

ADVANCED MARKETING

5.

RETENTION EQUITY

- Why Customers are Valuable
- CRM-Programs
- CRM and the Customer

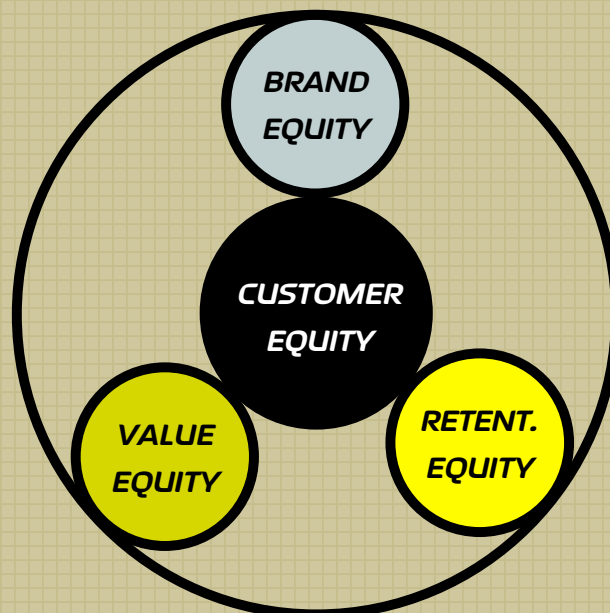
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Advanced Marketing / Chapter 5: Retention Equity

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DRIVERS OF CUSTOMER EQUITY

RUST/ZEITHAML/LEMON



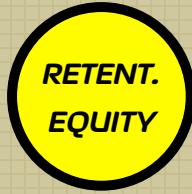
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DRIVERS OF CUSTOMER EQUITY

RUST/ZEITHAML/LEMON



- Customers choose company again and again: repeat customers
- Retention programs and relationship building activities
- „We call the Customer Equity gained from retention programs and relationship building the firm’s Retention Equity“ (RZL, S. 8)

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RETENTION EQUITY BUILDING PROGRAMS SHOULD...

- maximize likelihood that customer returns for future purchases
- maximize size of those future purchases
- minimize likelihood that consumer will purchase from a competitor

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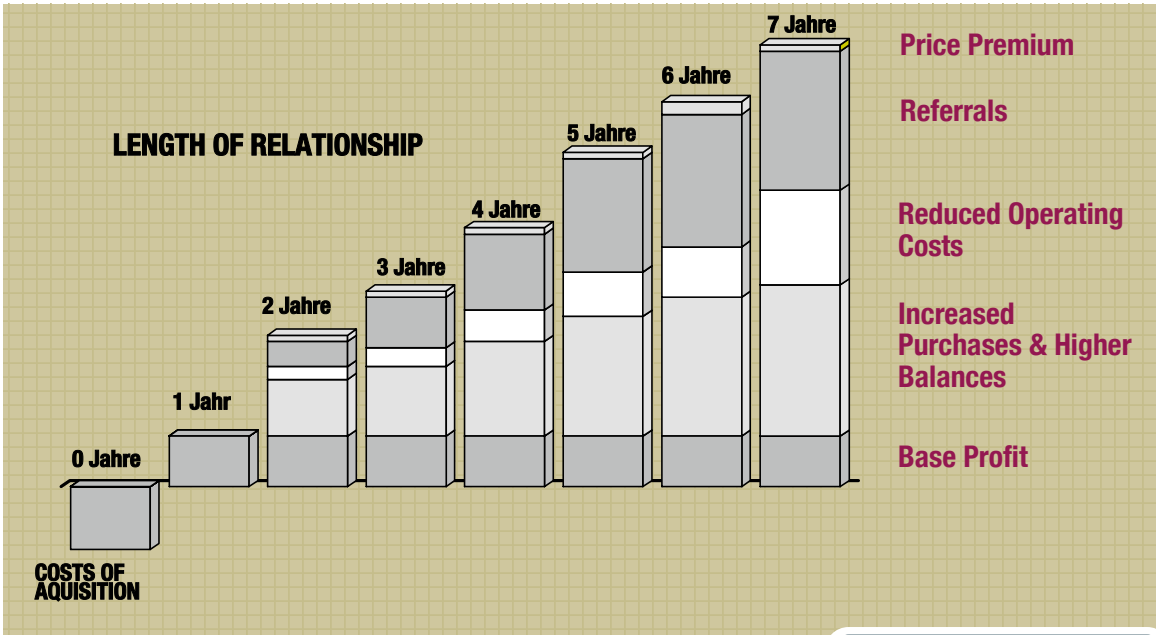
WHEN RETENTION EQUITY MATTERS MOST

