Managing Customers for Profit

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Chapter – 7

Optimal Allocation of Resources across Marketing and Communication Strategies

Instructor's Presentation Slides

Relevant Issues

Acquisition Strategy: Is investing on customers who are easy to acquire a sound strategy?

Retention Strategy: Is trying to retain all customers a profitable customer management strategy?

How to tailor marketing strategies that accommodate the responsiveness of customers towards different marketing channels?

How do we optimally allocate marketing and communication resources in order to maximize Customer Lifetime Value?

Where to Spend?

- In a recent study the largest segment (32%) of customers who were easy to acquire and retain accounted for only 20% of the total profits.

- The largest share of the profits (40%) came from the smallest group of customers (15%) who were expensive to acquire but cheap to retain.

Communication Channels

Rich Modes	Standardized Modes
• Face-to-face meetings • Telephone calls • 50x more expensive than standardized	• Direct mail • Email • Most cost efficient • Used to identify customers who are interested in current promotions

However, don't over communicate! It has been shown that over contact can make the relationship dysfunctional

Type and Frequency of Communication

Inter-contact time	• Inter-contact time between the suppliers and buyers should be maintained at an optimum level. • Too much communication could be harmful to the relationship.
Bidirectional communication	• Bidirectional communication shows that the customer is willing to maintain relations with the company. • It has been shown that large bidirectional communication is associated with channel structures that are highly relational. • Diff between B2C and B2B
Web-based contacts	• Companies need to pay special attention to web-based contacts since they are initiated by the customers, and show a high degree of customer involvement.

Resource Allocation

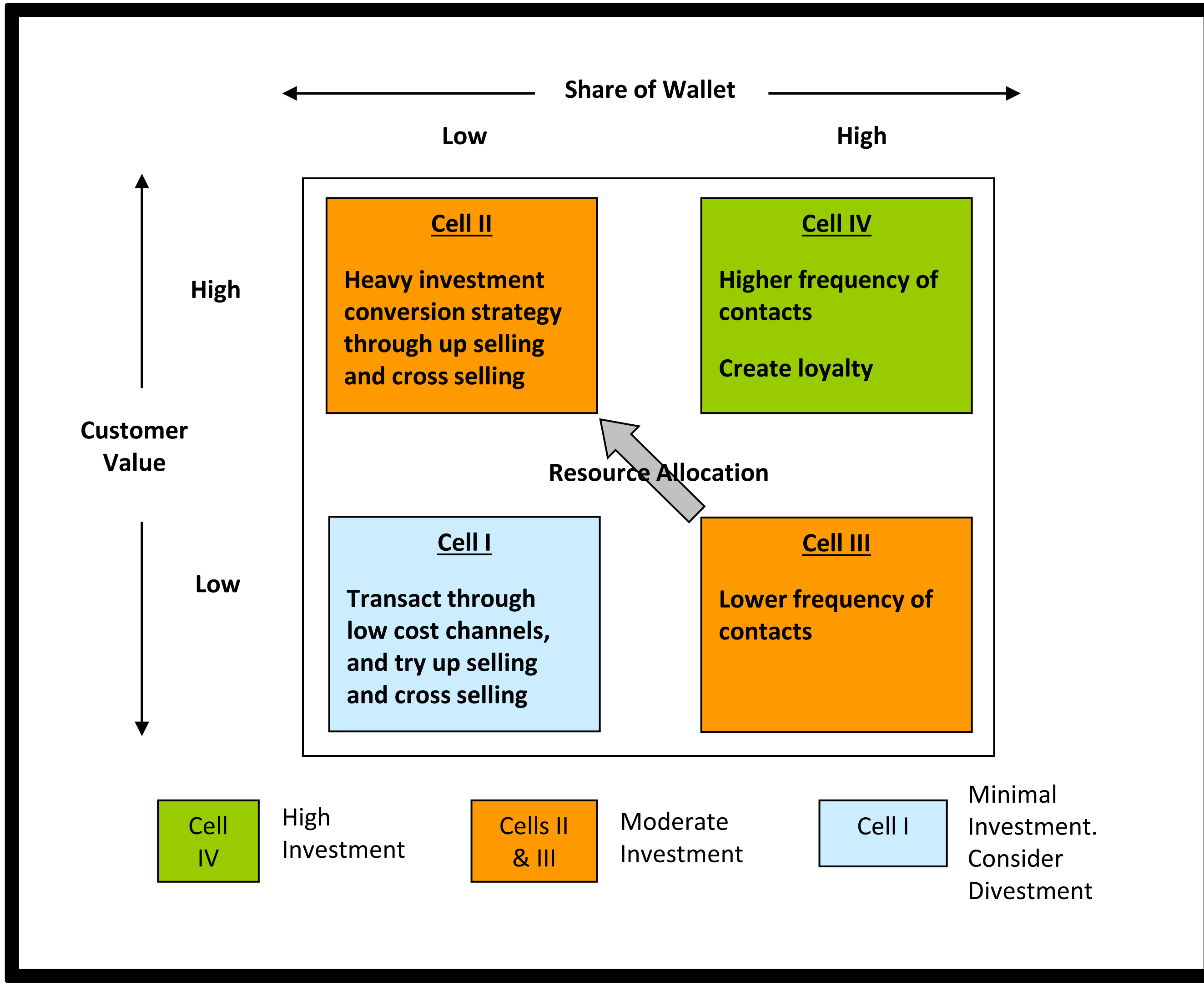
The cost involved in communicating through a particular channel

