

Value Creation, Customer acquisition and loyalty

Philip Kotler, Kevin Lane Keller, Alexander
Chernev; Marketing Management, Pearson,
2022, chap. 7 & chap. 19

Positioning and Value Proposition

- Marketing strategy: develop a **value proposition** and **positioning** to target market (customers).
- The value proposition:
 - Whole benefits the company promises to deliver.
 - More than the core positioning of the offering.
- Volvo: **safety** (point of difference), but the company promise more than just a safe car.
- The value proposition is a promise about the experience that customers can expect.

Value

- **Functional value:** Benefits and costs that are directly related to an offering. Example: Performance, reliability, durability.
- **Psychological value:** psychological benefits and costs associated with the offering. Beyond the functional benefits to create emotional benefits. Example: emotional benefits from a car - joy of speed, social status.
- **Monetary value:** financial benefits and costs associated with the offering. Typically related with costs, but can also include benefits. Example: cash-back offers, financial rewards, zero-interest financing.

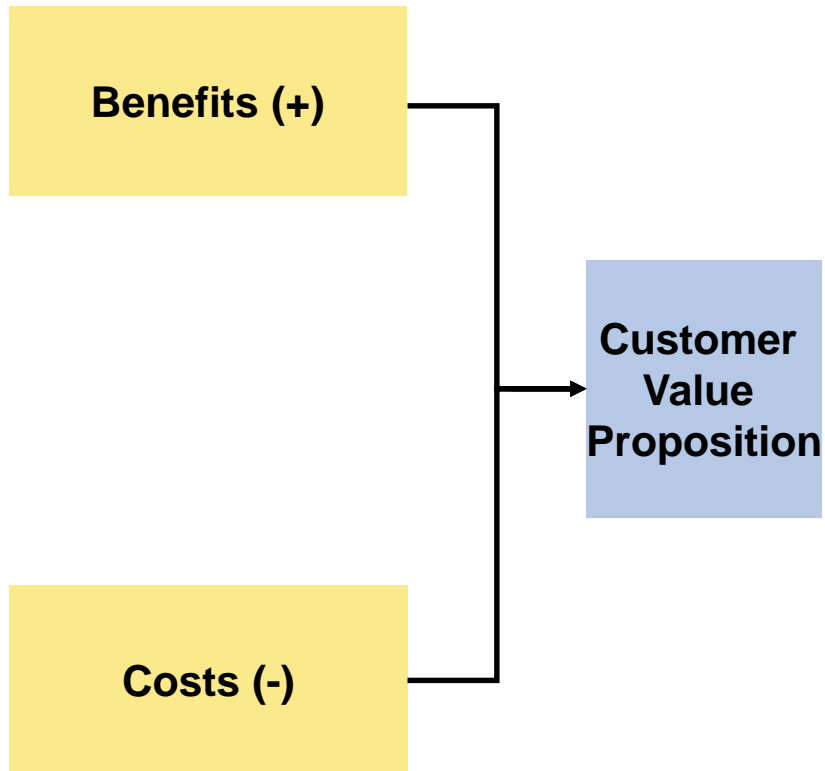
Value

- **Total customer benefit** is the perceived **bundle of** the functional, psychological, and monetary **benefits** customers expect from an offering.
- **Total customer cost** is the perceived **bundle of** functional, psychological, and monetary **costs** customers will incur in evaluating, obtaining, using, and disposing of an offering.
- **Customer value proposition:** difference between benefits the customer gets and the costs (s)he assumes.
- Marketers can increase offering's value by raising functional, psychological, and monetary benefits and/or reducing the costs.

Customer value analysis

- Identify attributes/benefits that customers value.
- Assess relative importance of these attributes/benefits.
- Assess the company's and competitors' performance on the key attributes/benefits.
- Monitor customer value over time.

