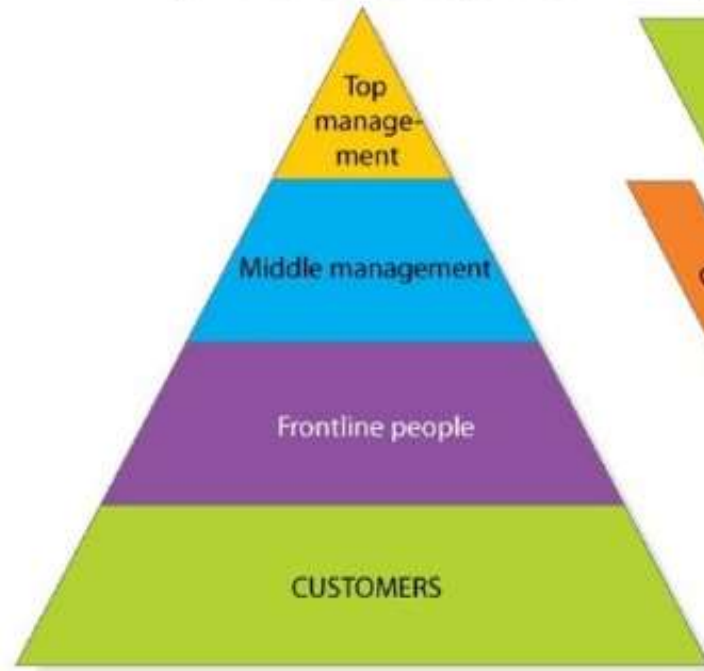


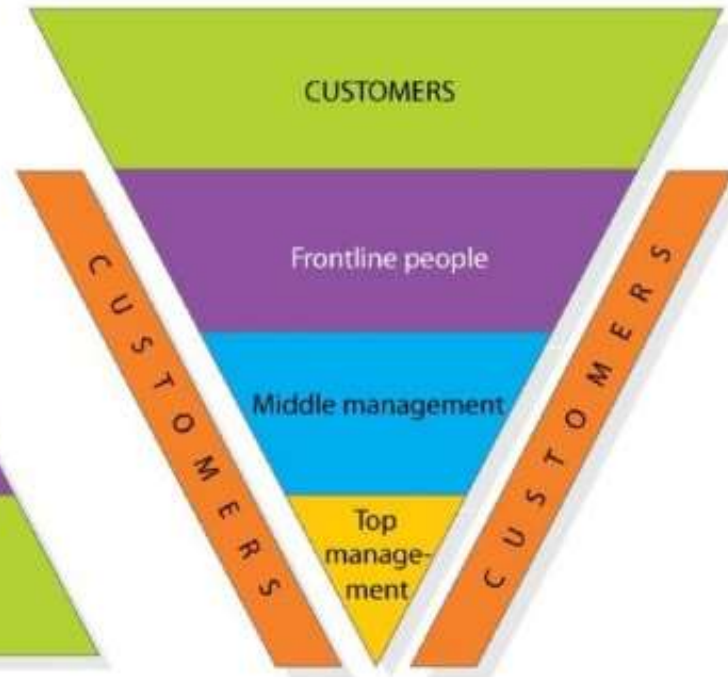
# CHAPTER 4: CREATING CUSTOMER VALUE AND CUSTOMER RELATIONSHIPS

# Traditional Organization vs. Modern Customer-Oriented Organization

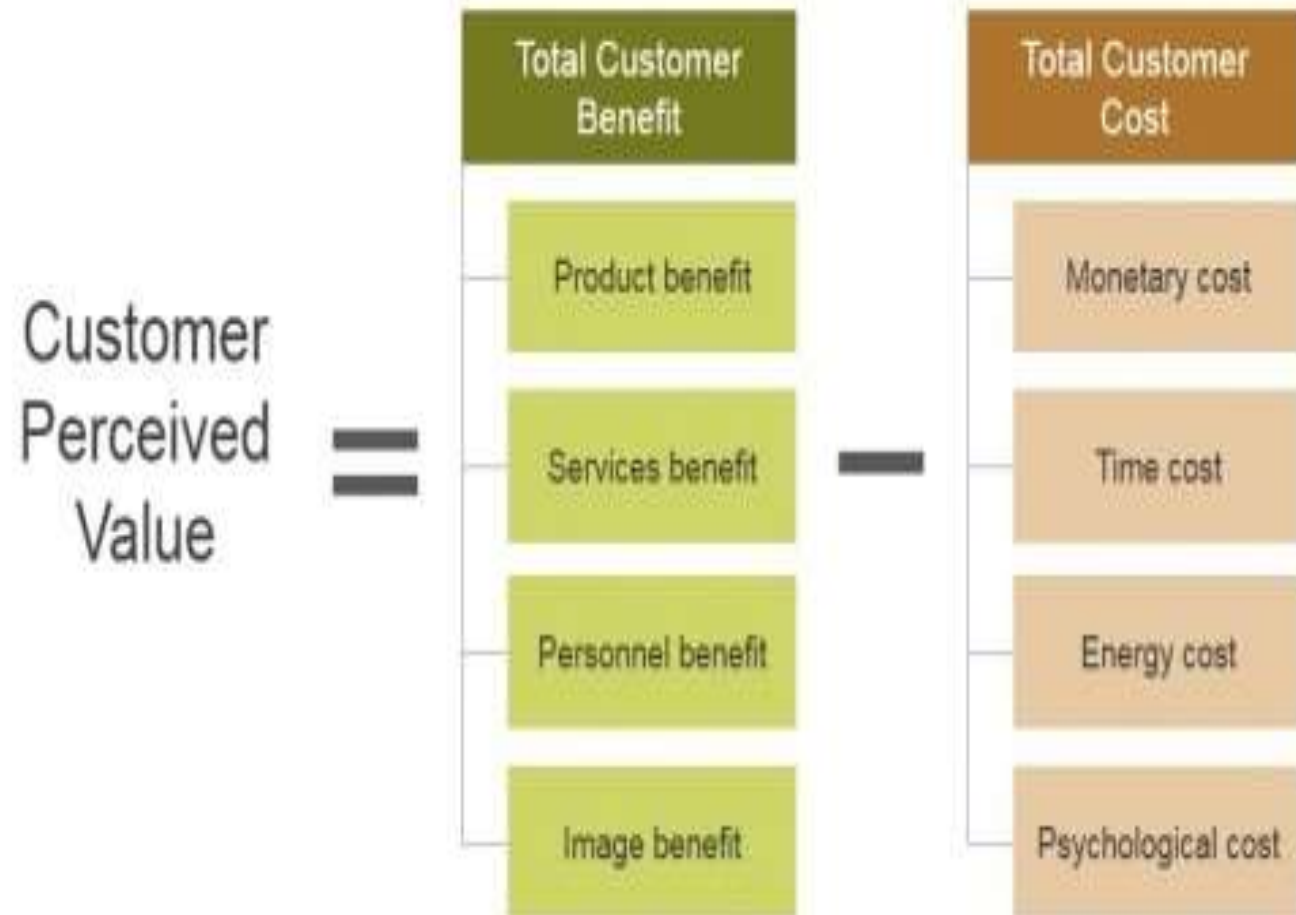
(a) Traditional Organization Chart



(b) Modern Customer-Oriented Organization Chart



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



## **Steps in a Customer Value Analysis**

- 1) Identify major attributes and benefits that customers value
- 2) Assess the quantitative importance of different attributes and benefits
- 3) Assess the company's and competitors' performances on the different customer values against rated importance
- 4) Examine ratings of specific segment by taking competition factor into consideration
- 5) Monitor customer values over time

Satisfaction – Is a person's feelings of pleasure or disappointment that results from comparing a product's perceived performance or outcome to expectations.

Loyalty – Is a deeply held commitment to re-buy or re-patronize a prepared product or service in the future despite situational influences and marketing efforts having the potential to cause switching behaviour.

#### Satisfaction Measurement techniques

- Periodic surveys
- Customer loss rate
- Mystery shoppers
- Monitor competitive performance
- Customer complaints

### **Customer profitability**

The customer profitability is the difference between the revenue earned from and the costs associated with the customer relationship in a specified period. This is a form of analysis that assigns revenues and costs to customers, rather than to products or processes. By doing so, a business can differentiate between its high-profit and low-profit customers.

### **Customer lifetime value**

Describes the net present value of the stream of future profits expected over the customer's lifetime purchases

### **Customer equity**

Customer equity is the total of discounted lifetime values of all of the firms customers. Companies having very high customer equity and that is why they have an amazing and sustainable competitive advantage

