

# Creating Customer Value, Satisfaction, and Loyalty

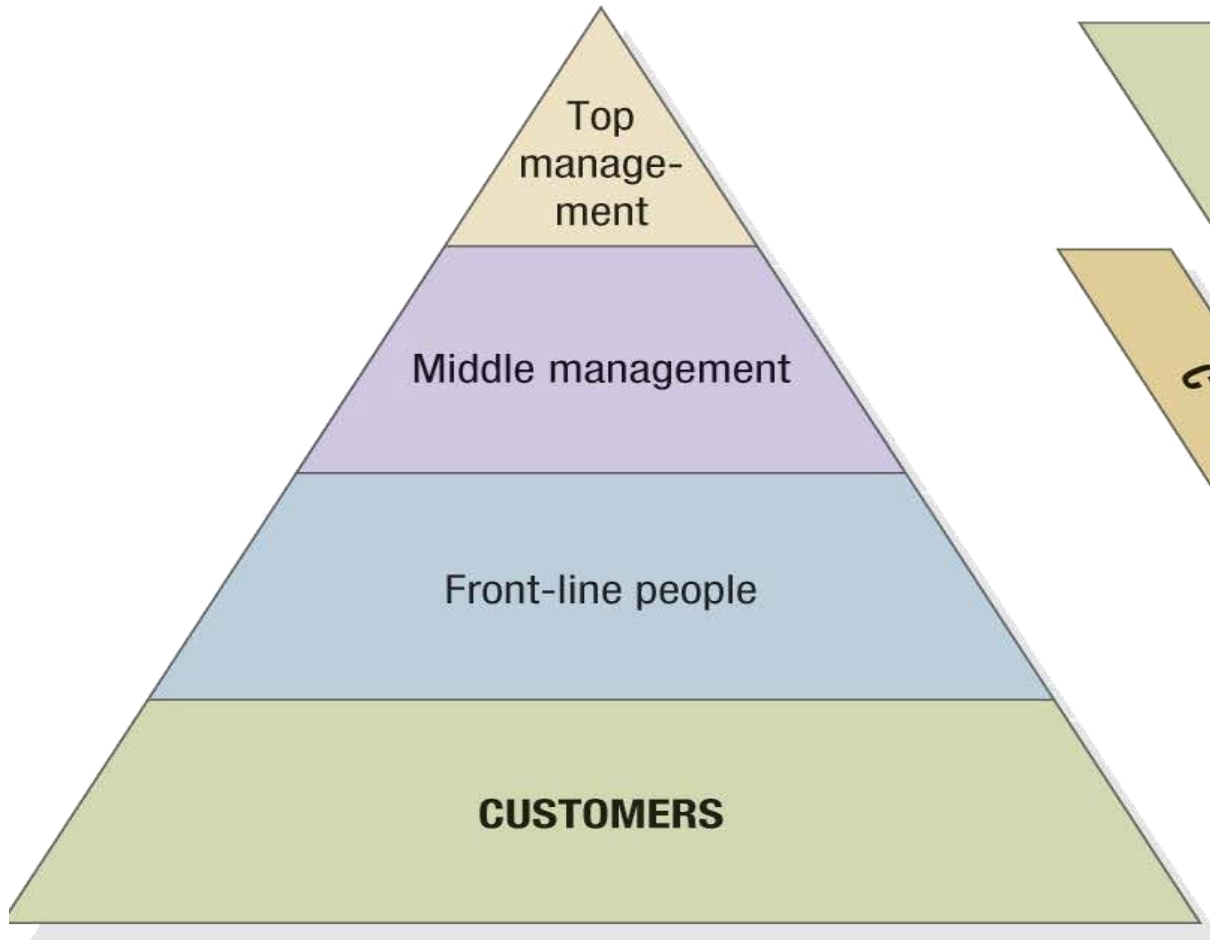
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# Lecture Questions