Value Proposition

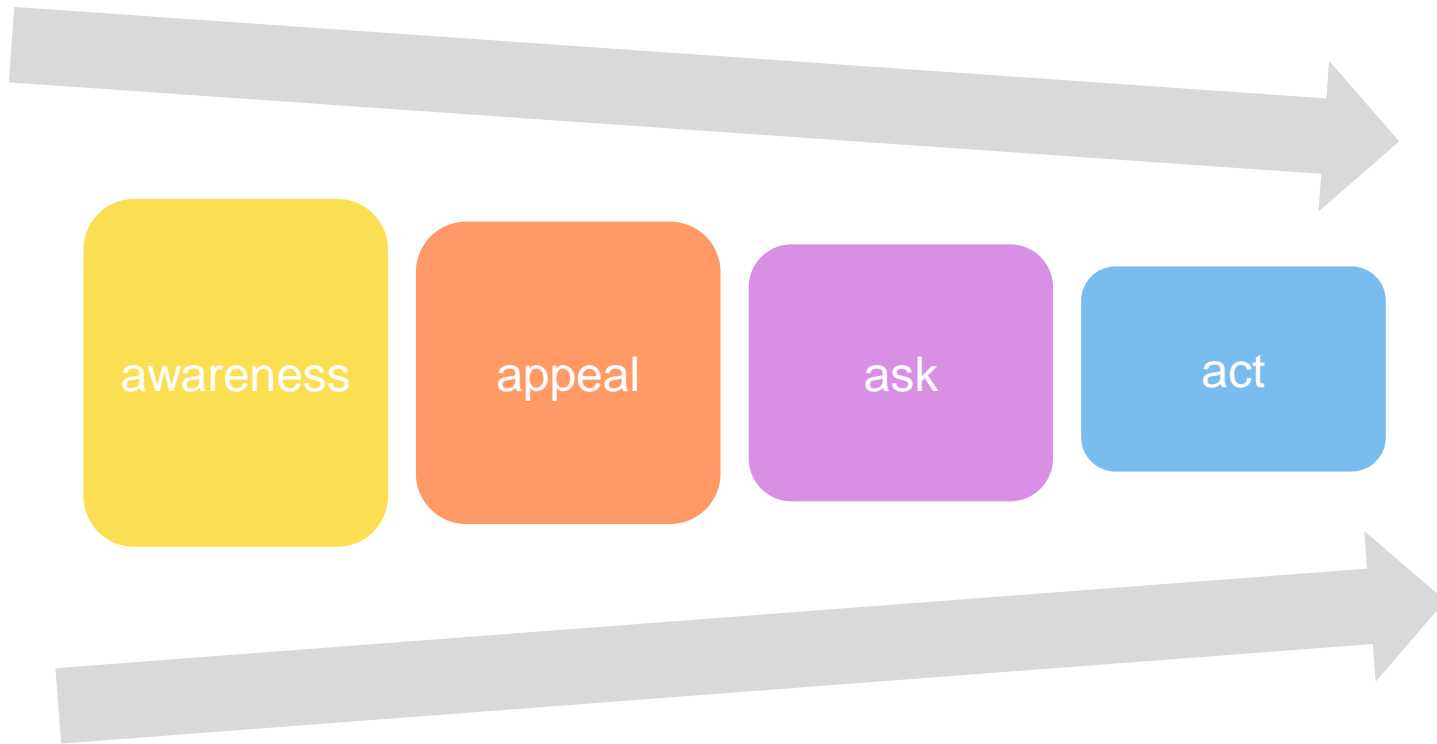


Managing Customer Acquisition and Retention

- The ability to effectively:
 - Acquire (attracting) new customers (customer acquisition funnel)
 - Retain the customers (through customer loyalty)

Customer acquisition funnel

phases of the process of attracting new customers



Customer acquisition funnel – Step 1

A yellow rounded square icon with the word "awareness" written in white lowercase letters inside it.

awareness

- Customers' interaction with the company's offering.
- When target markets encounter the company's offering.
- Drive by marketing communication, point of sale, or advocacy by other customers.

Customer acquisition funnel – Step 2



appeal

- Although customers might become aware of multiple offerings, they do not actively consider all of them.
- Shortlist the most appealing offerings that most likely fulfil their need.
- Process of selective elimination.

Customer acquisition funnel – Step 3



ask

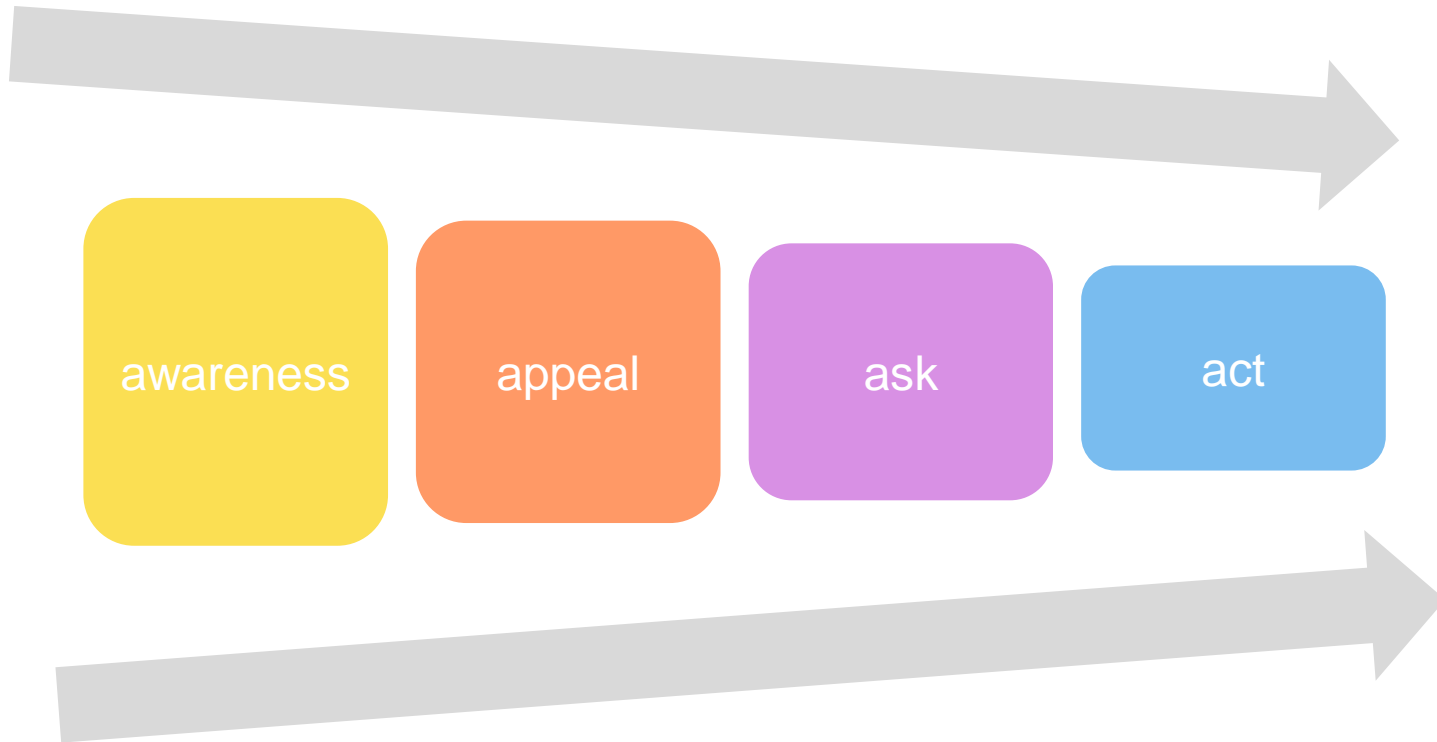
- Customers seek additional information about the offerings in their consideration set.
- External sources: friends and family, browse online reviews.
- Internal sources: talk to the company and its collaborators.