The customer's response when contacted through a particular channel

The frequency of communication

The customer contact levels across different channels

The expected profit level from each customer



Optimal Resource Allocation Case-study

- Traditionally Customers were categorized based on Share of Wallet (SOW)
- We further classified customers in accordance with their CLV
- For each segment, detailed recommendations were made as to what is optimal level of face-to-face meetings, direct mail contacts, telesales etc

Optimal Resource Allocation Case-study

	Low SOW	High SOW
High CLV	Cost Reduction($): **Cell 1** Current Spending: $1,008 Optimal Spending Limit: $2,197 Face to Face Meetings: Current Frequency: once every 7 months Optimal Frequency: once every 5 months Direct Mail/Telesales: Current Interval: 6 days Optimal Interval: 2 days Profits: Current Profit: $109,364 Optimal profit: $178,092	Cost Reduction($): **Cell 2** Currently Spending: $1,385 Optimal Spending Limit: $2,419 Face to Face Meetings: Current Frequency: once every 3 months Optimal Frequency: once every 1 month Direct Mail/Telesales: Current Interval: 6 days Optimal Interval: 5 days Profits: Current Profit is $534,888 Optimal profit is $905,224
Low CLV	Cost Reduction($): **Cell 3** Currently Spending: $819 Optimal Spending Limit: $433 Face to Face Meetings: Current Frequency: once every 5 months Optimal Frequency: once every 13 months Direct Mail/Telesales: Current Interval: 10 days Optimal Interval: 13 days Profits: Current Profit: $7,435 Optimal profit: $12,030	Cost Reduction($): **Cell 4** Currently Spending: $1,291 Optimal Spending Limit: $612 Face to Face Meetings: Current Frequency: once every 2 months Optimal Frequency: once every 10 months Direct Mail/Telesales: Current Interval: 8 days Optimal Interval: 8 days Profits: Current Profit: $10,913 Optimal profit: $28,354

Optimal Resource Allocation Case-study

- As can be seen from the results, the B2B firm was consistently overspending on the low-CLV customers (Cell 3 and 4 in Figure 7.2).
- Particularly, the firm was using the very expensive face-to-face channel of contact very frequently, thus increasing the marketing spending dramatically
- By adopting a CLV based approach the spending level was reduced by half the current level of spending (profits increased by more than 200% for these customers
- The firm was consistently under-spending on the high-CLV customers (as represented in Cells 1 & 2 in Figure 7.2). By adopting a CLV based approach, a comprehensive strategy was recommended.
- By implementing this CLV-based strategy of re-allocating the marketing resources, the firm generated 100% more revenue. The total profits increased by 70% by changing over to optimal frequencies for face-to-face meetings and direct mail/telesales in all four cells

End of Chapter 7