- When the **benefits** the customer associates with the **loyalty program** are significantly greater than the „actual“ benefits
- When the **community** associated with the product/service is as important as the product/service
- When the **learning relationship** created between company and customer becomes as important as the provision of the product/service
- When **customer action** is required to discontinue the product/service

CONSEQUENCES

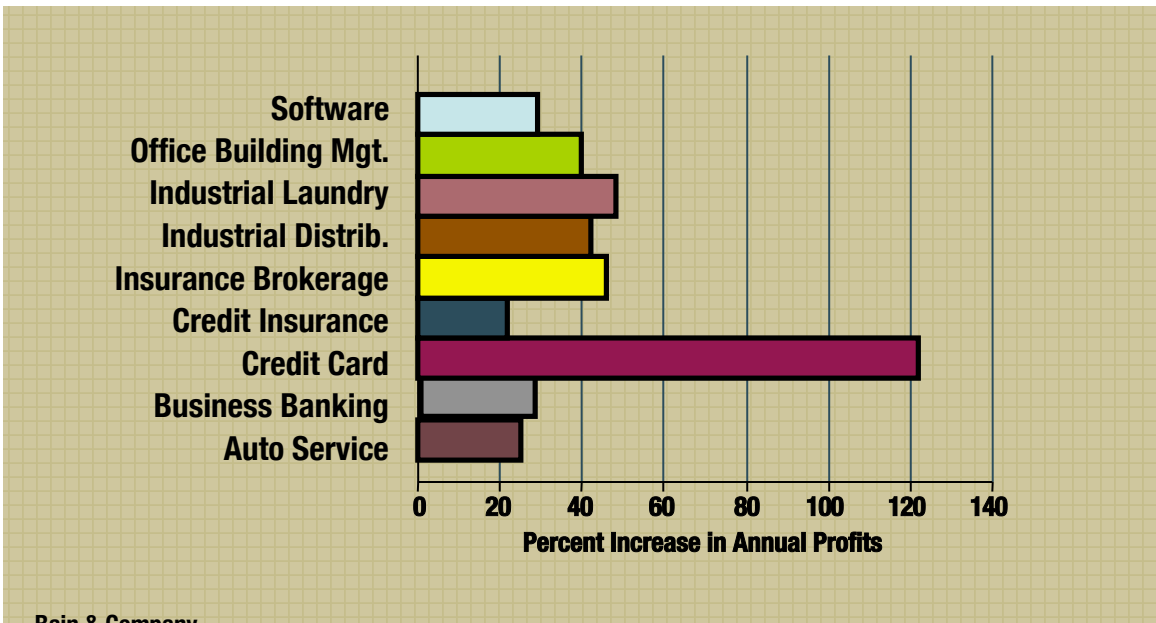
- Exit:**
 - not to purchase or use that product or service again.
- Voice:**
 - compliments an organization may receive when it delivers an especially satisfying outcome; complaints to the company about performance failure, negative and positive word-of-mouth with other consumers or consuming organizations, or third-party complaints or compliments.
- Continued patronage:**
 - customer loyalty is a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior.
- Twist:**
 - positive and negative ways in which consumers restructure meanings, roles and objects in the marketplace.

WHY CUSTOMERS ARE MORE VALUABLE OVER TIME



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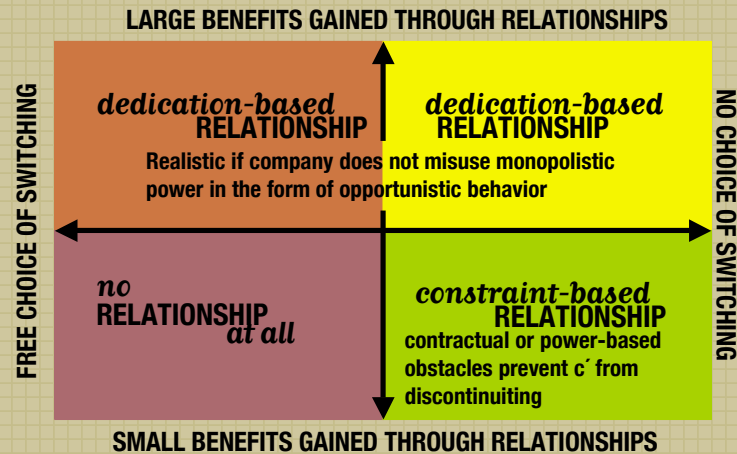
PROFIT IMPROVEMENT FROM 5% INCREASE IN RETENTION



