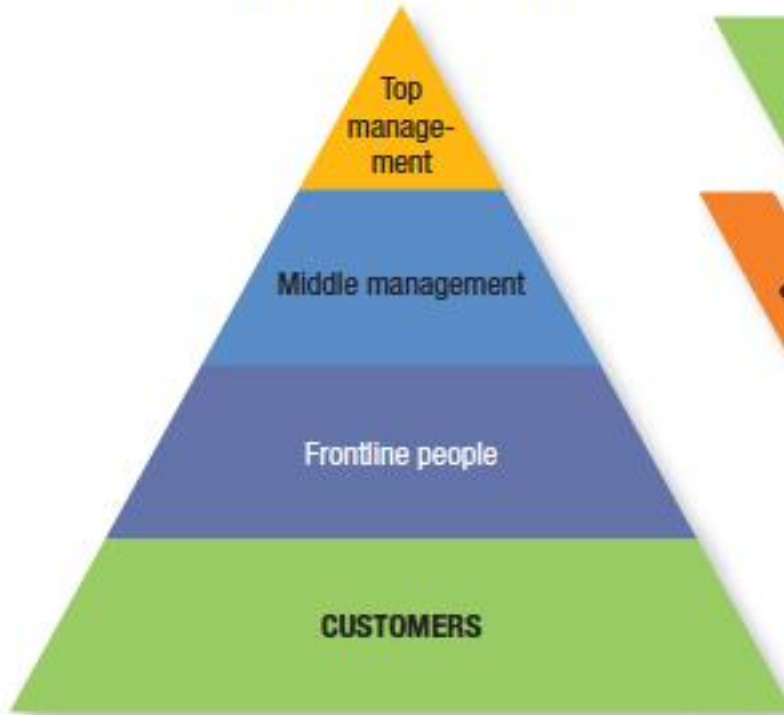# #5_Creating Long-term Loyalty Relationships

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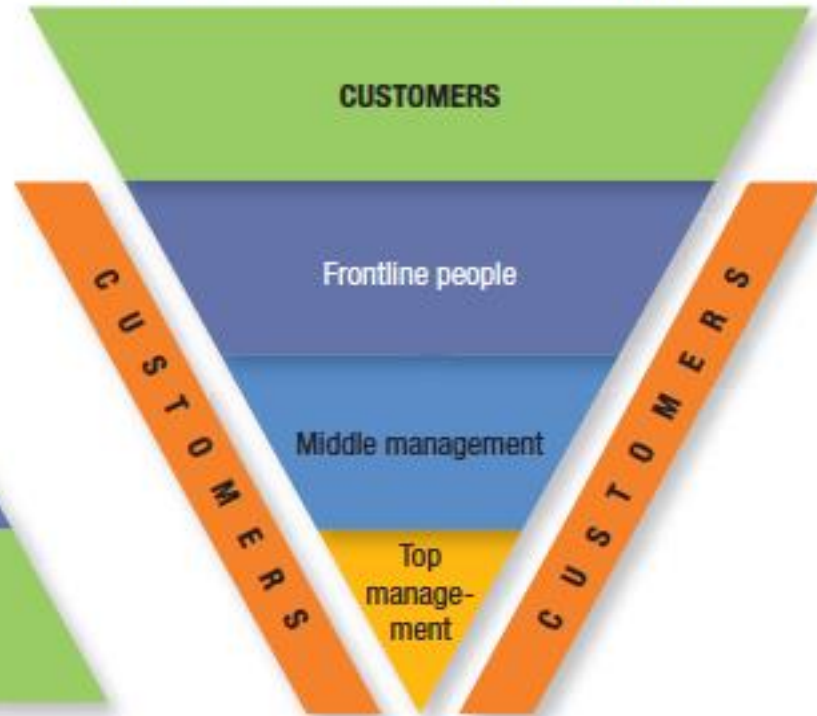

DPT. OF MANAGEMENT AND LAW
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ITALY

