A FRAMEWORK for MARKETING MANAGEMENT

Chapter 4
Creating Customer Value, Satisfaction, and Loyalty

Chapter Questions

• How can companies deliver customer value, satisfaction, and loyalty?
• What is the lifetime value of a customer?
• How can companies cultivate strong customer relationships?
• What is database marketing and why is it important?

Determining Customer Value and Satisfaction

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

Determinants of Customer-Delivered Value

Total customer cost
• Monetary cost
• Time cost
• Energy cost
• Psychic cost

Total customer value
• Product value
• Services value
• Personnel value
• Image value

Loyalty

Loyalty is a deeply held commitment to rebuy or repatronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behavior.

Satisfaction

Satisfaction is a person’s feelings of pleasure or disappointment resulting from comparing a product’s perceived performance in relation to his or her expectations.
Product and Service 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.

Forms of Quality

- Conformance quality
- Performance quality

Total Quality Management

TQM is an organization-wide approach to continuously improving the quality of all the organization’s processes, products, and services.

Maximizing Customer Lifetime Value

- Customer profitability
- Customer equity
- Lifetime value

Estimating Lifetime Value

- Annual customer revenue: $500
- Average number of loyal years: 20
- Company profit margin: 10%
- Customer lifetime value: $1,000

Drivers of Customer Equity

- Value equity
- Relationship equity
- Brand equity
Framework for CRM

- Identify prospects and customers
- Differentiate customers by needs and value to company
- Interact to improve knowledge
- Customize for each customer

Improving the Value of Company’s Customer Base

- Reduce the rate of defection
- Increase longevity
- Enhance customer growth potential
- Terminate low-profit customers
- Focus more effort on high-profit customers

The Customer-Development Process

- Suspects
- Prospects
- First-time customers
- Repeat customers
- Clients
- Member
- Partners

Building Loyalty

- Basic
- Reactive
- Accountable
- Proactive
- Partnership

Reducing Customer Defection

- Define and measure retention rate
- Distinguish causes of customer attrition
- Estimate profit loss associated with loss of customers
- Assess cost to reduce defection rate
- Gather customer feedback

Forming Strong Customer Bonds

- Add financial benefits
- Add social benefits
- Add structural ties
Database Key Concepts

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

Increasing Customer Share Requirements

- Estimate
- Select
- Pursue
- Document