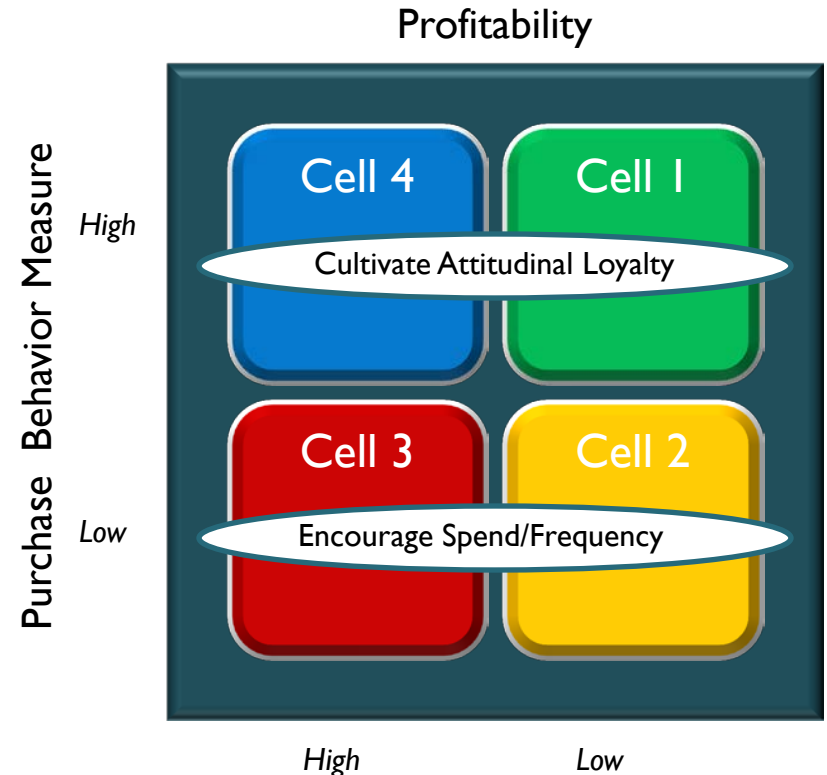


# Framework



# Profitability and Purchase Behavior

- Customers spending the same amount in revenue can have very different future profitability and purchase behavior
- When segmenting based on purchase behavior, remember that this measure varies across various industries
- It is crucial to compare, contrast and analyze the purchase behavior against the profitability of the customer



# Cultivating Attitudinal Loyalty

- Involves going above and beyond standard marketing interventions
- May often result in a long fruitful relationship between the firm and the customer.
- Firms need to know their customers well, beyond the information present in the customer's purchase history (customer heterogeneity and other demographic info)





# Linking Loyalty to Profitability

- When designing loyalty programs one must consider the profitability of the firm
- One effective way is to use of CLV metric.
- By using CLV, firms can identify the customers who are most valuable and spend the limited marketing resources on them
- By understanding which customers are least profitable in the long run, firms can limit the marketing intervention in these cases



# Operationalizing the Framework - Two Tiered Reward Structure

## Tier 1

- A Baseline Rewards Approach
- Derived from transaction data
- Ensures scalability of the loyalty programs
- Offered to all customers
- Standard, uni-dimensional reward strategy

## Tier 2

- Forward Looking based on past performance
- Subset of Tier 1 customers
- Highly differentiated rewards awarded to selective customers
- Customer selected on behavioral analysis, attitudinal analysis, customer profile and CLV

# Evolution of Loyalty Programs

No.	Dimension	Earlier Loyalty Programs: Program Centric	Evolving Loyalty Programs: Customer Centric
1	Operationalization Level	Aggregate Level	Customer Level
2	Program Type	Standardized, based on usage or spend.	Customized, based on type of usage or type of spend.
3	Rewarding Scheme	Standard and uniform aimed at repeat purchase.	Personalized and relevant, aimed at influencing specific behavioral change or attitudinal gratification.
4	Reward Options	Minimal.	Multiple (usually made possible through partners and alliances).
5	Reward Mechanism	Reactive	Reactive + Proactive
6	Reward Type	Tangible	Tangible + Experiential
7	Program Objective	Build market share, increase revenues, Build behavioral loyalty through repeat purchase or usage.	Link loyalty to profitability, Influence behavioral loyalty, Cultivate attitudinal loyalty.
8	Metrics Used	RFM, Past Customer Value (PCV), Share of Wallet (SOW)	Customer Lifetime Value (CLV)
9	Technology & Analytics Usage	Minimal	Extensive



# *End of Chapter 6*