Traditional VS. modern organizations
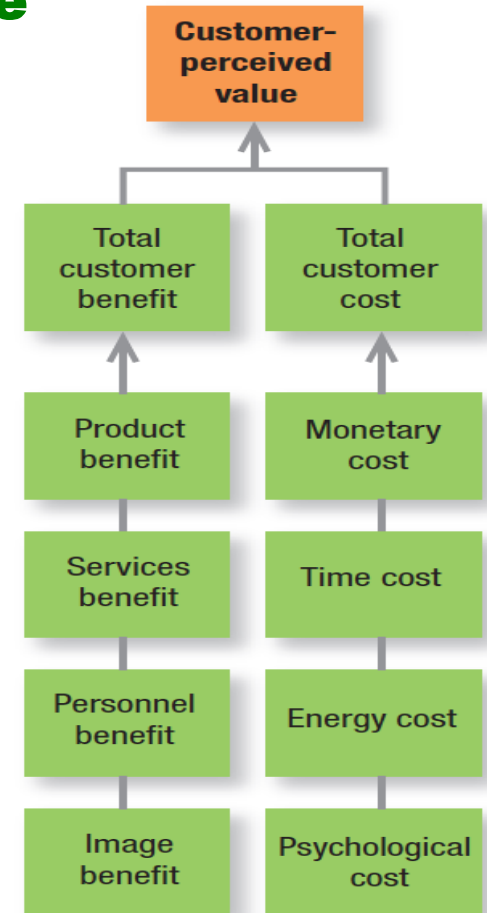

(a) Traditional Organization Chart

(b) Modern Customer-Oriented Organization Chart

Customer-perceived value

♣ CPV is the difference between the prospective customer's evaluation of all the benefits and costs of an offering and the perceived alternatives

♣ Total customer benefit vs. total customer cost

Customer value analysis

1. Identify the major attributes and benefits that customers value
2. Assess the quantitative importance of the different attributes and benefits
3. Assess the company's and competitors' performances on the different customer values against their rated importance
4. Examine how customers in a specific segment rate the company's performance against a specific major competitor on an individual attribute or benefit basis
5. Monitor customer values over time

Choice processes and implications

♣ The buyer might be under orders to buy at the lowest price

♣ The buyer will retire before the company realizes the product X is more expensive to operate

♣ The buyer enjoys a long-term friendship with the organization's X salesperson

Delivering high customer value

♣ **Value proposition**: the whole cluster of benefits the company promises to deliver

♣ **Value delivery system**: all the experiences the customer will have on the way to obtaining and using the offering

♣ **Loyalty**: 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

Total customer satisfaction

Total customer satisfaction is a person's feelings of pleasure or disappointment that result from comparing a product or service's perceived performance (or outcome) to expectations
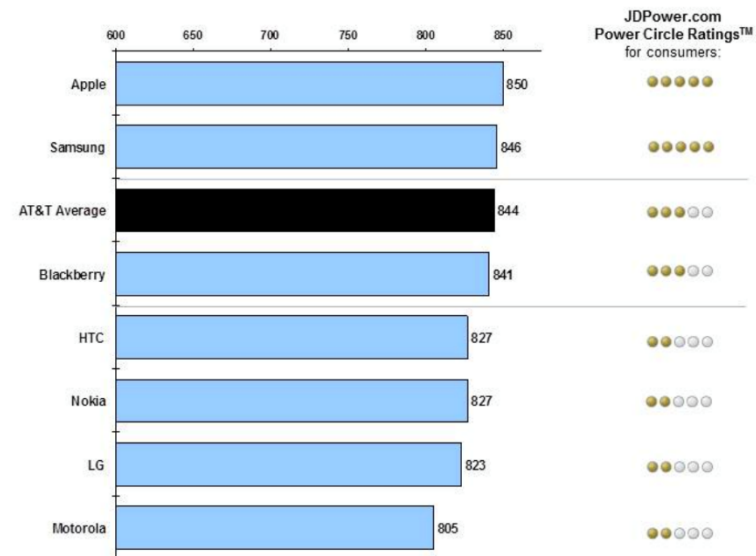
Monitoring satisfaction

Many companies are systematically measuring how well they treat customers, identifying the factors shaping satisfaction, and changing operations and marketing as a result (measurement techniques: periodic surveys, customer loss rate, mystery shoppers, J. D. Power's satisfaction ratings)

J.D. Power
2014 U.S. Wireless Smartphone
Satisfaction StudySM**—Volume 1**

Overall Wireless Smartphone Index Rankings: AT&T

(Based on a 1,000-point scale)

JDPower.com
Power Circle Ratings™
for consumers:

	Index	Rating
Apple	850	●●●●●
Samsung	846	●●●●●
AT&T Average	844	●●●○○
Blackberry	841	●●●○○
HTC	827	●●○○○
Nokia	827	●●○○○
LG	823	●●○○○
Motorola	805	●●○○○

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
- ♣ Conformance quality vs. performance quality
- ♣ Impact of quality

"The result of long-term relationships is better and better quality, and lower and lower costs."