Customer acquisition funnel – Step 4

act

- From information gathering and evaluation to an action typically directed at a particular offering.
- Not limited to purchase: Total usage experience (actual consumption + post-consumption experience).

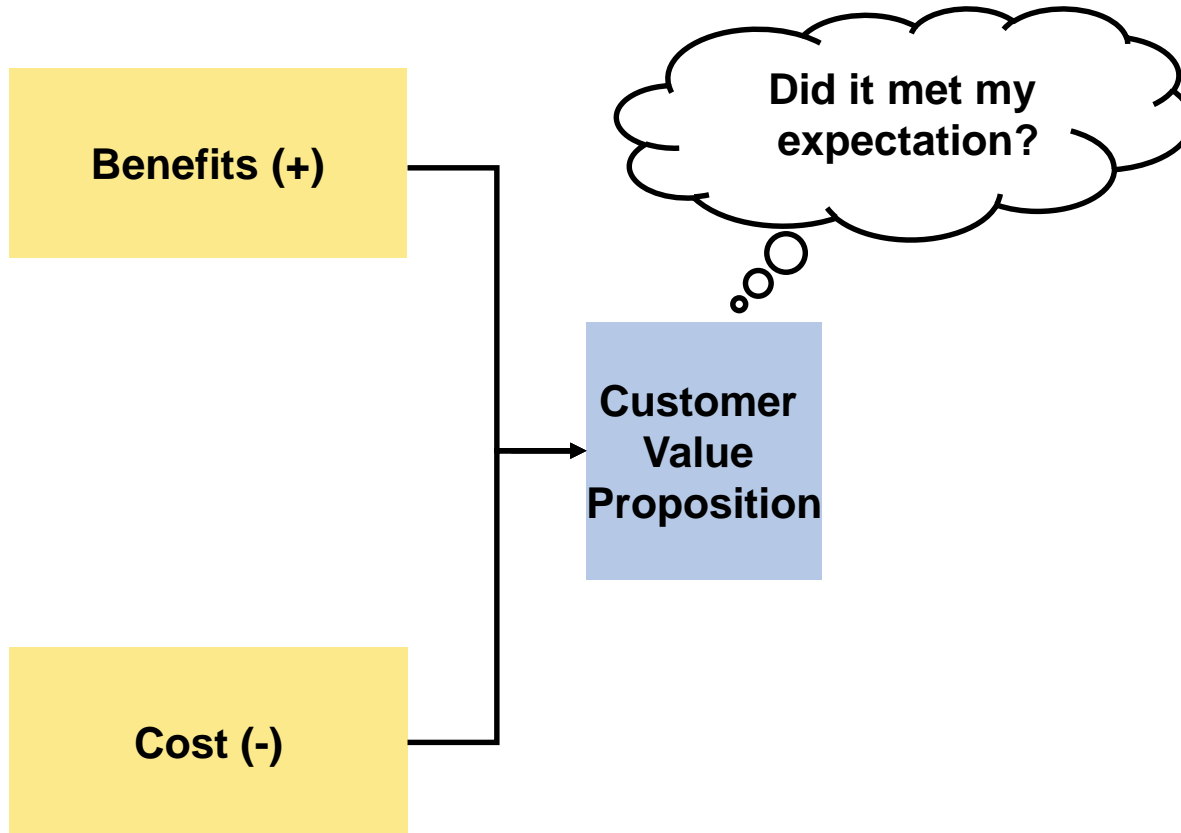
Customer acquisition funnel



Customer acquisition funnel

- Not linear!
- Impulsive purchase.
- Customers can talk about company's offering but not be actual purchasers.