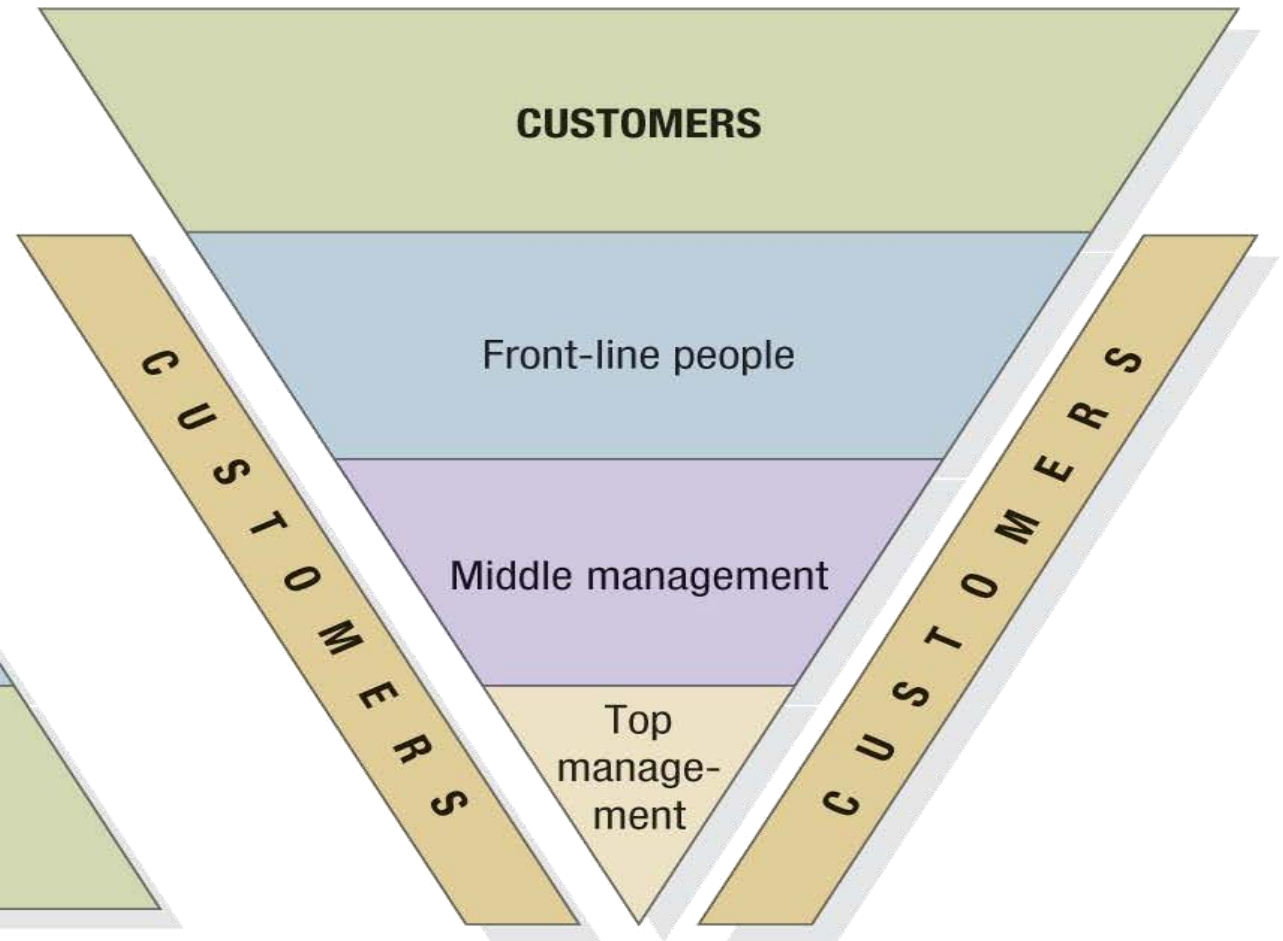
- What are customer value, satisfaction, and loyalty, and how can companies deliver them?
- What is the lifetime value of customers?
- How can companies cultivate strong customer relationships?
- How can companies both attract and retain customers?
- What is database marketing?

