Using a Customer-Level Marketing Strategy to Enhance Firm Performance: A Review of Theoretical and Empirical Evidence

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It is becoming increasingly apparent from the literature that marketers need to consider customer-level information when they generate a marketing strategy for the firm. In this article, the authors develop a customer-focused framework that uses a marketing strategy with an overall objective of maximized financial performance. This strategy is driven by seven customer-level marketing tactics and shows how actual customer data can be used to generate an actionable marketing strategy leading to optimal levels of profitability, customer equity, and shareholder value. In addition, the authors discuss a successful implementation of this strategy for several business-to-business and business-to-consumer firms and offer insights as to how to customize an implementation strategy for any firm, along with presenting potential challenges a firm may encounter during the implementation process. Several suggestions for future research are offered to explore and harness this newly available evidence.

Keywords: *customer level; marketing strategy; firm performance; customer lifetime value; marketing-finance interface*

Traditionally, marketing and finance were thought of as two independent departments in most firms. However, when a marketing strategy is implemented at the customer level, the traditional boundaries between marketing and finance professionals seem to vanish. No longer can marketers cast out a wide net and expect to bring in large masses of customers each time. Customers are now demanding personalization and customization of products and services ranging from video-on-demand and personal video recorders (e.g., TiVo) to niche brands and product extensions that help customers feel unique and stand out from the crowd (Bianco 2004). This shift in the way firms do business is not only evident by how companies such as Procter & Gamble have altered the top-selling laundry detergent Tide, which is now broken down into 14 differentiated detergents to more closely match preferences for almost every consumer who does the laundry (Bianco 2004); it is also clear that the academic research is changing its course as well to match with the climate in the industry (Vargo and Lusch 2004).

However, it is not enough for firms to focus solely on the changing culture in the market by creating new products and customizing current products for all consumers. The cost implications involved in marketing to and servicing all consumers in the marketplace are too high to be ignored. Careful and calculated selection processes need to be undertaken to ensure that the firm chooses to market to the right customer at the right time with the right message, taking into account the financial impact of all the relevant decisions. Therefore, an interface needs to exist between the marketing and finance departments of the firm (Zinkhan and Verbrugge 2000) to establish a new customer-level marketing strategy that can also maximize

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the financial performance of the firm (i.e., profitability and shareholder value).

This marketing-finance interface does not need to be revolutionary compared to previous firm strategies; it just needs to adapt itself to the current business climate while continuing to achieve the most lucrative results. As noted by Srivastava, Shervani, and Fahey (1998), the traditional assumptions of the marketing-finance interface are not necessarily changing entirely; there just needs to be an emphasis on creating customer value within the firm rather than strictly creating value for the customer. In addition, executives of the firm need to systematically manage the ties between marketing and finance rather than assuming that product-market results translate directly into financial results. Successful firms are no longer relying on marketing and finance departments to work independently of each other; rather, they are requiring that the departments work hand in hand to maximize firm performance.

To achieve this partnership, marketers are beginning to look at various financial metrics, such as firm and shareholder value, while finance professionals are trying to include variables in their analysis of firm success that traditionally come from marketing research, such as profitability and market share (Zinkhan and Verbrugge 2000). Gupta and Lehmann (2003) looked at ways to value their customers as intangible assets to the firm and leverage the value of those customers when determining overall firm value in order to guide firms toward making strategic decisions concerning mergers and acquisitions. Gupta, Lehmann, and Stuart (2004) explored even further as to how to value customers as off-balance-sheet intangible assets when determining firm value. Stahl, Matzler, and Hinterhuber (2003), adapted from the framework of Srivastava et al. (1998), sought out drivers that help in tying customer lifetime values to financial metrics. However, this recent research still does not directly tie actual marketing metrics and firm performance to an actionable customer-level marketing strategy. It is very important for a firm to realize that allocating marketing resources to customers by offering rewards or incentives to purchase products or services can and should be tied to optimal financial outcomes, such as by maximizing profitability, customer equity, and shareholder value. Spending resources on the wrong customers is a waste of time and money.

Therefore, in this article, we analyze the interaction between the firm and the market through time and evaluate the financial consequences of seven distinct marketing tactics that fall under the customer-focused marketing strategy. Next, we describe the steps involved in successfully implementing these tactics, including relevant examples. We conclude by outlining directions for future research.

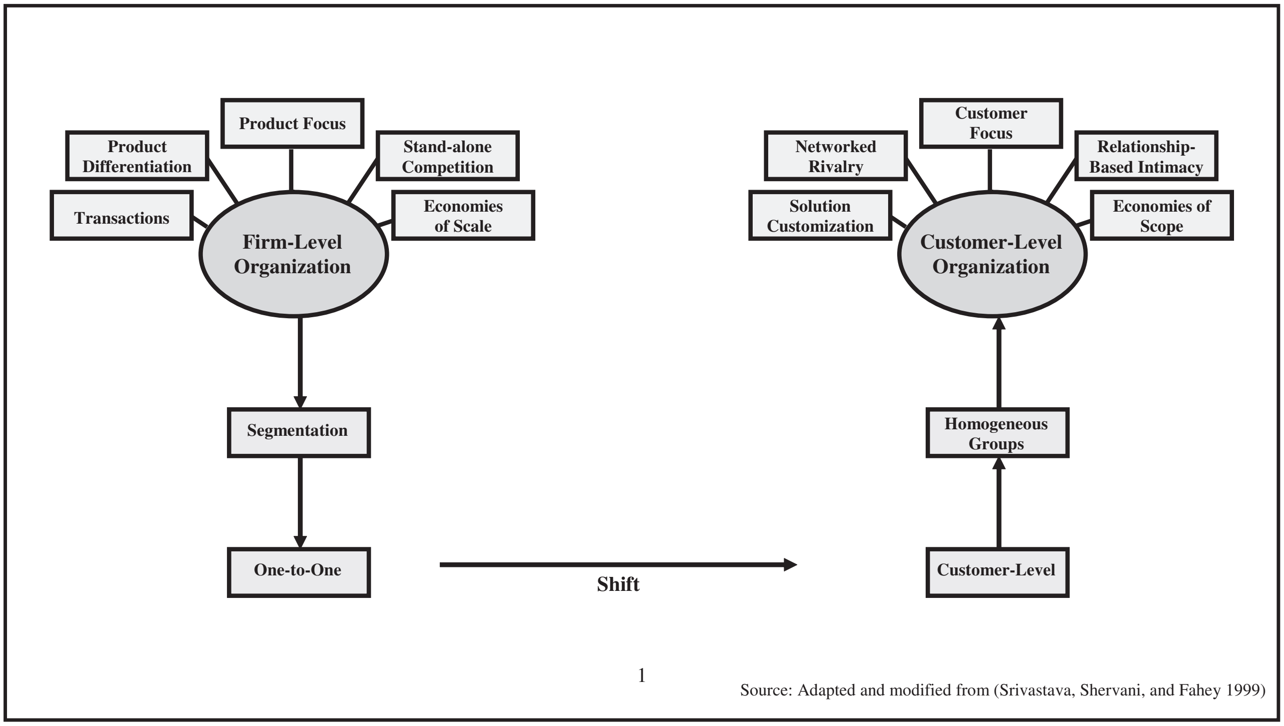
FIRM-MARKET INTERACTION (PAST, PRESENT, AND FUTURE)

With the shift in the industry organization from the firm level to the customer level (see Figure 1), firms need to refocus their overall marketing strategies and look to leverage their individual-level customer information to maximize profitability and shareholder value. In the past, the literature has emphasized the need to tie marketing actions to firm performance measures (Day and Fahey 1988; Hogan et al. 2002; Srivastava et al. 1998; Srivastava, Shervani, and Fahey 1999). In recent years, attempts have begun to empirically tie marketing actions to firm performance and generate a customer-level strategy that can enhance profitability and shareholder value.