Customer retention – pursuing customer loyalty

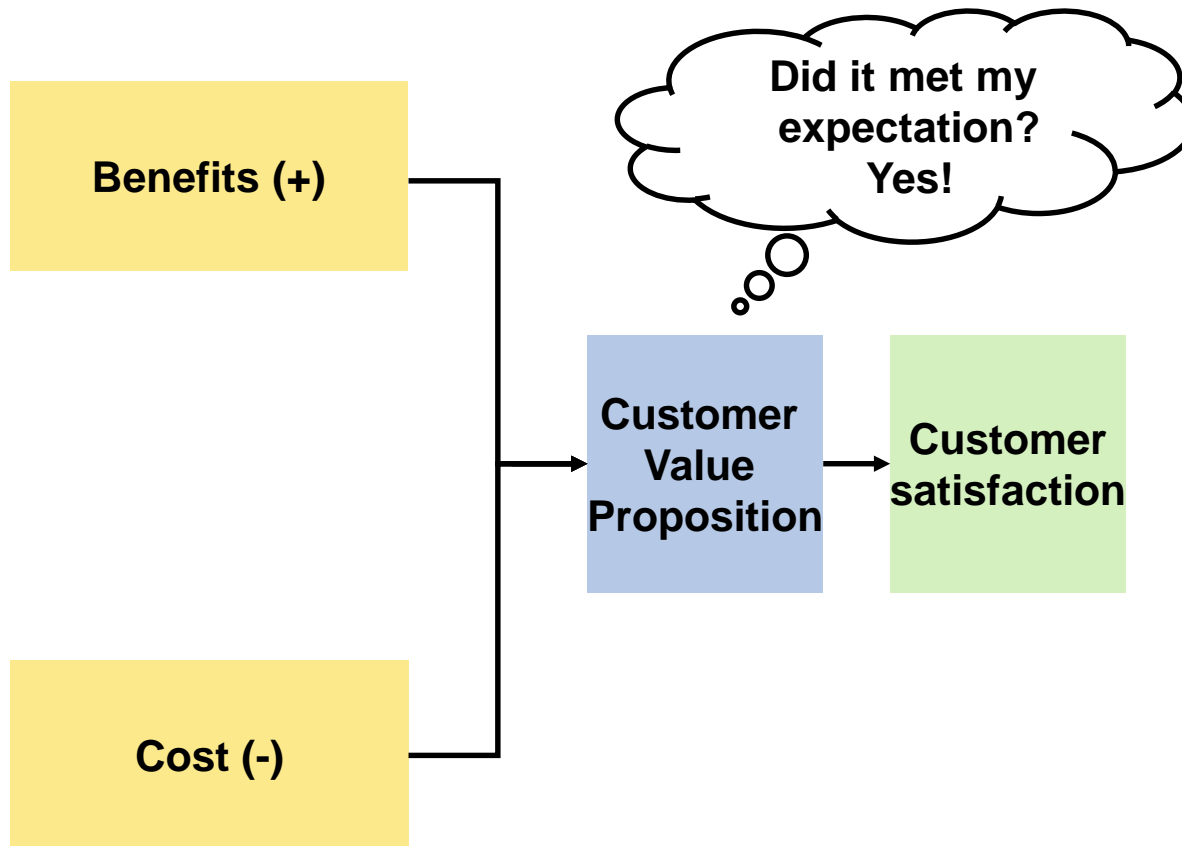


Customer expectations

- Customer expectations regarding the value of a product or service.
 - Customers form global expectations and expectations about specific aspects of a product or service.
 - Ex: waiting time, food quality