# Figure 7.1 Traditional Organization versus Modern Customer-Oriented Company Organization

(a) Traditional Organization Chart



(b) Modern Customer-oriented Organization Chart



# What is Customer Perceived Value?

**Customer perceived value** is the difference between the prospective customer's evaluation of all the benefits and all the costs of an offering and the perceived alternatives.

## Figure 7.2 Determinants of Customer Perceived Value

### Total customer benefit

- Product benefit
- Services benefit
- Personal benefit
- Image benefit

### Total customer cost

- Monetary cost
- Time cost
- Energy cost
- Psychological cost

# Steps in a Customer Value Analysis

- Identify major attributes and benefits that customers value
- Assess the qualitative importance of different attributes and benefits
- Assess the company's and competitor's performances on the different customer values against rated importance
- Examine ratings of specific segments
- Monitor customer values over time


# What is Loyalty?



**Loyalty** is a deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behavior.


# The Value Proposition

THE LUXURY CAR THAT  
TREATS LIFE LIKE  
THE GREATEST  
LUXURY OF ALL.



**THE ALL-NEW VOLVO S80.**

Volvo. for life



If you consider life the greatest luxury, you'll want a luxury car that makes protecting life its first priority. The all-new Volvo S80 does exactly that with new Pre-Emptive Technologies that can actually detect dangerous situations before they happen. These world-firsts ensure that for people both inside and outside the car, the luxury of life calmly goes on. And with the power of an available 311-hp V8 and elegant Scandinavian design, the driver experiences a perfectly struck balance of performance and luxury.

**WHO WOULD YOU GIVE A VOLVO TO? The all-new Volvo S80, starting at \$38,705.\***

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\*MSRP does not include destination charge. Taxes, title and registration fees extra. Car shown with optional equipment at additional cost. See your authorized Volvo retailer for complete details. ©2007 Volvo Cars of North America, LLC. The Iron Mark and "Volvo for life" are registered trademarks of Volvo. Always remember to wear your seat belt.