Traditionally, firms have spent their time and resources focusing on the product at the firm level (see Figure 1) and tried to leverage this strategy by differentiating the product from the competition, selling as much as they could with little regard for cost implications, and ratcheting up production just to achieve some economies of scale. Up until the advent of customer databases that could manage vast amounts of customer data at a relatively low cost, these firm-level strategies were the only feasible strategies. Furthermore, during the time before the proliferation of customer-level databases, firms were able to perform well financially using these firm-level strategies; however, it is becoming increasingly difficult for firms to continue to compete in the same manner. To keep up, firms that still rely on firm-level organization to generate a marketing strategy will need to change their approach to a customer-level organization strategy as technology changes to stay ahead of the competition.

Back in the early 1900s when goods were first produced in mass quantities (e.g., through an assembly line and having interchangeable parts), Henry Ford introduced the Model T to the market. The expectation by Ford was that by making a large quantity through an assembly line process, the benefits the customers received through cost savings vastly outweighed the lack of customer-level customization. In addition, at that time, the benefits of a low-priced automobile realized by the customer did outweigh the costs as seen from the success of the car. However, in order to adapt to this new shift in the market, many firms have begun to move downward (see Figure 1) toward creating products geared toward customization at the individual level. Initially, firms segmented their customers into somewhat homogeneous groups and implemented marketing initiatives based on the average profile of each group. One example of this refers back to the automobile industry. Now, Ford offers many different sizes and styles of cars and trucks that can be customized with various

FIGURE 1
Shift in Marketing Strategy



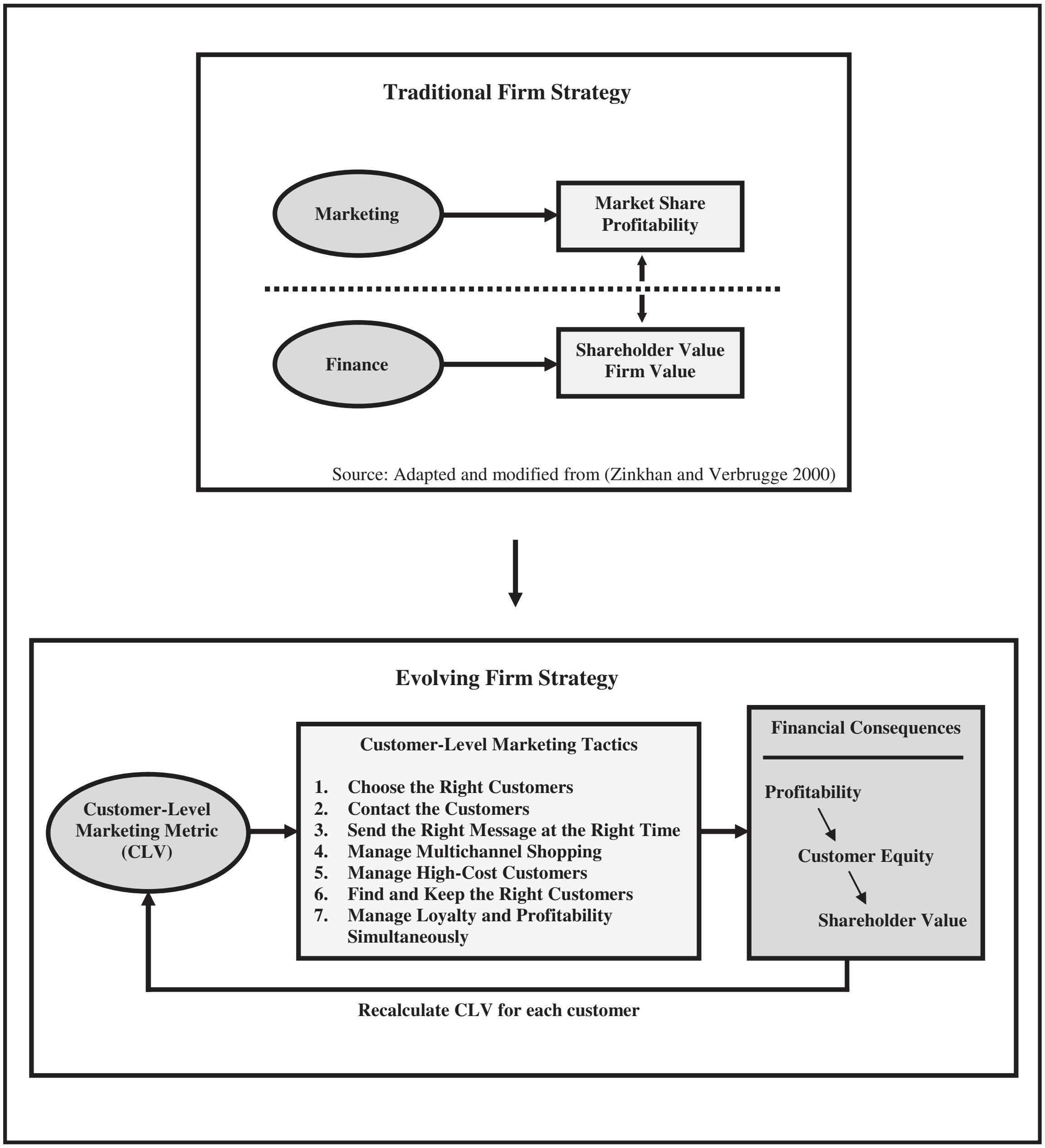
SOURCE: Adapted and modified from Srivastava, Shervani, and Fahey (1999).

options to try and reach out to as many different groups of consumers as possible. An additional example of this shift in the market was through introduction of interchangeable cell phone faceplates, where the cell phone base was mass-produced and the faceplate option was customized by the consumer. While this segmentation strategy is beginning to touch on the need to bring marketing to a one-to-one level, it is still very product focused because the choice of the faceplate color or design was the only differentiating factor in the decision. As we will provide supporting evidence for later in this article, where the marketing strategy originates and how it is focused does make a difference in the bottom line. A firm, which first sets out to generate a broad marketing strategy, force-fit it to each of its customers, and then segment each customer at the individual level, is going to fall below its optimal level of financial performance. A true customer-level strategy needs to start from the customer level and move upward toward the firm level during the implementation process (see Figure 1).