Customer retention – pursuing customer loyalty

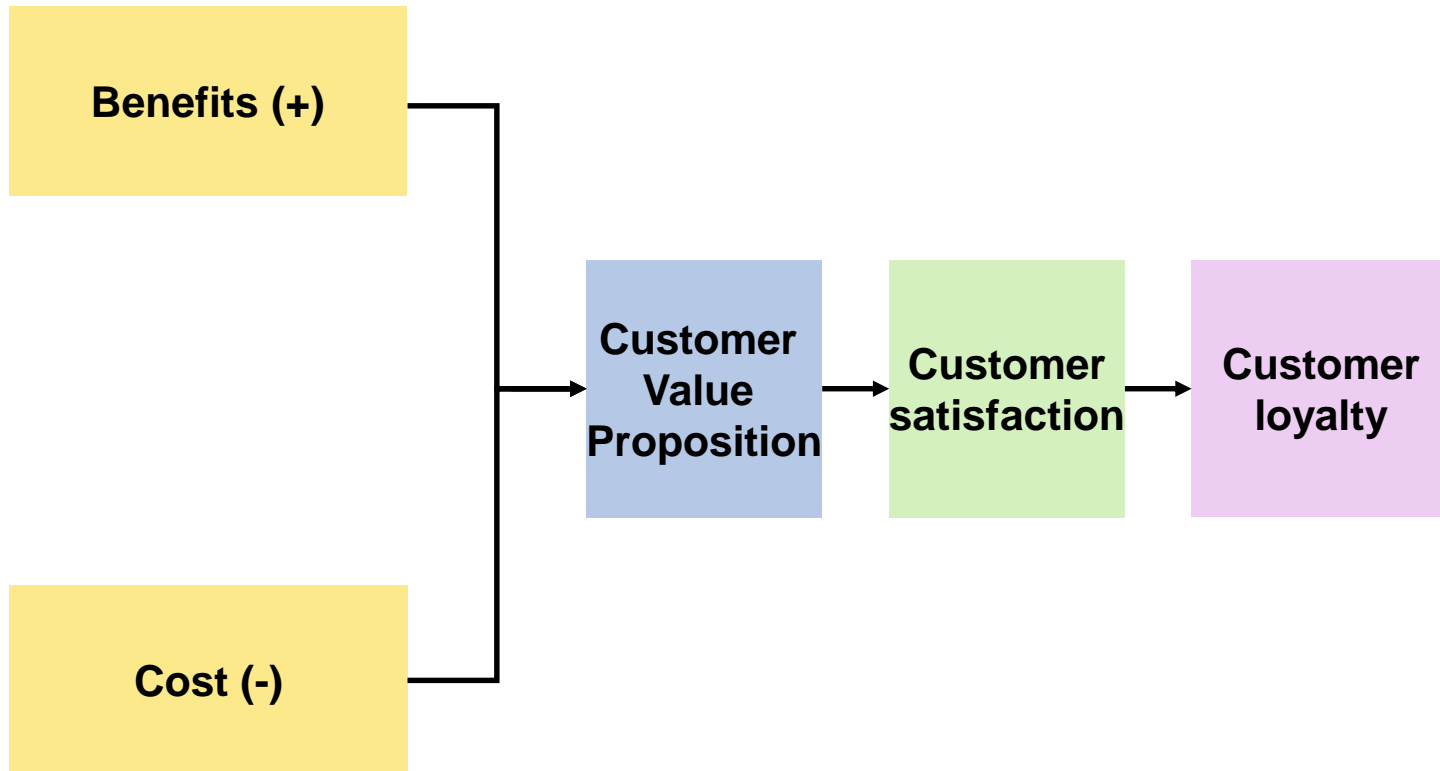


Customer Satisfaction

- Evaluation of a product or service on how it was able to fulfill customer expectations.
- Customer Satisfaction =
Perceived performance –
Expected performance



Customer retention – pursuing customer loyalty



Customer Loyalty (definition)

- a deeply held commitment to **rebuy** a **preferred product/service** in the future despite situational influences and marketing efforts having the potential to cause switching behavior.

From Satisfaction to Loyalty (Building Customer Loyalty)

- Interact closely with customers
- Develop loyalty programs
- Build Brand Communities:
 - share a sense of connection to the brand
 - share rituals, stories and traditions that help transmit the meaning of the community/brand
 - share a moral responsibility to the community/brand

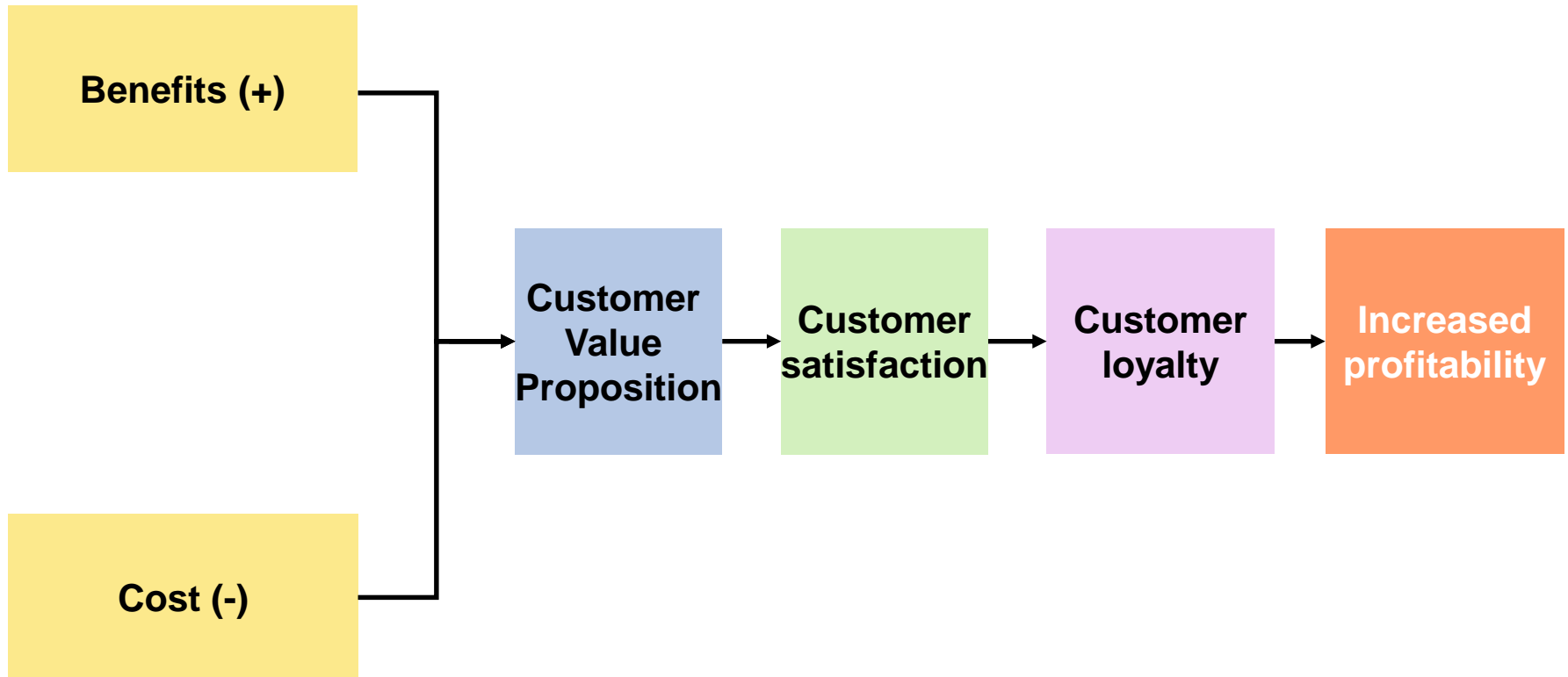
Benefits of customer loyalty

- Profit rate tends to increase over the life of the retained customer.
 - Costs-to-serve existing customers fall over time.
 - Long-term customers are less sensitive to price.
- Customer referrals and word-of-mouth advocates.