The whole cluster of  
benefits the company  
promises to deliver



# Measuring Satisfaction



Periodic Surveys

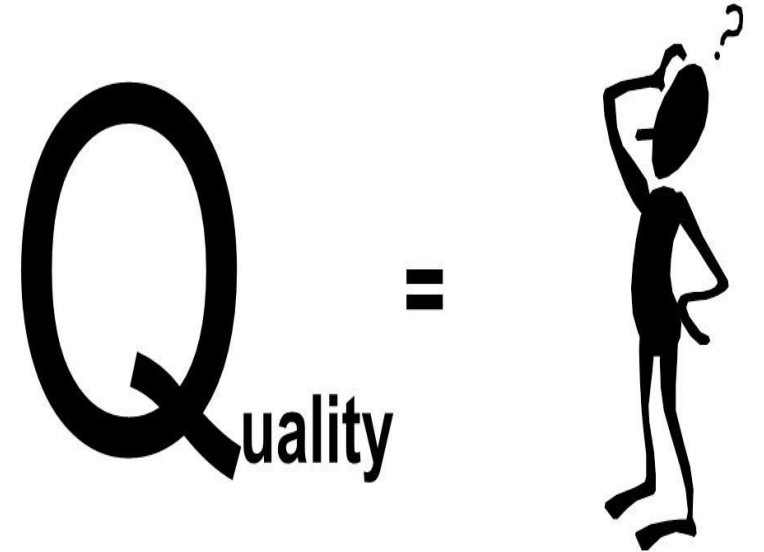
Customer Loss Rate

Mystery Shoppers Monitor Competitive

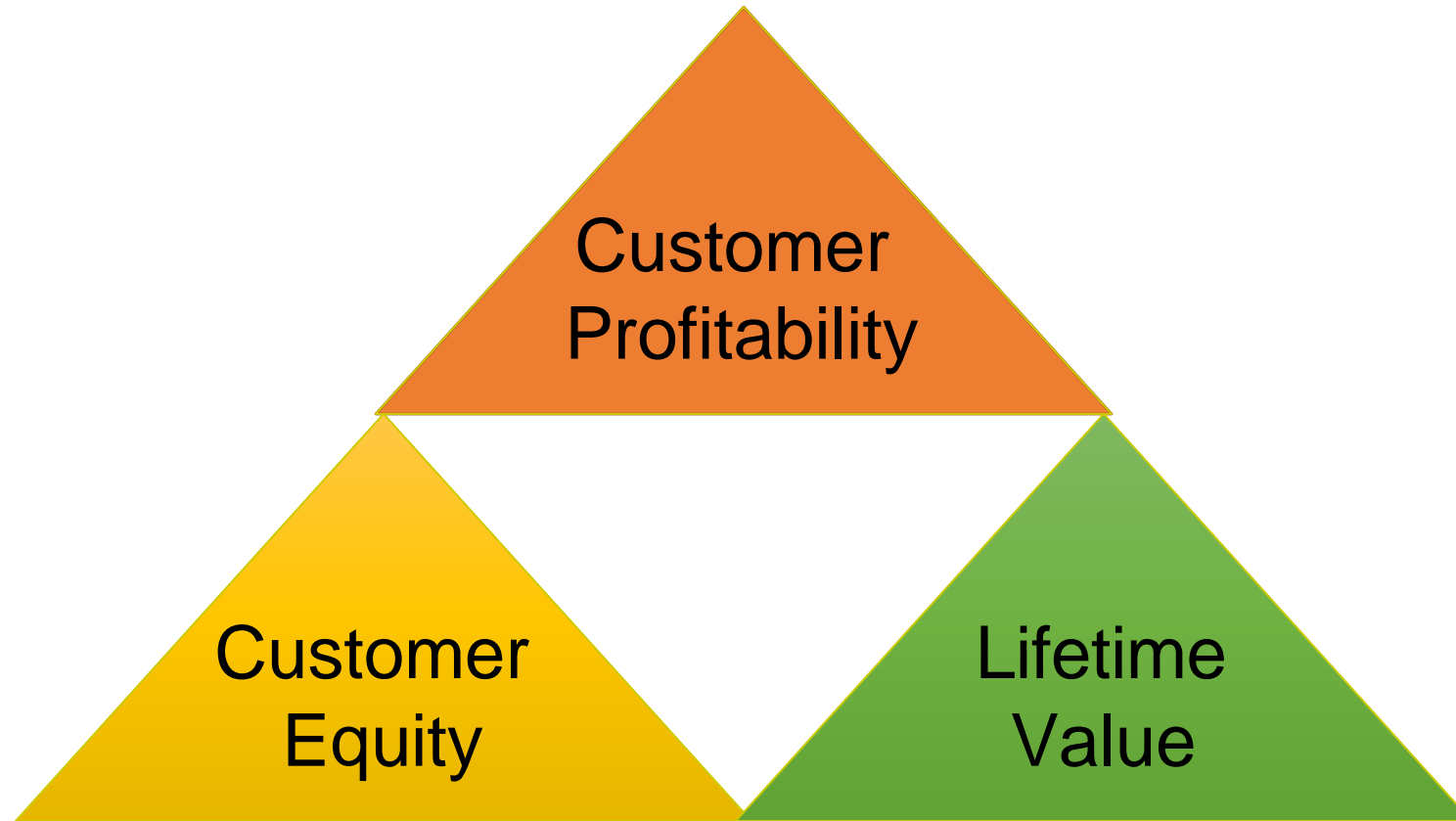
Performance

# What is Quality?

**Quality** is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs.



# Maximizing Customer Lifetime Value



# Estimating Lifetime Value

- Annual customer revenue: \$500
- Average number of loyal years: 20
- Company profit margin: 10
- Customer lifetime value: \$1000

# What is Customer Relationship Management?

**CRM** is the process of carefully managing detailed information about individual customers and all customer touchpoints to maximize customer loyalty.