W. Edwards Deming

Customer Profitability

Customers

	C₁	C₂	C₃	
P₁	+	+	+	Highly profitable product
P₂	+			Profitable product
P₃		–	–	Unprofitable product
P₄			–	Highly unprofitable product
	High-profit customer	Mixed-bag customer	Losing customer	

Products

Measuring Customer Lifetime Value (CLV)

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

| TABLE 5.3	A Hypothetical Example to Illustrate CLV Calculations										
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Number of Customers	100	90	80	72	60	48	34	23	12	6	2
Revenue per Customer		100	110	120	125	130	135	140	142	143	145
Variable Cost per Customer		70	72	75	76	78	79	80	81	82	83
Margin per Customer		30	38	45	49	52	56	60	61	61	62
Acquisition Cost per Customer	40										
Total Cost or Profit	−4,000	2,700	3,040	3,240	2,940	2,496	1,904	1,380	732	366	124
Present Value	−4,000	2,454.55	2,512.40	2,434.26	2,008.06	1,549.82	1,074.76	708.16	341.48	155.22	47.81

Attratting and retaining customers: Reducing defection/customer churn

♣ Define and measure retention rate
♣ Distinguish/identify customer attrition causes
♣ Compare lost CLV to reducing defection rate
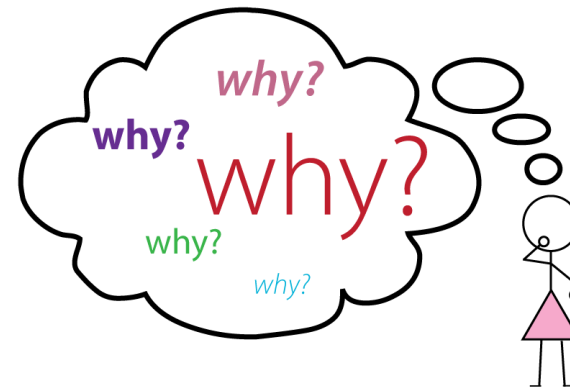
CRR, CLV, & Churn rate

Customer Retention Rate (CRR) $= \left[\dfrac{\text{Customer end period - New Customer}}{\text{Customer at beginning}}\right]$

Es. Customer at beginning=100; Customer end period=120;
New customer acquired in the period =40
CRR = (120-40)/100 = 80%

Customer Life Time = $\left[\dfrac{1}{1 - CRR}\right]$
Es. CRR =80%
CLT= 1/(1- 0,80) = 5 years