Balancing customer acquisition and customer retention

- Costs 3 to 5 times more to acquire a new customer than to retain an existing one.
- A 5% reduction in the customer defection rate can increase profits by 25 to 85%.
- 20% of customers are responsible for 80% of profitability, while 20% of customers are unprofitable.

Customer retention – pursuing customer loyalty



From transaction marketing to relationship marketing

Transaction marketing	—————→	Relationship marketing
One-off exchange, brand management	Focus	Ongoing exchanges, customer management
Short-term focus	Time perspective	Long-term focus
Mass communications	Primary communication	Personal communications
Isolated market research	Customer feedback	Ongoing dialogue
Mass markets or market segments	Market size	Market of one
Market share	Criterion for success	Mind share (share of wallet)

Customer Relationship Management (CRM)

Francis Buttle, Stan Maklan;
Customer relationship management:
concepts and technologies;
Routledge, 2019, chap. 1

Managing Customer Relationships

- Companies use information about customers to build long-term relationships.
- CRM: process of managing information about customers in different touchpoints. Grounded in customer data and enabled by IT.
- Aim: create and deliver higher value to targeted customers and maximize loyalty.

Managing Customer Relationships

- CRM enables:
 - Customize marketing mix
 - Customer engagement (empowerment)
 - Managing customer word of mouth
 - Dealing with customer complaints
 - Provide better customer service

Types of Customer Relationship Management

- Strategic CRM
- Operational CRM
- Analytical CRM

Strategic CRM

Development customer-centric business culture:

- Customer always first.
- winning, developing and keeping profitable customers.
- Creating and delivering better value propositions.
- Customer information shared across all departments.

Operational CRM

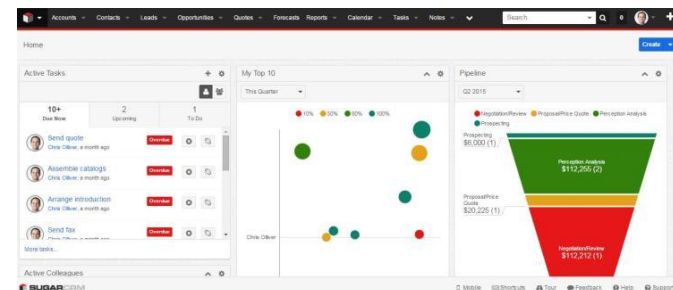
- Automation and integration of customer-facing processes:
 - sales, marketing and customer service.
- CRM software applications improves:
 - efficiency and effectiveness
 - customer experience and engagement



Lia Patrício (2023)

Analytical CRM

- Process from transforming customer-related data into actionable insight to strategic and operational purposes.
- From capturing to using customer data to enhance customer and company value.





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Company overview

Salesforce is the world's #1 customer relationship management (CRM) platform. Our cloud-based CRM applications for sales, service, marketing, and more don't require IT experts to set up or manage – simply log in and start connecting to customers in a whole new way.

Customer Lifetime Value (CLV)

CRM and Customer Lifetime Value

- The aim of CRM is to produce higher customer lifetime value (CLV).
- CLV is the monetary equivalent of the value that customers will create for the company during their tenure with the company.

Customer Lifetime Value

- When calculating CLV, all customer purchases should be considered, minus all costs to attract, sell to and serve the customer.
 - The CLV of a car constructor customer is the NPV of all potential profits that the customer may generate through all potential car purchases along his/her life.



Computation of CLV

- For an existing customer, you need to know:
 - The **probability** that the customer will buy products/services from the company in the future
 - The **price paid** on those purchases
 - **Cost of serving** the customer, period-by-period
- For new customers an additional piece of information is needed:
 - What is the **cost of acquiring** the customer?
- To bring future margins back to today's value, another question needs to be answered for existing and new customers:
 - What discount rate should be applied to future net margins? (1€ today worth more than 1€ tomorrow)

Calculating CLV

$$CLV = \sum_{t=0}^T \frac{(p_t - c_t) r_t}{(1 + i)^t} - AC$$

p_t = price paid by a customer at time t

c_t = direct cost of servicing the customer at time t

i = discount rate

r_t = probability of customer repeat buying

AC = acquisition cost

T = time horizon for estimating CLV

Customer Lifetime Value Exercise

Building Customer Lifetime Value

- Improving customer service
- Engaging customers
- Enhancing the growth potential of each customer
- Managing unprofitable customers
- Rewarding the most profitable customers

Managing Pricing

Philip Kotler, Kevin Lane Keller,
Alexander Chernev; Marketing
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Break-even analysis