# Framework for CRM



# CRM Strategies

Reduce the rate of defection

Increase longevity

Enhance “share of wallet”

Terminate low-profit customers

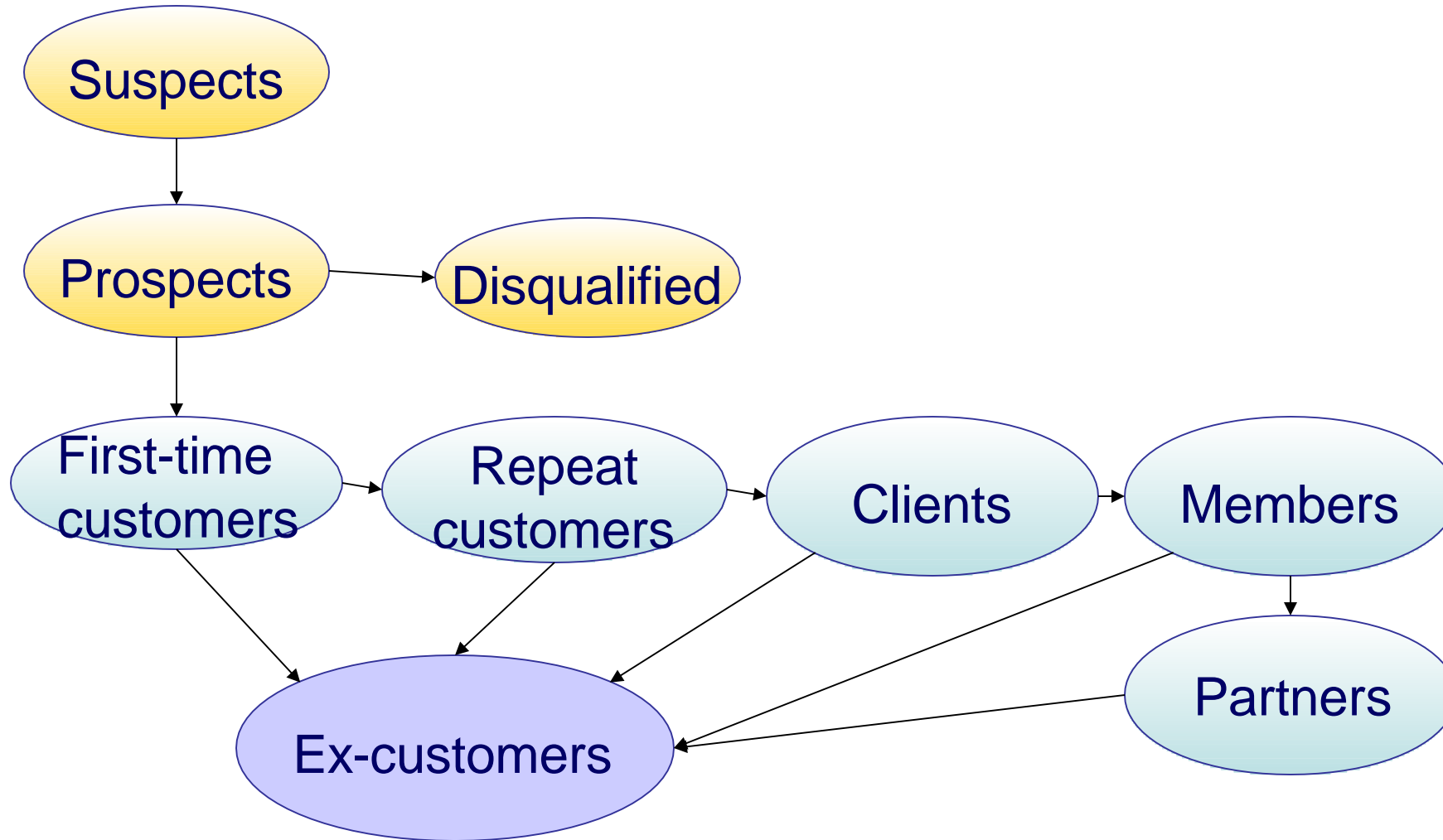
Focus more effort on high-profit  
customers

# Customer Retention

- Acquisition of customers can cost five times more than retaining current customers.
- The average customer loses 10% of its customers each year.
- A 5% reduction to the customer defection rate can increase profits by 25% to .85%
- The customer profit rate increases over the life of a retained customer.