## **Customer Relationship Management (CRM)**

Customer relationship management is a management approach that allow a company to manage and analyse its interactions with its past, current and potential customers. It is the process of carefully managing detailed information about individual customers and all touch points to maximize loyalty. Focusing on customer retention and ultimately driving sales growth are the main objectives of Customer relationship management.

### **Personalized marketing**

#### **Four-step framework for one to one marketing that can be adapted to CRM marketing**

- 1) Identify your prospects and customers
- 2) Differentiate customers in terms of their needs and their value to your company
- 3) Interact with individual customers to improve your knowledge about their individual needs and to build stronger relationships
- 4) Customize products, services and messages to each customer

## **Strategies to strengthen the customer base**

- 1) Reducing the rate of customer defection
- 2) Increasing the longevity of the customer relationship
- 3) Enhancing the growth potential of each customer through “share of wallet”, cross-selling and up-selling
- 4) Making low-profit customers more profitable or terminating them
- 5) Focusing disproportionate effort on high-profit customers
- 6) Developing loyalty programs



## **Database marketing**

Database marketing is the process of building, maintaining and using customer databases and other databases (products, suppliers, resellers, etc) to contact, transact and build customer relationships.

### **Databases can be used in following five ways**

- 1) To identify prospects
- 2) To decide which customers should receive a particular offer
- 3) To deepen customer loyalty
- 4) To reactivate customer purchases
- 5) To avoid serious customer mistakes

### **Downside of database marketing and CRM**

- 1) Not applicable for all kind of products
- 2) Not all customers want a relationship with the company
- 3) Building and maintaining customer database needs huge investment in hardware, database softwares, analytical programs, communication links and skilled staff
- 4) It may be difficult to get all in the company to be customer oriented and use the available information
- 5) The assumptions behind CRM may not always be true

THANK YOU