While reaching a one-to-one strategy from the firm level down to the customer level may seem similar to a customer-level strategy coming from the bottom up, the results achieved through the implementation of each are quite different. Firms that start with the customer are better positioned to adapt to various market scenarios more aggressively than their competition and are able to manage the supply side rather than the demand side of the marketing process, while firms that achieve a one-to-one strategy with a product focus lag behind when it comes to anticipating the needs and wants of customers and tend to overmarket, undermarket, or even mismarket to various customer segments (Sheth, Sisodia, and Sharma 2000). Marketers need to be able to respond to customer needs (in some cases even predict customer needs), while maintaining a tight grasp on overall profitability and firm performance.

In the following sections of this article, we will be introducing a new framework that is customer focused and shows how actual customer data can be used to generate an actionable marketing strategy leading to enhanced levels of shareholder value, customer equity, and profitability. We will begin by proposing a general framework positioned as a bottom-up strategy (customer level to firm level), followed by a description of seven distinct customer-level marketing tactics that firms can use to link an objective measure of customer value to the actual performance of the firm. Finally, we look at how a firm can implement these tactics within the organization and draw conclusions about the consequences of this new frame-

FIGURE 2
Traditional Versus Evolving Firm Strategy



SOURCE: Adapted and modified from Zinkhan and Verbrugge (2000).

work within the market, including one such consequence of this framework, which is to maximize shareholder value.

CONCEPTUAL FRAMEWORK

With the shift occurring in the market and the marketing literature, a conceptual framework outlining firm strategy at the customer level needs to be introduced to give guidelines as to how firms should approach linking marketing metrics with financial outcomes. Traditionally, as noted in Zinkhan and Verbrugge (2000), there was little to no connection between the marketing and finance departments within a firm. Marketing departments would look to maximize outcomes that would have little traceable impact to firm performance (e.g., market share, levels of satisfaction, etc.), and finance professionals would only analyze firm-level information without taking individual customer information into account (see Figure 2). In the past, this lack of connection between the two departments led to situations where marketing departments would not be able to justify the needs for, or receive, appropriate levels of funding and finance departments would inaccurately measure the value of the business because individual customers were not treated as assets to the firm.

The framework we developed in this article (see Figure 2) attempts to create an interface between the marketing and finance disciplines by connecting the value of each customer, determined by evaluating the lifetime value of the customer[1] to the firm, with the performance of the firm, using seven customer-level marketing tactics as differentiating factors. These tactics include the following: (1) choose the right customers, (2) contact the customers, (3) send the right message at the right time, (4) manage multichannel shopping, (5) manage high-cost customers, (6) find and keep the right customers, and (7) manage loyalty and profitability simultaneously (see Table 1). Each of these tactics plays a unique role in the optimization of shareholder value, customer equity, and overall profitability, and each tactic also works in combination with other tactics to increase the overall impact on the firm value. In addition, once the financial performance of the firm has been maximized, it is important to generate new calculations of each customer's lifetime value to the firm in order to account for new acquisitions into the database and changing behaviors of current customers over time. There will always be time-sensitive factors that will cause customers to change their buying behavior, including changes in the level of income, changes in family status (e.g., getting married or having children), and changes in product preferences. Within the following seven sections of this article, we will discuss these different marketing tactics using recent research in marketing and illustrations of successful implementations for businesses within various industries (both business to consumer [B2C] and business to business [B2B]).

Tactic 1: Choose the Right Customer

Any firm that looks to sell products or services to the market needs to treat its customers as assets. Therefore, the first strides a firm needs to make in order to reach its end goal of financial success is to find the customers who can bring the most value back to the organization. In the past, marketing literature has stated that it should be the goal of the firm to retain its customers at all costs (Reichheld 1996; Reichheld and Sasser 1990). The idea behind this retention strategy is that the cost of retaining customers is, on average, significantly less than the cost of acquiring customers, and by retaining even up to an additional 5% of the customer base, a firm can increase its overall profitability by 100%. While it is true that the cost of retaining customers is often less than the cost of acquiring customers, this research does not take into account the fact that not all customers are profitable customers (Dowling and Uncles 1997; Reinartz and Kumar 2000). There are many customers out there who do contribute significant value to the firm but cost even more to retain. These customers who cost the firm more than they give back are not worth chasing after. However, it is important to note that the value of a customer to a firm should not be measured in profits based on revenue minus cost of goods sold and marketing costs alone. Customers can also add value to the firm by helping to attract other customers through positive word of mouth, effectively lowering the cost of acquiring some new customers or retaining some current customers. And, allowing these customers who do add value to the company through indirect means to defect from the firm or disadopt the product or services being offered, especially early on in the life cycle of a product, can generate significant losses in future profits for the firm (Hogan, Lemon, and Libai 2003).

So, how does a firm go about choosing the right customers to retain? As noted by Reinartz and Kumar (2000, 2003), the most important steps in this process involve determining the lifetime values of each of the customers (CLV) and the drivers of profitable lifetime duration that are appropriate for a firm, especially in a noncontractual situation where the purchasing probability of each customer is much harder to predict. Some of the drivers found in Reinartz and Kumar (2003) that are significant predictors of profitable lifetime duration include past purchase amounts, extent of cross-buying, and depth of buying in a single category. For example, in the past, many retail stores such as The Gap or Polo Ralph Lauren have focused on marketing to customers who spend large amounts of revenue with the firm. Now, it is more important to choose customers who bring the most value to the firm, who are not necessarily all the high-revenue customers. What is important to realize about these high-value customers is that they can be found among just about any of the various segmentations of customer groups (e.g., there can be high-value customers who spend both a high amount and a low amount of revenue with the store since many of the apparel items offered have varying margins depending on the type and label). Therefore, it is important for retail stores to identify the drivers of high-value customers, not just high-revenue customers, when they are making efforts to choose whom they will chase after. This does not mean denying business to any customer who walks in; it just means that they make sure to give the proper incentives to those customers who are most likely to be profitable.