## Figure 7.4 The Customer Development Process



# What is Customer Evangelists?

Customer evangelists are repeat customers who support a brand with their money and their praise. This produces long term benefits for a company. Any business that is interested in creating a committed customer base will have something to gain from evangelism marketing



# Database Key Concepts

- Customer database
- Database marketing
- Mailing list
- Business database
- Data warehouse
- Data mining

# Using the Database



- To identify prospects

- To target offers

- To deepen loyalty

- To reactivate customers

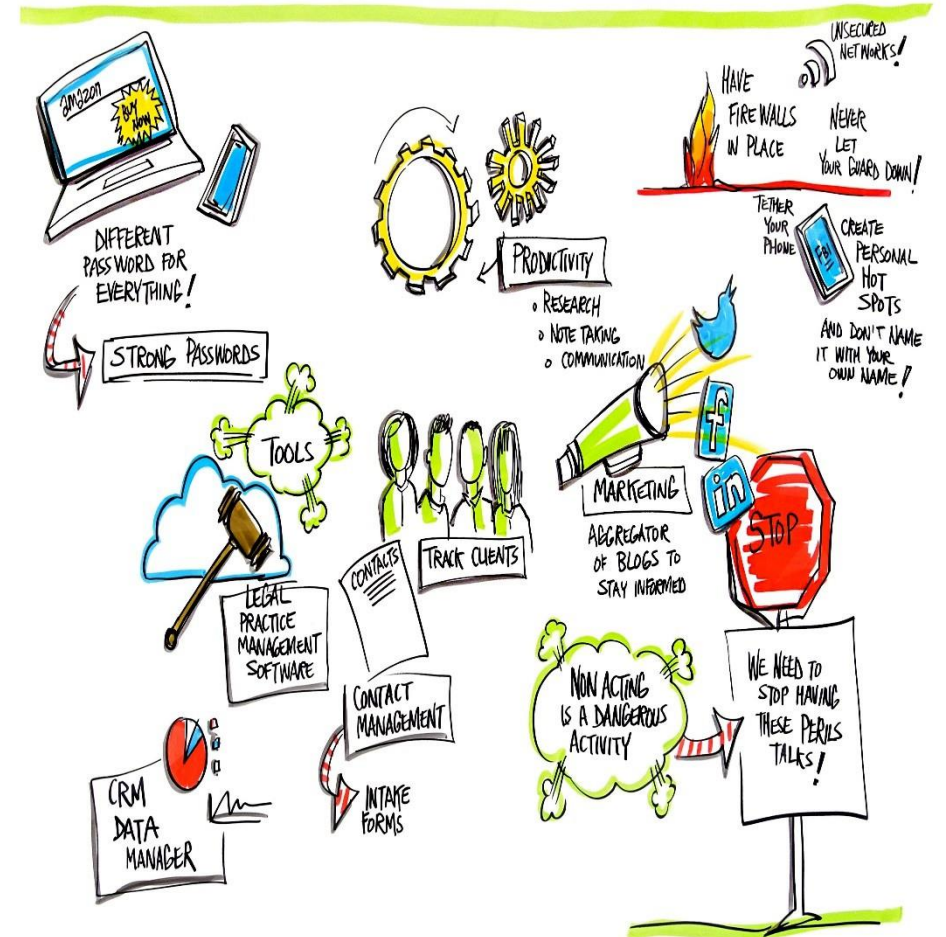
- To avoid mistakes

# Don't Build a Database When

- The product is a once-in-a-lifetime purchase
- Customers do not show loyalty
- The unit sale is very small
- The cost of gathering information is too high

# Perils of CRM

- Implementing CRM before creating a customer strategy
- Rolling out CRM before changing the organization to match
- Assuming more CRM technology is better
- Stalking, not wooing, customers



# Debate

## Online vs. Offline Privacy?

Take a position:

1. Privacy is a bigger issue in the online world than in the offline world.

or

2. Consumers receive more benefit than risk from marketers knowing their personal information.

# Marketing Discussion

Choose a business and show how you would go about developing a quantitative formulation that captures the concept of customer lifetime value.



**Thank You**

**Q & A**