Fixed and variable costs

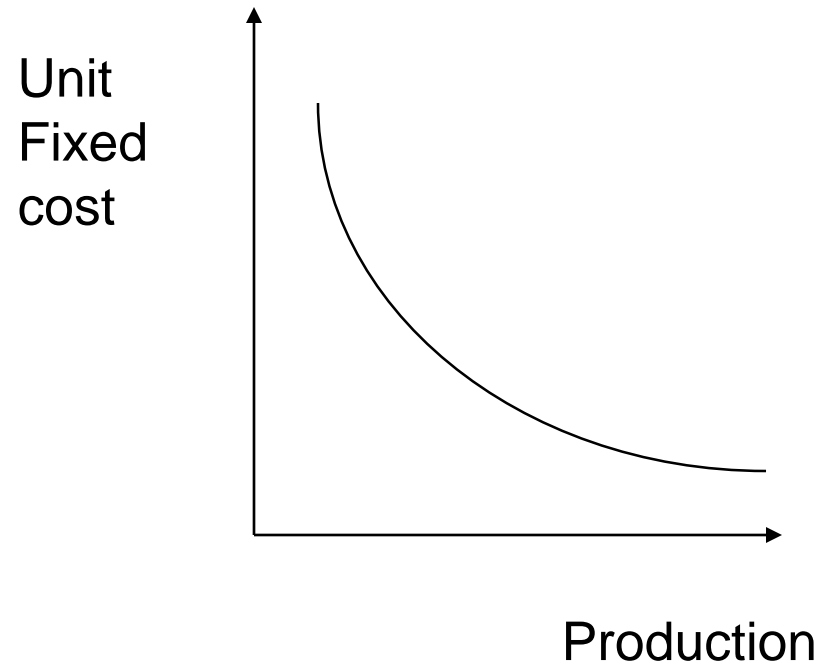
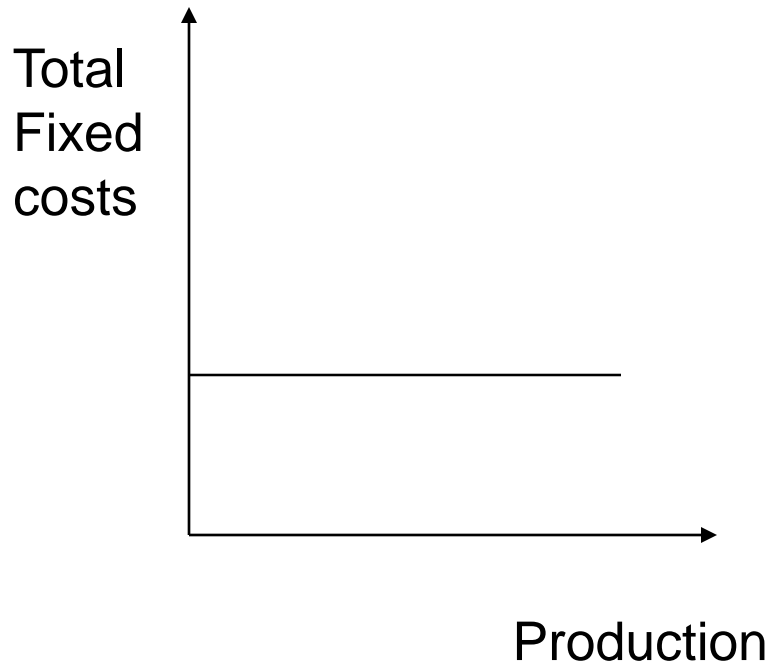
- **Fixed costs:**

- Costs that remain unchanged until a certain level of activity and a period of time

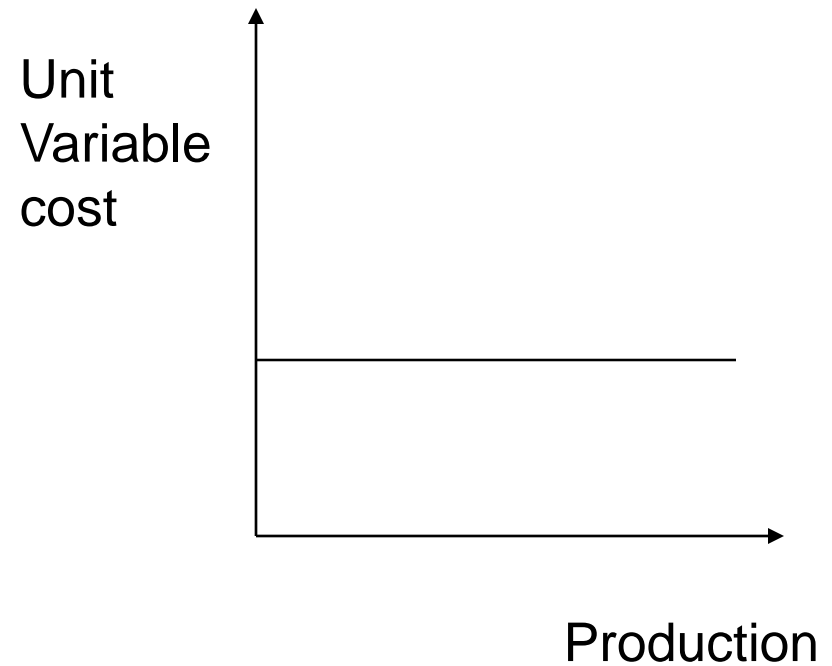
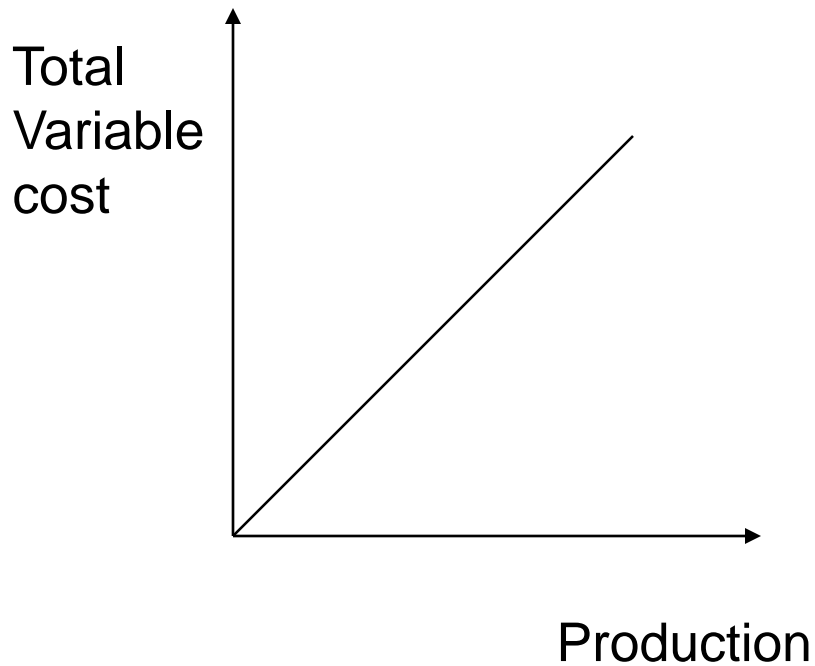
- **Variable costs:**