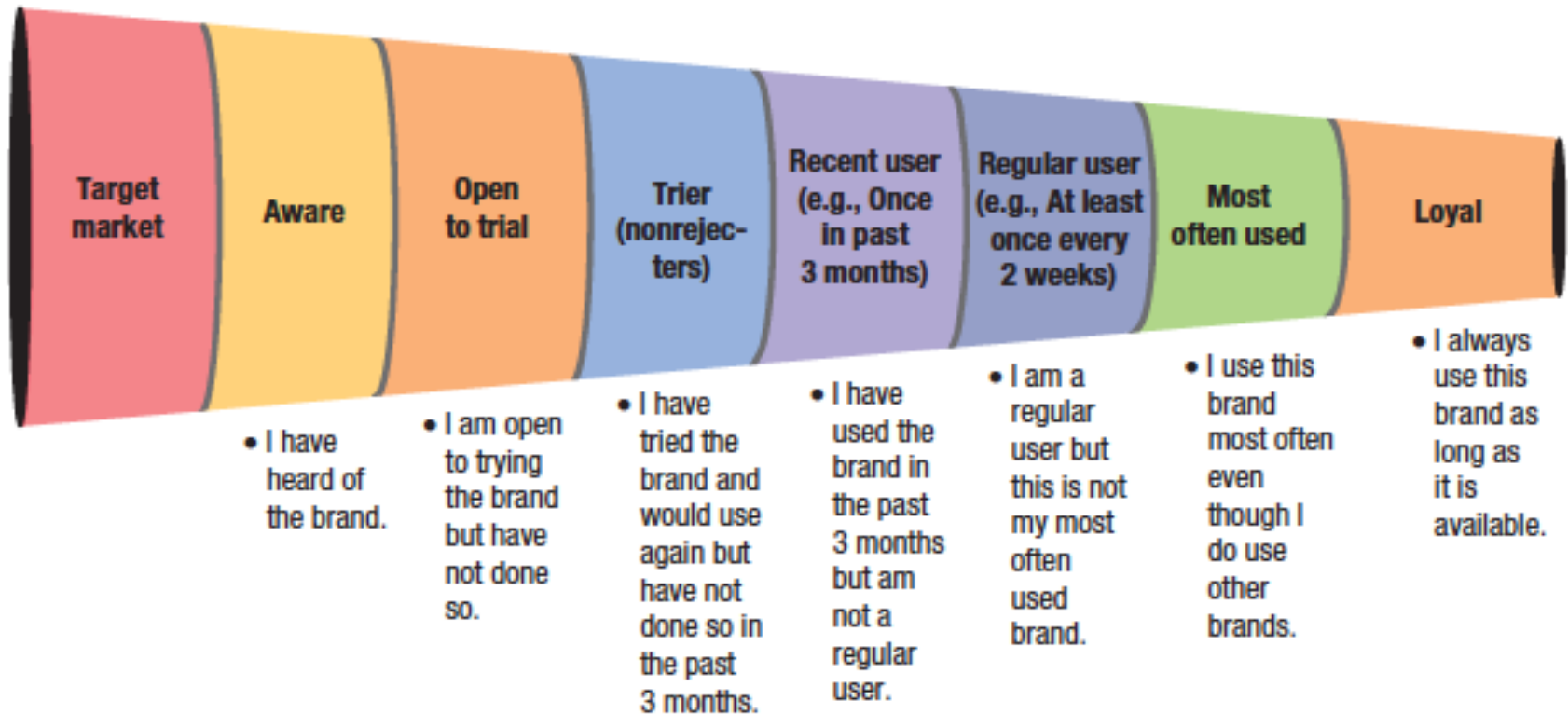**Churn rate=** $\left[\dfrac{\text{Customers defect towards other competitor "X"}}{\text{Tot. customers in the portfolio}}\right]$

Es. Nr customers defect =60
Total of customers =200
Churn Rate = 30%

Attratting and retaining customers: Retention dynamics

Target market	Aware	Open to trial	Trier (nonrejecters)	Recent user (e.g., Once in past 3 months)	Regular user (e.g., At least once every 2 weeks)	Most often used	Loyal
	• I have heard of the brand.	• I am open to trying the brand but have not done so.	• I have tried the brand and would use again but have not done so in the past 3 months.	• I have used the brand in the past 3 months but am not a regular user.	• I am a regular user but this is not my most often used brand.	• I use this brand most often even though I do use other brands.	• I always use this brand as long as it is available.

Attratting and retaining customers: Managing the customer base

Reducing the rate of customer defection

Enhancing the growth potential of each customer through cross selling and up-selling

Focusing disproportionate effort on high-profit customers
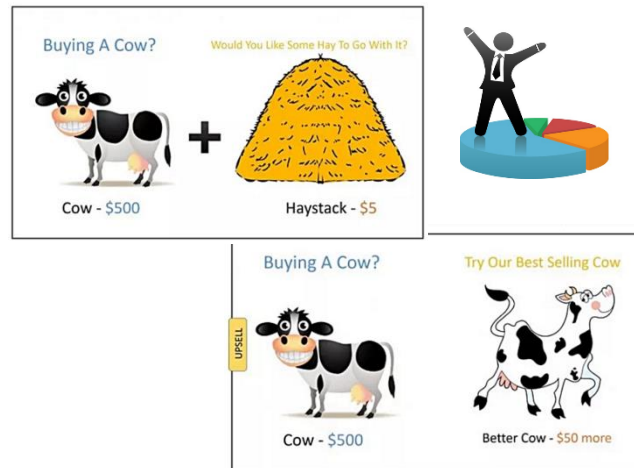
Increasing the longevity of the customer-relationship

Making low-profit customers more profitable or terminating them

Building loyalty

Interact closely with customers

Create institutional ties

Develop loyalty programs

Frequency programs
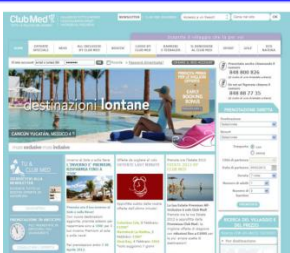
Club Membership Programs

A focus on customer clubs

ACTIVITY

PRIMARY — SECONDARY — DERIVED

PAYMENT — CONDITIONAL — FREE

ADMISSION

Brand communities

A specialized community of consumers and employees whose identification and activities focus around the brand.