Additional results from a study conducted by Reinartz and Kumar (2003) as well as in this study using customer data from a B2C national catalog retailer and a B2B manufacturer show that when choosing the top 20 or 40 per-

TABLE 1
Tactics for a Customer-Level Marketing Strategy

Tactic	*Description*	*Link to Financial Performance*
Choose the right customers	The first step toward a successful marketing strategy is to know which customers will most likely bring the highest value back to the firm. To do this, firms need to be able to measure the lifetime value of each of their customers.	Measuring the lifetime value of a customer is at the cornerstone of developing a customer-level strategy. Knowing the value of each of its customers allows a firm to enhance its financial performance by choosing only the right customers.
Contact the customers	Once a firm knows the value of each of its customers, the next step involves determining the optimal method(s) and frequencies of communication with that customer that will continue to maximize each customer's future value.	Contacting the right customers at the right frequencies allows a firm to streamline communication and optimize its return on each marketing communication.
Send the right message at the right time	In addition, a firm should be able to determine which product a customer is most likely to buy at what time. This enables the firm to tailor a specific message to each of its customers in order to get the highest response rates.	Getting the highest response rates from customers by knowing what they are most likely to buy allows a firm to achieve an enhanced level of financial performance by lowering marketing costs and increasing revenue.
Manage multichannel shopping	Firms should not expect all their customers to buy products in one channel. Therefore, it is important for a firm to know the profiles and spending habits of customers who buy across one, many, or all channels in order to make decisions about guiding customers into alternative or new channels.	Knowing which of your customers is most likely to purchase in multiple channels allows a firm to successfully target customers into adopting new channels for purchasing. A customer who spends across multiple channels often spends more than a customer who only shops in one channel.
Manage high-cost customers	A firm will always have customers who provide high levels of revenue that will also be costly to serve, so the focus should be on profitability and not on cost. We suggest trying to move those lower profit customers to lower cost channels to make them more profitable.	Moving high-cost customers to lower cost channels allows a firm to streamline its marketing expenses on lower value customers and increase overall profitability.
Find and keep the right customers	The decision to acquire and retain customers should not be made independently. A firm needs to know how to balance its resources properly to retain the right customers, while at the same time seeking out prospects with the highest probability of adding future value back to the firm.	Acquiring and retaining customers who are most likely to be high-value in the future gives the firm the best chance to increase its overall profitability going forward into the future.
Manage loyalty and profitability simultaneously	Loyal customers are not always profitable customers. Because of this, a firm needs to determine which customers, whether loyal or not, will most likely provide high positive lifetime values and work with those customers to maximize profitability, customer equity, and shareholder value.	Establishing a loyalty program that rewards profitable behavior will mutually benefit customers (by providing additional services not available to customers not in the program) and the firm (by enhancing overall profitability).

TABLE 2
Method of Choosing Customers

Selection Method	*Percentage of Customers*	*Profit Based on 30-Month Evaluation ($)*
Customer lifetime value	20	282,411
	40	337,218
Advanced relative scale method (RFM)	20	105,212
	40	147,691
Past customer value	20	144,347
	40	171,833
Share of wallet	20	103,774
	40	143,169

SOURCE: Data from a catalog retailer.

cent of a cohort of customers using an evaluation time period of 30 months, the total profit obtained by the firm is maximized when an approximation of the lifetime value metric is used to choose the highest-value customers rather than when three other commonly used methods (advanced relative scale method [RFM], past customer value [PCV], and share of wallet [SOW][2]) are implemented. For example, by using the CLV method to choose the top 20 percent of profitable customers, the resulting profitability of this method outperforms the advanced RFM method by approximately 168 percent, the PCV method by approximately 95 percent, and the SOW method by approximately 172 percent (see Table 2).

Once these customer values and drivers have been identified, a firm can determine which customers with positive lifetime values to allocate resources to and go after by initiating customized marketing campaigns directed at each customer. This is especially important in cases where a firm is constrained by a limited budget and only has the resources to contact a percentage of its customer base. However, the uses of the CLV metric do not stop with choosing customers. It may also be beneficial to calculate the average lifetime value of a group of customers to help in making decisions about mergers or acquisitions (Gupta et al. 2004; Kumar, Ramani, and Bohling 2004) or to consider competitive threats to a firm's customers (Kumar, Ramani, et al. 2004; Rust, Lemon, and Zeithaml 2004).

Armed with the ability to choose customers more accurately, a company now can implement additional marketing tactics to reach a higher level of profitability and increase its own firm performance and profitability. However, choosing the right customers is only the first step of establishing a successful overall marketing strategy. The next step of the process involves choosing an ideal communication strategy that will get the most of each customer using the optimal amount of marketing resources.

Tactic 2: Contact the Customers

How much is too much? As the saying goes, "All good things come in moderation," and it should not be any different when developing and implementing a marketing strategy. The number of times in which a firm contacts a customer and the methods of contacting that customer (e.g., telephone, e-mail, direct mail, etc.) will reflect on the purchasing behaviors of that customer and in turn help to determine and maximize that customer's lifetime value (Rust, Zeithaml, and Lemon 2000). While it is important to keep the firm, brand, and/or product at the top of the consideration set, there comes a point in which the amount of communication with the customer surges past the customer's saturation point and begins to deteriorate the relationship and the value that customer brings back to the firm into the future (Dréze and Bonfrer 2003). Especially now that the number of channels through which a customer can be reached has grown with the addition of electronic channels, the complexity of allocating the right resources for generating quality marketing actions needs to be in *channel harmony* (Berger et al. 2002). Not only will it cost the firm resources in generating and implementing all the various marketing campaigns, but the firm will also begin to lose value over time from the customers the firm is overcontacting in each channel through increased rates of defection.

Each year, many businesses rely heavily on direct marketing campaigns to find new customers and encourage current customers to buy more of the same products or buy additional products and services offered by the firm. In the case of many credit card companies, potential and current customers are contacted vigorously through just about every channel of communication. In fact, often the number of weekly e-mail and direct mail communications are significant in proportion to all other communications from other companies. If it is considered how many of those solicitations are deleted or thrown away each day, it seems as though the optimal contact strategies are not being efficiently employed. Allocating resources appropriately across the customer base is crucial to obtaining a maximum level of financial performance, so it is important to know the best types and concentrations of marketing communications to have with each valued customer. The theory behind this is that each customer will react differently to marketing communications coming from different channels. Therefore, just because a firm is able to segment its customers by the value each customer brings back to the firm, it does not mean it is not necessarily ideal to always send every high-value customer the same marketing messages through the same channels. One such firm that uses a contact strategy that maximizes the potential return of value from the customer is Harrah's Entertainment (Loveman 2003). Harrah's Entertainment has determined the right time and types of incentives to give to its customers in order to capitalize on the spending habits of those customers. To do this, Harrah's Entertainment has determined the drivers of customer worth, which include, but are not limited to, total revenue spent, time spent playing, and what types of games are played (tables/slots/etc.). Once they have this customer information, they are able to analyze the contact strategy used for each customer in the past and combine it with the gambling habits in order to send the appropriate marketing messages at the right frequency to generate a maximum level of customer profitability. In addition, each channel of communication will offer varying levels of response and profitability from each customer. Choosing the right channel and expending the right amount of resources is crucial to improving results.