- vary with the level of activity.

Total and unit fixed costs



Total and unit variable costs



Unitary variable margin

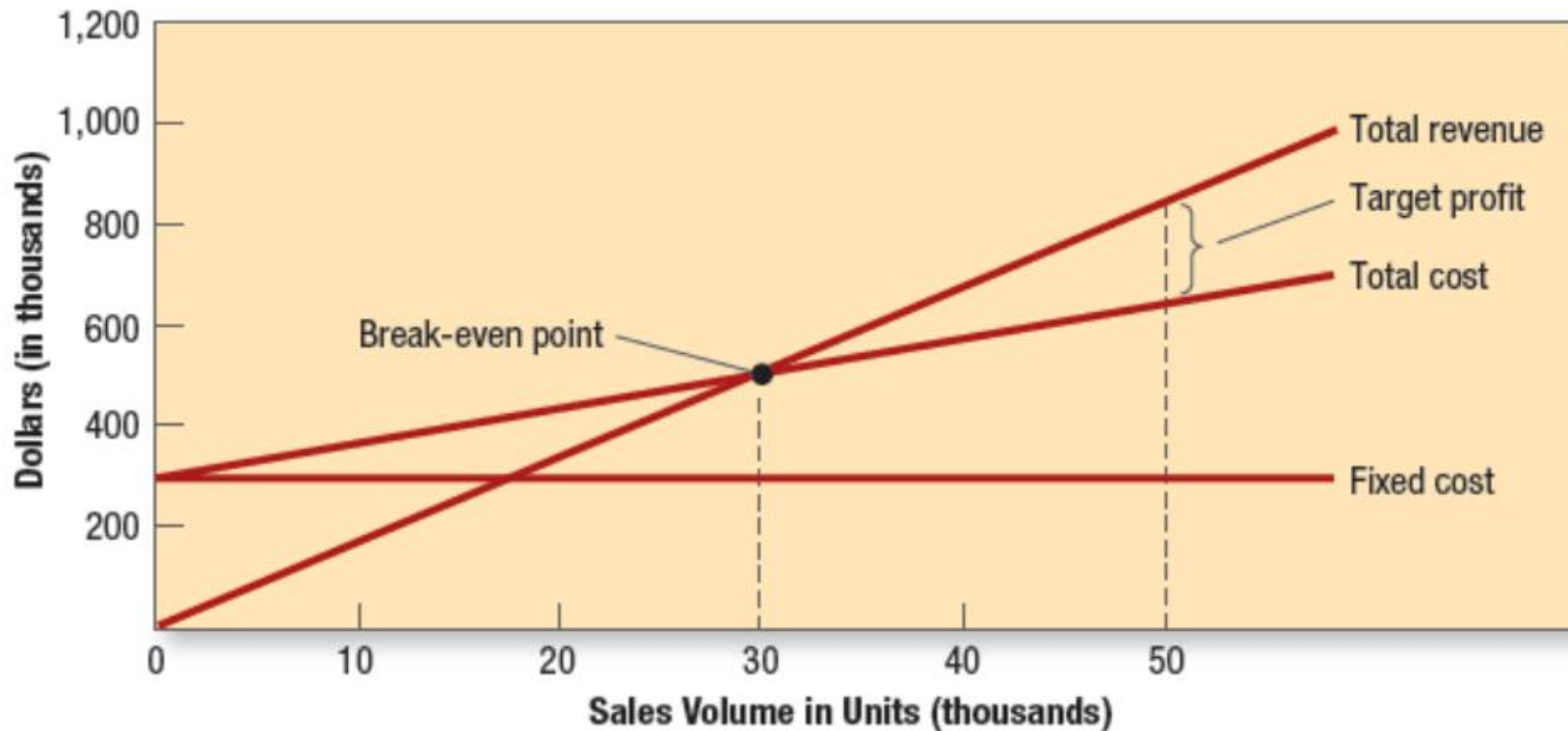
- Unitary profit margin, without taking into account the fixed costs
- + Unitary variable revenue
- - Unitary variable cost
- **Unitary variable margin**

Break-even

- Activity level beyond which revenues cover all costs

$$\text{Break-even} = \frac{\text{Total Fixed Costs}}{\text{Unitary variable margin}}$$

Break-even point



Break-even exercise: Portuense Pricing Strategy