Three characteristics identify brand communities:
1. A "consciousness of kind," or a sense of felt connection to the brand, company, product, or other community
members;
2. Shared rituals, stories, and traditions that help convey the meaning of the community; and
3. A shared moral responsibility or duty to both the community as a whole and individual community members.

Marketing manager's point of view   Community's point of view

The relationship between customer satisfaction and loyalty
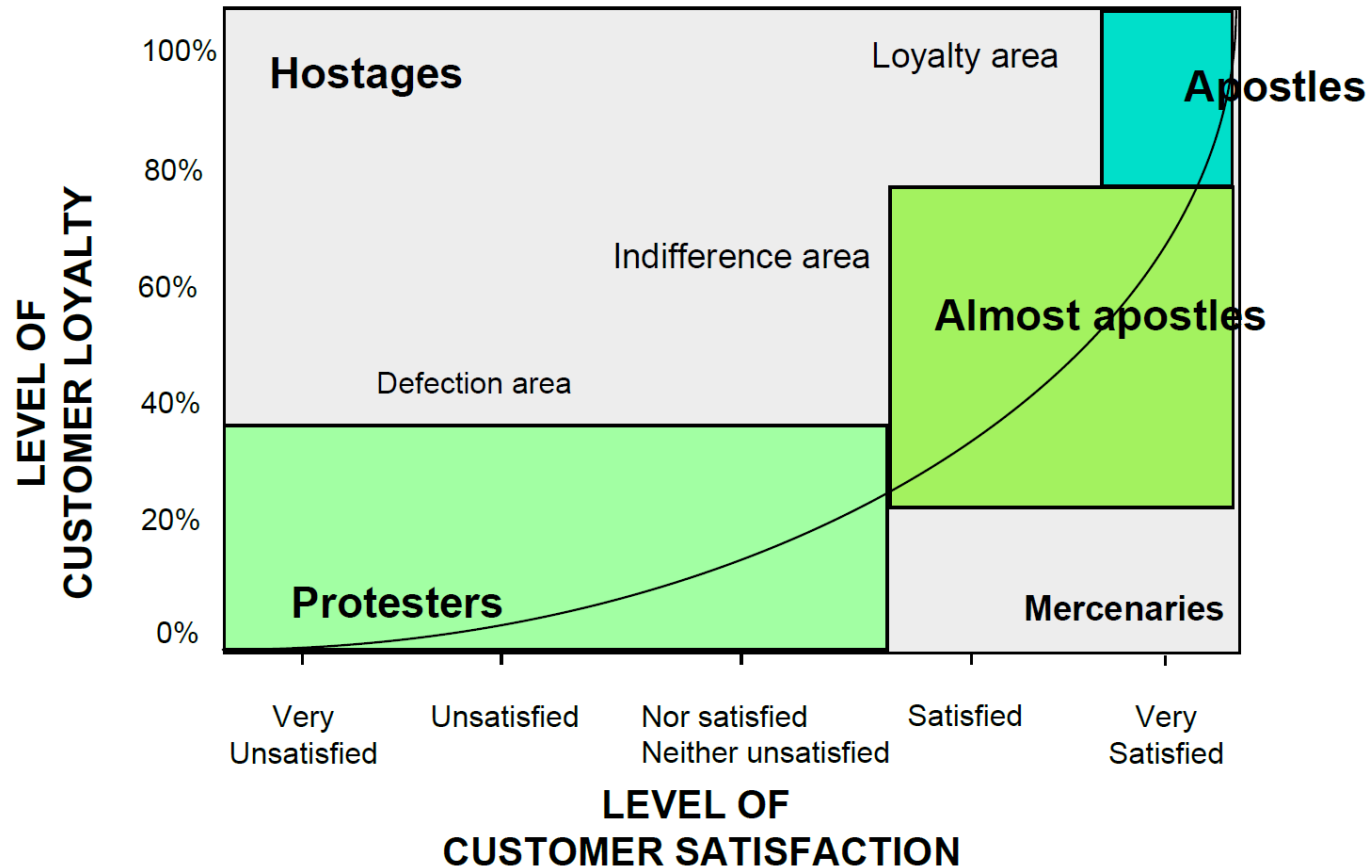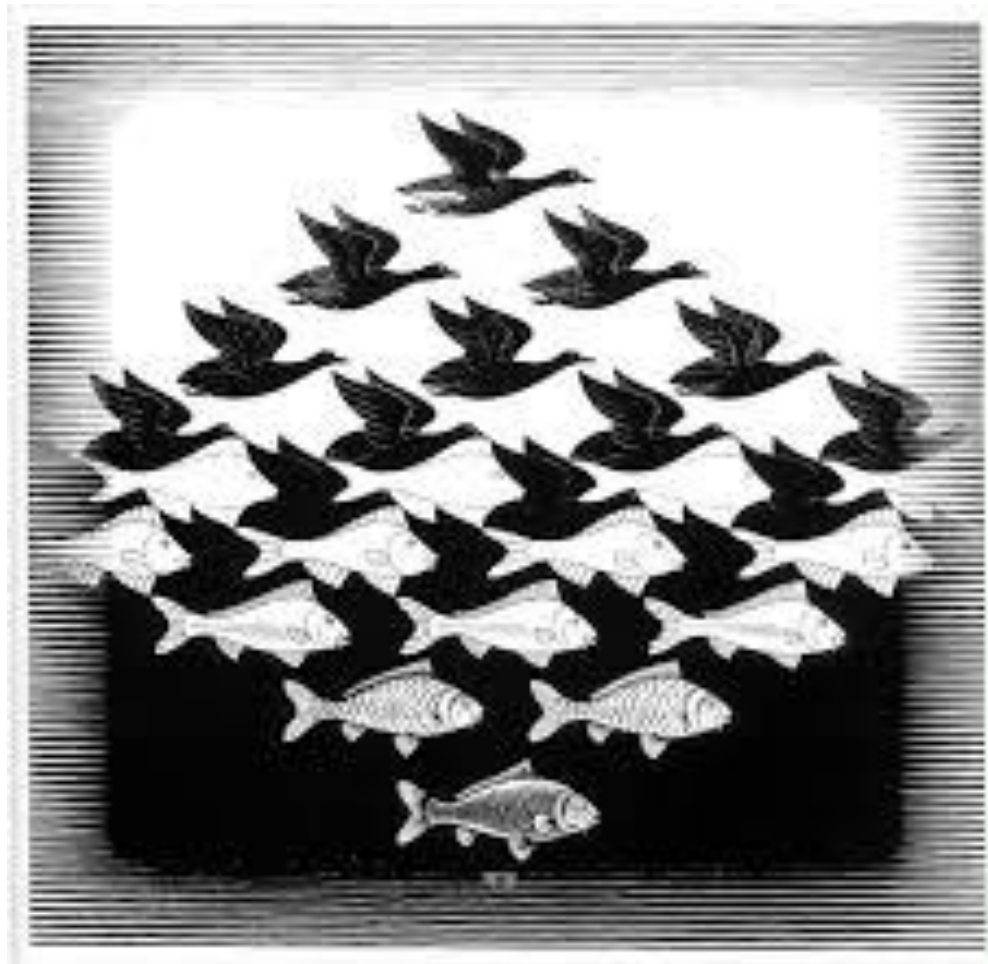
Customer Relationship Management (CRM)