To solve this marketing problem, Venkatesan and Kumar (2004) have developed a framework enabling firms to determine optimal marketing strategies across various channels to each customer within the database, while at the same time continuing to maximize the financial performance of the firm. This framework uses the objective CLV function to first determine the projected contribution of each customer to the firm, and then it employs a genetic algorithm approach[3] to obtain the ideal type and amount of marketing resources needed for each customer. Using this method, Venkatesan and Kumar were able to show significant gains in profitability for a multinational B2B firm. Furthermore, they found that this optimization of marketing resources caused the amount spent on contacting customers to increase significantly during the next 3 years, proving that maximizing profitability and optimizing marketing resources does not necessarily mean cutting back on the marketing budget; it just means that revenues need to increase faster than costs. Therefore, before Venkatesan and Kumar implemented this process, the firm was unintentionally leaving a lot of profit on the table with some of its more valuable customers by not contacting them with the right frequency and types of communications or by causing them to purchase less because of overtouching. To display the effects that the optimal resource allocation tactic has on a contact strategy within a company, results from reallocation of resources based on a customer value strategy for a B2C firm are shown in Table 3.

The results of this study showed that the firm was overcontacting low-value customers (both high and low share of investment) through both face-to-face and direct mail/telesales and undercontacting high-value customers (both high and low share of investment). For example, the optimal amount of contact for low-value and low-share-of-investment customers was much lower than the current contact strategy (once every 6.9 months currently versus once every 11.4 months optimally for face-to-face and once every 33 days currently and once every 61 days optimally for direct mail/telesales). While contacting the right customers using the right amount of resources continues to increase the profitability and the performance of the firm, it is still possible to refine the marketing strategy further and determine what exactly the customers are looking to buy and when they might be purchasing each type of product or service, along with being able to get customers to purchase across various distribution channels.

TABLE 3
Contacting Customers at the Right Frequency

	Share of Investment	
Customer Value	*Low*	*High*
Low	Face-to-face meetings	Face-to-face meetings
	Currently every 6.9 months	Currently every 4.2 months
	Optimally every 11.4 months	Optimally every 6.6 months
	Direct mail/telesales	Direct mail/telesales
	Current interval is 33 days	Current interval is 21 days
	Optimal interval is 61 days	Optimal interval is 49 days
High	Face-to-face meetings	Face-to-face meetings
	Currently every 6.7 months	Currently every 4.2 months
	Optimally every 3.9 months	Optimally every 2.4 months
	Direct mail/telesales	Direct mail/telesales
	Current interval is 31 days	Current interval is 22 days
	Optimal interval is 18 days	Optimal interval is 13 days

SOURCE: Data from a high-tech firm.

Tactic 3: Send the Right Message at the Right Time

Trying to sell a customer something that he or she does not want or does not need can be an arduous task. Firms that offer a wide variety of products and services cannot afford to make guesses about what a customer is likely to purchase next or expect to achieve optimal financial performance by marketing every product or service at once to that customer. For example, how often does a consumer take the time to search through every catalog or online store he or she comes across? Usually never. This is why companies such as Amazon try to predict what a customer is most likely to buy given past purchases and preferences. When a customer goes online to Amazon's Web site, Amazon looks at what was bought in the past, asks what types of preferences the customer has, and then tries to make recommendations for products that it feels that customer might like to purchase. So, not only does it make product recommendations when a customer first arrives to the

TABLE 4
Propensity to Purchase Across Time

Customer Number	*Quarter*	*Propensity to Purchsase Product 1*	*Propensity to Purchase Product 2*	*Propensity to Purchase Product 3*
1	1	.11	.08	.19
1	2	.28	*.81*	.37
1	3	*.79*	.39	*.88*
1	4	.41	.28	.38
2	1	.07	*.86*	.17
2	2	*.92*	.42	.09
2	3	.38	.35	*.76*
2	4	.31	.11	.15

SOURCE: Data from a financial services firm.
NOTE: Numbers in italics indicate places where the propensity to purchase is more than 50 percent, meaning that there is an expectation that the customer will purchase that product in that time period.

page in order to entice a purchase, but also when the customer chooses to make a purchase, it recommends additional products that other people who bought the same product have also purchased. The more accurately they predict the buying behavior of a specific customer, the more likely the customer is to make another purchase with Amazon. Therefore, a firm that knows when and what a customer is likely going to purchase next can have a significant advantage over the competition. To get this information, a firm needs to be able to answer the following questions about its base of customers:

1. In which product category is the customer likely to purchase?
2. During what time period is that customer most likely to purchase?
3. What is the expected revenue from that customer?

Once a firm obtains the answers to these questions, it is ideally positioned to market to each of the customers using the right message at the right time with the right offer. Recent research by Kumar, Venkatesan, and Reinartz (2004) offers a framework to analyze the purchase sequence and timing of each customer. The basic theory behind this framework is that oftentimes, customers tend to purchase goods and/or services in a similar order and timing as other customers. This situation can occur for several reasons.

First, it is usually the case that a natural ordering of purchasing is necessary for the customer to get the best use of the products. For example, if a customer purchases an application server, then application server software, followed by a database server, it is likely that the next product the customer will need is database server software. Therefore, by noticing the trend of purchases, a company can usually make proper inferences about what a customer is likely to buy next given the logical path of purchasing. However, looking at the trend of customer behaviors in the past will only have so much predictive accuracy into the future. There may be an even more accurate way of measuring purchase sequence and timing.

Consumers also seem to follow in patterns of purchasing with other consumers. This may come about due to observational learning or through word-of-mouth effects (Bikhchandani, Hirshleifer, and Welch 1992, 1998). In the case of observational learning, consumers look at the patterns of purchase from the consumers before them and, rather than use their own personal, private information about a consumption decision, choose to follow the purchasing decision patterns of previous consumers. Most of the time, this occurs due to the fact that finding and developing a personal database of product information takes a significant amount of time. Allowing other trustworthy consumers to help make decisions by observing their purchases can be an easy way to save time and resources. Likewise, word-of-mouth effects are similar to those of observational learning, except that there is communication between the customer and other consumers causing the customer to make a purchase decision based on the external information passed along via conversation rather than using his or her own private information. In either case, the consumer chooses to purchase a product or a series of products in a similar sequence as a past consumer, allowing the firm to model behavior and predict the likelihood of purchase timing and sequence.

Using the purchase sequence model with customer data from a B2B firm, Kumar, Venkatesan, and Reinartz were able to show significant improvements in both profitability and return on investment (ROI) over the firm's routine contact strategy. Furthermore, we applied that model to a B2C setting, and some results from this strategy are shown in Table 4, where propensities to purchase have been calculated for each customer for a series of three products spanning across all four quarters within a year. For example, Customer 2 is not likely to purchase Products 1 or 3 in

Quarter 1 (probabilities of 7% and 17%, respectively) but is likely to purchase Product 2 in Quarter 1 (probability of 86%). In this case, it is optimal to contact Customer 2 in Quarter 1 offering information regarding Product 2. In addition, by implementing this targeted strategy (i.e., contacting the right customer with the right product at the right time) versus using a traditional strategy, there was an *incremental gain* in ROI of $2 for every $1 spent. Therefore, answering the question about which purchases are most likely to happen for which customer during which time period gives the firm serious leverage with its marketing strategy. The firm no longer has to contact the customer about multiple product offerings at each time period; instead, the firm can determine which product(s) the customer is most likely going to buy during a specific period and send a targeted marketing message to that customer. Using this knowledge of purchase sequence and timing, along with the optimal contact strategy, a company now needs to reach out to those customers using the right message and contacting the customer through the right communication channels, both to decrease marketing costs and increase overall profitability. Within that message, firms need to also consider how and where customers are going to purchase any of those products. Just as there are many different ways in which a customer can be contacted with a marketing message, there are usually also several methods in which a customer can buy products and services from firms. Therefore, firms need to know the best way to manage customers through the multiple purchasing options each customer has. Thus, the offering of multichannel sales/service channels is becoming mandatory.

Tactic 4: Manage Multichannel Shopping

With the onset of complex distribution systems within industries and on the Internet, firms are beginning to stretch themselves across several different channels in order to appeal to many different customer segments. These distribution channels are important for growing companies that want to continually maximize overall performance. Constantly reviewing the number of available channels and keeping track of the customers within these channels allows a firm the opportunity to innovate, accelerate, grow, change, acquire new customers, adopt new technologies, and reevaluate distribution channel performance (Doyle 2000). For example, in the case of some retail stores like Sears and Circuit City, customers are now able to buy products from at least three different sources, including brick and mortar stores, mail order catalogs, and through the Web. Each of these channels is able to provide different levels of service and different ranges of products for the customers. For firms, this is a way to appeal to various types of customers with differing preferences of convenience, service, and price. However, customers who purchase in one or more of these channels are also providing the firm with additional data to help identify high-value customers. In a forthcoming article by Kumar and Venkatesan, the authors show that shoppers who buy across every available channel tend to initiate more contact with the firm, to have a longer tenure with the firm, to make more frequent purchases, to be more active with the firm, and to provide higher revenues to the firm. For example, the revenue spent when a customer shops in one channel ($4,262) is significantly less on average than that of a customer who shops across all channels ($60,076), the share of wallet from a customer who shops in one channel (20%) is significantly less on average than that of a customer who shops in all channels (72%), and the likelihood of staying active for a customer who shops in one channel (11%) is significantly less on average than that of a customer who shops across all channels (67%) (see Table 5).

TABLE 5
Multichannel Shoppers

	Single Channel	*All Channels*
Revenues ($)	4,262	60,076
Share of wallet	20%	72%
Likelihood of staying active	11%	67%

NOTE: Means are significantly different from each other at least at alpha = .05.
SOURCE: Adapted from Kumar and Venkatesan (forthcoming).

Because these positive customer-based metrics are highly correlated with the customers who shop across all channels, this leads to two interesting managerial implications. First, it might be in the best interest of the firm to offer incentives for customers to purchase goods through multiple channels. If a customer is willing to purchase goods across multiple channels, it often shows a heightened level of trust with the firm and a lower perceived level of risk. The consequences of this usually lead to a deeper and stronger relationship between the customer and the firm. In addition, the results from the Kumar and Venkatesan (2005) study imply that a firm that wishes to branch out into new channels of distribution should first target customers who already shop across multiple channels because those customers not only tend to be high-value customers but also are more likely to trust that the new channel will meet their expectations.

These results show that it is important to effectively manage the various channels a firm provides customers as an outlet to purchase goods or services, and it is just as important to develop a well-thought-out marketing strategy to leverage these strong associations between positive customer value and multichannel shopping. While the contact strategy does give a firm various outlets to connect with customers, it also tends to be an optimal strategy to give incentives to customers to purchase in as many different channels as possible to increase the likelihood that those customers are or will become highly profitable to the firm. These results also allow the firm to introduce new channels, to reinvent outdated channels, and to know which customers to introduce to each new or modified channel. However, there will always be customers whose preference is to either choose to stay in one or only a few channels, along with those customers who cost the firm too much to serve in the channel in which they currently do most of their business. These customers need to be treated differently in order to retain them as profitable.

Tactic 5: Manage High-Cost Customers

Regardless of the amount of revenue some customers provide, they may always cost more to serve than they are worth to the firm. If a firm only has one outlet to provide these customers and cannot lower the cost to serve these customers, then they are no longer worth chasing after. By satisfying everything these customers want, a firm will only use unnecessary resources that it would be better off saving for more valuable customers. In fact, it is worthwhile to a firm to allow these customers to move along to a competitive firm and drain the resources from them. However, almost all firms in the market today have the ability to differentiate between the amount and the cost of service (brick and mortar, Web sales, telesales, etc.). While this may cause differing levels of convenience and efficiency for each customer, by migrating certain high-cost customers to low-cost channels, it does offer the firm a chance to keep those customers who otherwise would cost too much to serve.

For example, it is common now for banks to offer several levels of service to customers based on the value each customer brings back to the bank. A customer who has multiple accounts may be afforded the option of personalized service and no waiting in line for a teller, while a customer who gives only a little value back to the bank may be forced to use online resources to complete all of his or her banking needs. In addition, most of the large airline companies have introduced a policy where they add different fees to ticket prices based on the method in which a customer purchases his or her ticket. Purchasing a ticket through the Web offers no surcharge. However, purchasing a ticket through an agent over the phone or at the ticket counter will cost extra. For example, as of September 2004, Continental Airlines has chosen to charge customers $5 on top of their ticket price to call an agent over the phone to order a ticket and $10 to purchase a ticket at the ticket counter. Continental is striving to push those customers to the Web who do not want to pay a premium for different levels of service to buy tickets at the lowest cost, affording them the chance to better manage the number of personnel needed to help customers buy tickets. While this may be inconvenient and undesirable for some customers to be forced to migrate into lower cost channels, it is the only way that firms can retain and profit from potentially low-revenue customers. Even though it is not initially intuitive to force some customers to defect by not offering them the service they feel that they deserve (much of the past research has suggested retaining as many customers as possible as a positive strategy), recent research shows that it is beneficial to the financial performance of the firm to let these customers find another place to do business (Blattberg and Deighton 1996; Blattberg, Getz, and Thomas 2001; Reinartz and Kumar 2002).

Each of the strategies discussed so far within this article has focused on isolating those customers from the customer database who will bring positive value back to the firm. Now that a firm can differentiate these high-value customers from those customers who bring negative value to the bottom line and reduce the amount of resources spent on trying to retain unprofitable customers, it can refocus its unused resources that it once used on customers who cost more than they are worth.

Tactic 6: Find and Keep the Right Customers

Looking beyond maximizing firm performance and profitability with current customers, firms also need to leverage the information in their customer databases to seek out new customers who could potentially add value back to the firm. Most firms tend to approach the acquisition and retention of customers independently. But, as shown by Thomas (2001), firms that do not link acquisition efforts with retention efforts often undervalue their customers (usually caused by underspending or overspending on acquisition or retention). The consequences of overspending or underspending on acquisition and retention can be sizable. Therefore, firms need to determine which prospects are worth chasing and also which dormant customers may be worthwhile to win back. To properly manage these marketing campaigns for new customers, firms need to profile their prospect pools and their archived customer information to find potential customers with similar characteristics as those customers who currently have positive lifetime values with the firm. These consumers with similar characteristics are the most likely to become high-value customers in the future. However, just as firms need to optimize their marketing resources when choosing communication strategies with current customers, firms also have to manage their marketing budget when attracting new prospects.