♣ CRM describes the process of carefully managing detailed information about individual customers and all customer "touch points" to maximize loyalty

♣ Customer value management (CVM) describes the company's optimization of the value of its customer base

♣ Personalizing marketing

♣ **Customer empowerment**

♣ Customer reviews and recommendations

♣ Customer compliants
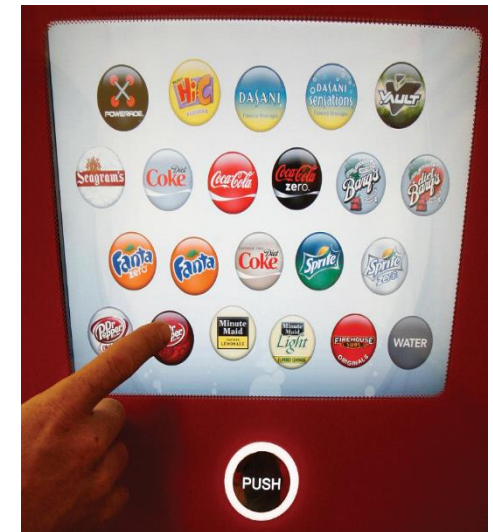
Brand Power relationships:

Towards a co-evolutionary approach

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STAKEHOLDERS' POWER

|	LOW	HIGH
ORGANISATION'S POWER — LOW	**NONE'S BRAND** — Managers do not make any strategic choice over the brand. Stakeholders are not involved (or interested!) in any stage of the brand process. *Example: smoke shops*	**STAKEHOLDERS' BRAND** — Stakeholders have a high power in influencing brand values and meanings, whereas residual power has been deemed in the hands of managers. *Example: Facebook*
ORGANISATION'S POWER — HIGH	**MANAGERS' BRAND** — Managers make strategic choices over the brand and believe they have a high control over it. Stakeholders are not invited to take part in the brand process. *Example: Kodak*	**CO-EVOLUTIONARY BRAND** — These brands simultaneously consider the driving power of both managers and stakeholders, respecting the plurality of points of view which are distributed among top managers, employees and external stakeholders. *Example: Lego*

Managers of this type of brand (no-brand!) live passively the marque and do not try to manage it. On the external side, stakeholders do not even perceive the brand. In other words, managers do not make strategic choices over the brand evolutionary management process, nor consumers are not involved (nor interested!) in taking part of it.
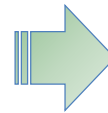
Small sized family-owned stores

Managers believe they have a high degree of control over the brand value and brand meanings. On the other hand, stakeholders are not invited to be involved in any stage of the CB process.
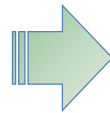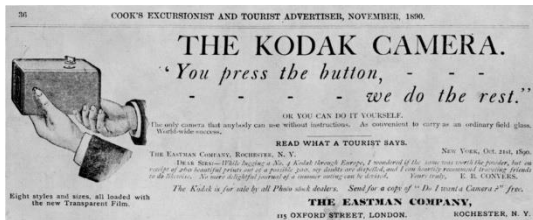
DIGITAL REVOLUTION

The management made several strategic choices imposing its business model and ignored the consumers' quest for innovation.

The brand did not evolved (co-evolved!) with its environment and failed in recognizing the challenge triggered by the digital revolution.

This is, literally, the brand of stakeholders, consumers and communities. Stakeholders have a high power in influencing brand values and meanings, whereas a residual and low power has been deemed in the hands of the managers.

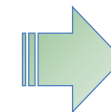**facebook** The current largest community ever existed

It is a platform of influence that gives a loud voice to stakeholders, who are the king, and managers cannot really control and manage their actions.
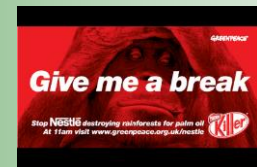
They joned the battle against Nestlè, forcing the brand towards more sustainable values

It has been called the *"bête noir of many companies"* and its members Rainbow Warriors, People Persuaders, Watch Doggies and Mind Bombs

The organization tries to influence public perceptions of environmental issues.

These types of brands act as social amplifiers

This brand suggests that managers have the power to make strategic choices with brand models and that stakeholders have the power to contribute to the creation of brand value and meanings. *Thus, this brand is co-created by internal and external forces. Internal and external forces mutually influence each other and are dynamically aligned and co-evolve over time.*

	Cycle 1: Stating	Cycle 2: Linking	Cycle 3: Involving	Cycle 4: Integrating
Key Process	Stating the foundation for the corporate brand and linking it to corporate vision	Linking vision to culture and image	Involving stakeholders through culture and image	Integrating vision, culture and image
Key Change Mode	Decentralization	Centralization	Decentralization	Centralization

Internal and external CB constituents co-evolve. the Co-evolutionary Brand shows a simultaneous high power of both the organization and its stakeholders.
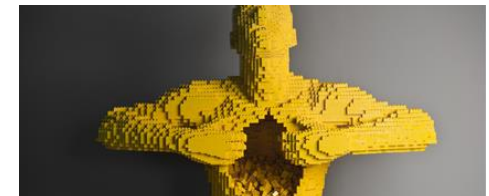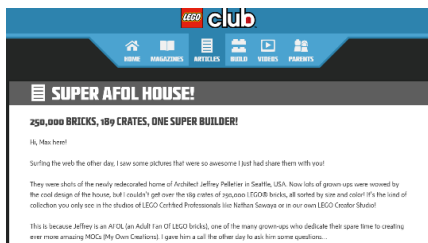
Thank you for your kind attention!

(Have A Nice Day!)