Research by Thomas, Reinartz, and Kumar (2004) and Blattberg and Deighton (1996) shows that it is necessary for companies to properly balance acquisition and retention expenditures to maximize profitable outcomes. Thomas, Reinartz, and Kumar (2004) showed that a small deviation of even 5 percent away from the level of opti-

TABLE 6
Acquisition Versus Retention Spending

	Retention Spending ($)		
	50	*60*	*70*
Acquisition spending ($)			
1	$1,289	$1,334	$1,289
10	$1,306	*$1,381*	$1,306
20	$1,281	*$1,322*	$1,281

SOURCE: Data from a pharmaceutical firm.

mum spending (either above or below) can have significant consequences on the overall profitability of the firm. Similarly, in this study, we show that when Thomas et al.'s (2004) model is applied to a pharmaceutical firm, the overall profitability is also affected negatively due to deviations from optimal spending (see Table 6).

In addition, Blattberg and Deighton (1996) showed that optimizing the resources spent on marketing to maximize retention rates is not the same as maximizing profits. Similarly, they also showed that optimizing the resources spent on marketing to maximize acquisition rates is not the same as maximizing profits. Hence, it is necessary to choose those customers who are most likely to provide future profits and balance the resources used to acquire those customers with the resources spent on retaining customers to optimize long-term profitability and customer equity. To balance acquisition and retention appropriately, Thomas et al. (2004) have shown that firms need to realize that profitable customers can cost a little or a lot to acquire or retain. We are able to show that while profitable customers are seen in all the four cells (see Figure 3), about 28 percent of the firm's profits are from 27 percent of loyal customers (who are high-cost to acquire and retain). Thus, firms need to carefully pick customers in each of the four cells to maximize financial performance.

Besides showing managers how their results will deviate from the optimum level if they choose to over- or underspend on acquisition or retention, the research by Thomas et al. (2004) also provides managers with the ability to make optimal changes in resource allocation strategies when budgets are increased or cut and helps managers provide decision makers within the firm with useful metrics that illustrate the success of the marketing strategies (e.g., ROI and shareholder value).

However, attracting these new customers sometimes takes some significant effort. There are many cases where acquiring customers can require a significant amount of resources, but as long as the benefits exceed the costs, they will be worth acquiring. For example, even if it takes a lot of effort to get a big client to purchase products from a firm, if the value of that customer exceeds the costs of acquisition and retention, then it is worthwhile to acquire that customer. But, while it may be worth the effort to find and keep some of these customers, firms need to be careful to manage the loyalty of these new customers appropriately and continue to make efforts only to retain only those customers who will add value back to the firm.

Tactic 7: Manage Loyalty and Profitability Simultaneously

It is often the case that marketing managers need to develop creative ways to attract these new customers and keep them on board for the long term. One of the most popular marketing tools used for this purpose is found in just about every industry, a loyalty instrument. These loyalty instruments can range anywhere from frequent flier cards used by airlines offering free flights and upgrades to customers who accumulate certain levels of points to grocery stores that offer in-store cards that give discounts on selected items within the store. So, this begs the question, "What is the foundation of a quality loyalty program?"

Successful loyalty programs need to be able to offer an incentive to customers to continue to make purchases at the firm, but more important, successful loyalty programs need to properly manage loyalty and profitability. While many managers have felt in the past that the most profitable customers in the firm are the loyal customers, a recent article by Reinartz and Kumar (2002) shows that the most loyal customers are not necessarily the most profitable. In fact, this article uncovers several myths about loyal customers. These myths include the idea that loyal customers cost less to serve, loyal customers pay higher prices for the same goods, and loyal customers do more marketing on behalf of the company. These results are shown by the authors in a 2 × 2 table where customers are split into four different categories: (1) low profitability and short tenure, (2) high profitability and short tenure, (3) low profitability and long tenure, and (4) high profitability and long tenure. In the two cells where customers have long tenure, Barnacles (those with low profitability) and True Friends (those with high profitability), it is evident that different strategic approaches need to be taken when marketing to these customers. Firms need to focus on cross- or up-selling when dealing with Barnacles if their SOW is low and impose strict controls on marketing expenses if it is not, while firms need to make efforts to nurture, defend, and retain the True Friends whenever possible through consistent communication and by building both attitudinal and behavioral loyalty.

Therefore, it becomes just as important to be as selective within a loyalty program as a firm is when it is selecting customers in general. While a customer a firm can rely on in a noncontractual situation to continue to purchase over and over again seems ideal, it is still just as important to determine if that customer adds value to the firm. It is worthwhile to note that a firm must realize where value is created by its customers. A customer's value is not only

FIGURE 3
Acquisition Versus Retention Costs

		Acquisition Cost: Low	Acquisition Cost: High
Retention Cost	High	**High-Maintenance Customers** 20% of customers 15% of profits	**Royal Customers** 27% of customers 28% of profits
	Low	**Casual Customers** 34% of customers 20% of profits	**Low-Maintenance Customers** 19% of customers 37% of profits

Data from a pharmaceutical firm.

created by the goods and services he or she purchases but also in that customer's ability to convince other customers to purchase more or prospective customers to make an initial purchase (Mittal and Kamakura 2001; Lam, Shankar, Erramilli, and Murthy 2004). Therefore, the willingness of customers to recommend a firm's products and services should also be considered above and beyond just the repurchasing behavior. But, if this customer still does not add value, he or she is not worth serving at the current level. It may be the case that a firm can move this customer to a lower cost channel and make him or her profitable; however, if this customer chooses to defect from the firm, the firm should not actively chase that customer.

Now that each of the seven customer-level marketing tactics have been outlined in this article, it is important to also show how each of these tactics can be used within a firm to provide a much more ideal marketing and financial outcome.

CUSTOMER-LEVEL STRATEGY IMPLEMENTATION

Each of the seven marketing tactics represents an ideal scenario in which profitability and firm performance are maximized for the firm. However, it is important to show that all of these tactics can and do work together in a real business situation to provide a significantly better result.

The first step toward implementing a customer-level strategy involves proper data collection. To be able to develop a proper customer-level strategy, the data need to have four characteristics. First and foremost, the data need to be at the customer level. Without customer-level data, a firm cannot create a customer-level strategy. Second, the data need to contain detailed transaction information. While companies can collect these data at different intervals of time (days, weeks, or months), it is necessary to have these transaction data in order to derive the various drivers of profitability (e.g., recency, frequency, past customer value, contribution margin, etc.). Third, the data need to span across a sufficient period of time. While it is better to have data from as far back in time as possible, at a minimum, firms should use at least 2 to 3 years worth of customer information. For example, the data used in this article to empirically validate the previous research consisted of customer-level transaction and marketing touch information covering the past 3 to 5 years from a pharmaceutical firm, a high-tech firm, a catalog retailer, and a financial services firm. Lastly, the data need to contain marketing touch information. This touch information should include the type of marketing touch used (e.g., e-mail, direct mail, etc.) and the date each touch occurred. Once a firm has these types of data, it can then move forward toward generating a customer-level strategy using the data to aid managers in making decisions.

In a recent study by Kumar, Ramani, and Bohling (2004), the authors analyzed the implementation of these marketing tactics within a B2B firm and pointed out some best practices to follow in order to anticipate some common challenges usually faced during the process. The firm in the study followed a series of well-planned steps to avoid many of the potential issues that usually arise in a massive overhaul of marketing organization and strategy.

Initially, the firm within this study took time to select and rank-order its current customers using the CLV method. From this list of customers, the firm was able to determine which customers to chase and which customers to leave alone. In addition, the firm made an effort to differentiate its high-value customers by better understanding which characteristics are the best drivers of customer value for their firm. Not only did this give insight to the firm as to what the profile of current high-value customers looked like, but it also gave the firm knowledge as to the types of potential customers that could be considered worthy marketing prospects. The next strategy the firm implemented involved choosing the appropriate mix and frequency of communication to use when marketing to its valued customers. The final strategy initiated by this firm included using the purchase sequence and timing model, allowing the firm to isolate specific time periods when each customer was most likely to buy specific products or services. The outcome of these actions resulted in a highly profitable situation for the firm in the study. However, while the outcome of this study was positive, it is important to remember that implementing these new strategies does not necessarily come without its challenges.

Making large changes in an enterprise-level firm is never easy, especially when many of the marketers, salespeople, and finance professionals have to reorganize their traditional practices to make this change. This is perhaps one of the main reasons why implementations of customer relationship management systems within companies have so often failed; either the firm did not support the effort fully or the implementation was not properly customized and executed across each of the departments. However, it can be very successful as was shown in this business study. The managers of the firm just need to make sure they are cautious to keep the employees aware and motivated to make the change and follow up each step of the study by tracking the performance of the marketing strategies and constantly analyzing each aspect of the implementation to make sure it is going as planned. Revolutionizing the way employees approach customers may only be one part of the process. Over the years, companies have also adapted firm-level strategies that drive the thinking of the company and its employees. Changing this high-level strategy may lead to further issues.

It is also difficult for a product-centric firm to adopt a customer-centric framework, even when the consequences of a product-centric firm can include customer defections up until the point at which the revenue brought in by the remaining customers no longer exceeds the costs of keeping the operations of the business running (Rust et al. 2000). But, it is important that a firm continues to treat customers as assets and manage them just as it would manage its own physical assets. While it may not be possible to insure the customers in the same way a firm could insure other physical assets, it is still necessary to make profitable investment decisions in each customer to maximize overall performance. However, as noted by Berger et al. (2002), it may be difficult to find a good starting point for customer investments. It is not likely that a firm will want to make large investments in new customer-oriented strategies when the outcome of these actions can be uncertain. But, these risks can be lessened, or even averted, by running pilot studies and/or refocusing some resources into analyzing key marketing metrics (e.g., satisfaction, branding, loyalty, etc.).

Therefore, the final result of a shift from a firm-level to a customer-level strategy is achievable, but precautions need to be taken throughout the process to ensure that the potential pitfalls related to organizational change are avoided and the highest level of success can ultimately be achieved.

LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

Even though this article seeks to tie each of the seven aforementioned marketing tactics together to create an overall framework, it is important to analyze how practical each of these strategies are, given the variance in business types and product offerings. In this article, we used data sources from several B2B and B2C firms to validate some of the empirical findings in previous research. However, when dealing with a customer-level strategy, there is no "canned" solution that can be quickly implemented. Just as it is necessary to treat each customer differently as the results provided by that customer will vary, when looking to integrate these strategies within a firm, each situation should be treated differently since no two firms are alike. A firm should be careful to create and mold a strategy that specifically matches to its available information and business needs.

In addition, it is not necessarily the case that each of these marketing tactics can be feasibly implemented to produce an optimal financial outcome. In many cases, firms may not have the customer-level data available to implement this kind of marketing strategy or do not want or need to build strong interactions with their customers. Future research should study the impact that these strategies have when implemented in combination. In fact, there are other ways in which firms can enhance their profits and be financially successful. Two examples of alternative strategies are pursuing operational excellence (e.g., Wal-Mart) and building brand equity (e.g., Nike). However, if firms choose the path of relationship marketing, then a customer-level strategy (e.g., as outlined by these seven tactics) should enhance shareholder value.

CONCLUSIONS AND IMPLICATIONS TO MARKETING AND FINANCE

The current research being done within the marketing-finance interface can offer great gains, thus benefiting both disciplines. Traditionally, marketing and finance professionals have analyzed different sets of variables, used data aggregated at different levels, and sought to verify outcomes that could have vastly different impacts on the firm. As previously noted, linking the marketing and finance disciplines has been suggested often in the literature, and now it has been verified through recent research as a way to translate individual-level customer data and strategy into positive financial results.

Firms are also realizing that a shift in the market is occurring and the need to address the issue of linking marketing actions to the firm's performance is necessary when developing a customer strategy. For example, AT&T was adopting a macro-level strategy to deal with customers (Squeo and Wilke 2004). As a result, AT&T lagged behind its competitors and is getting out of the landline business (not acquiring new customers) and merging their wireless business with another service provider. However, DISH Network, which used to offer standard packages of television channels, realized the shift in customer needs and adopted a micro-level (customer) strategy to offer customized channels (Grant 2004). As a result, the growth experienced by DISH Network is phenomenal. Thus, resources need to be properly allocated to various marketing strategies, which only can be accomplished if a firm can identify its best customers and prospects and send those individuals the right marketing message at the right time.

This article introduces the beginnings of a stream of research where marketing metrics are empirically linked to profitability and customer equity, which in turn leads to enhanced shareholder value (Rust, Ambler, Carpenter, et al., 2004). We looked at seven key customer-level tactics a firm should consider when managing its marketing resources. Each of these tactics has been linked directly to the firm's performance in the literature and offers firms a way to use resources efficiently and effectively to streamline their marketing efforts.

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NOTES

1. Customer lifetime value is an objective measure of the future profitability of a customer to the firm (Berger and Nasr 1998).

2. RFM is a relative scale method that uses a weighted measure of recency, frequency, and monetary value to determine the loyalty of a customer. Past customer value (PCV) is an absolute measure of discounted historical profits used to predict the value of a customer in the current time period. Share of wallet (SOW) is a measure of the percentage of another firm's budget spent from the total available budget for a particular category.

3. The use of the genetic algorithm approach is ideal since there are multiple optimizations occurring within the model (the need to simultaneously maximize customer response and minimize costs).

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