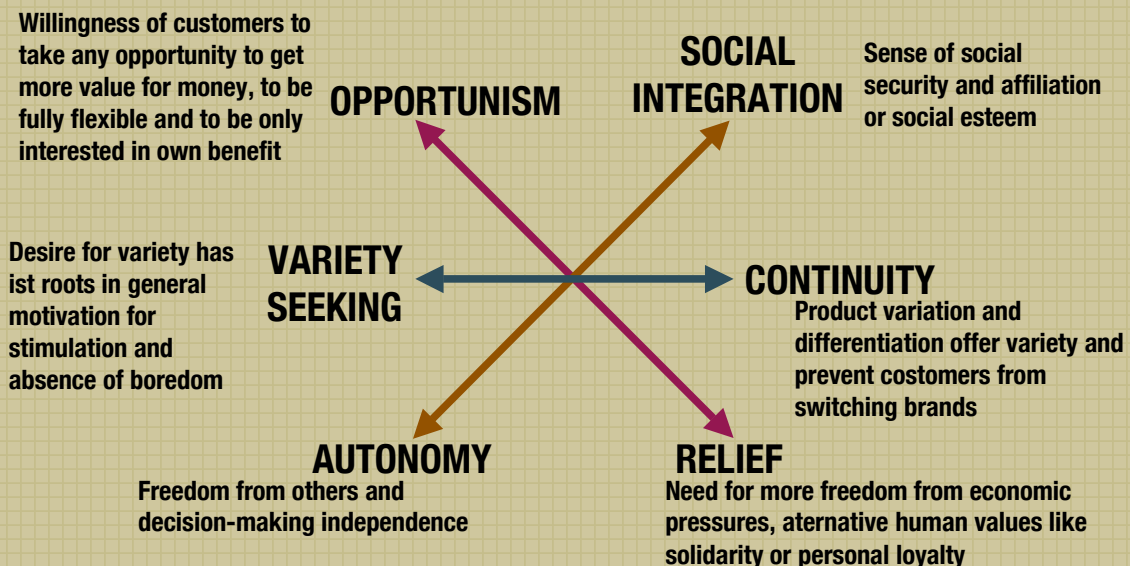
Bain & Company

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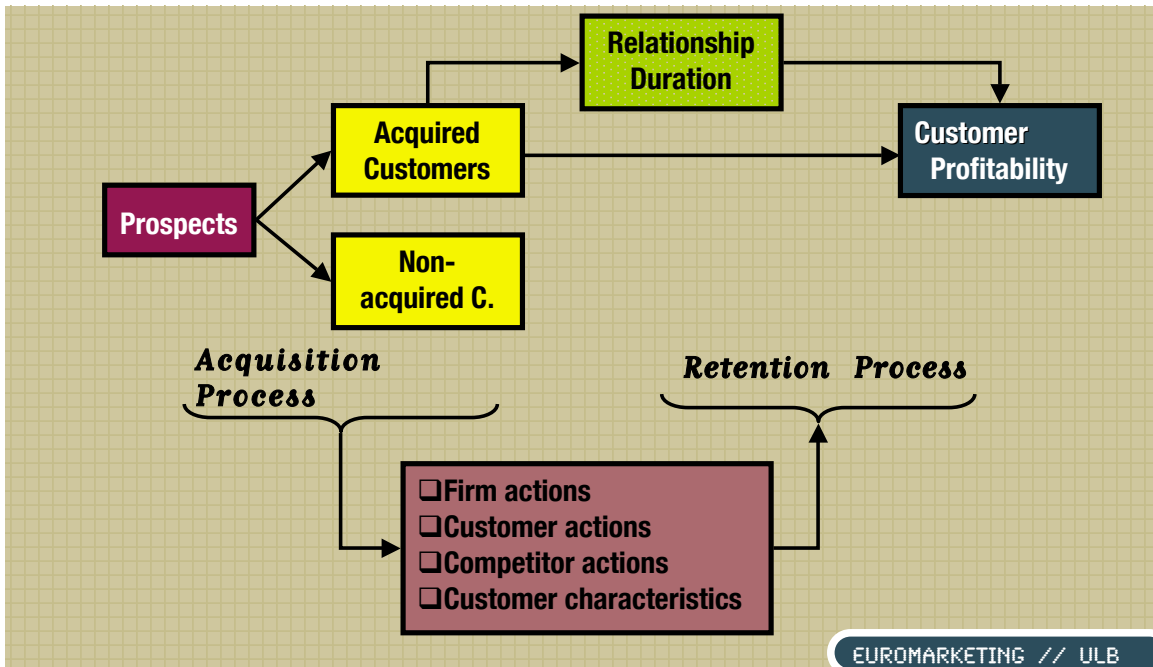
A TYPOLOGY OF RELATIONSHIPS



AMBIVALENT LOYALTY FORCES



LINKING CUSTOMER ACQUISITION, RELATIONSHIP, AND PROFITABILITY



2 WAYS TO STRENGTHEN CUSTOMER RETENTION

erect high switching barriers

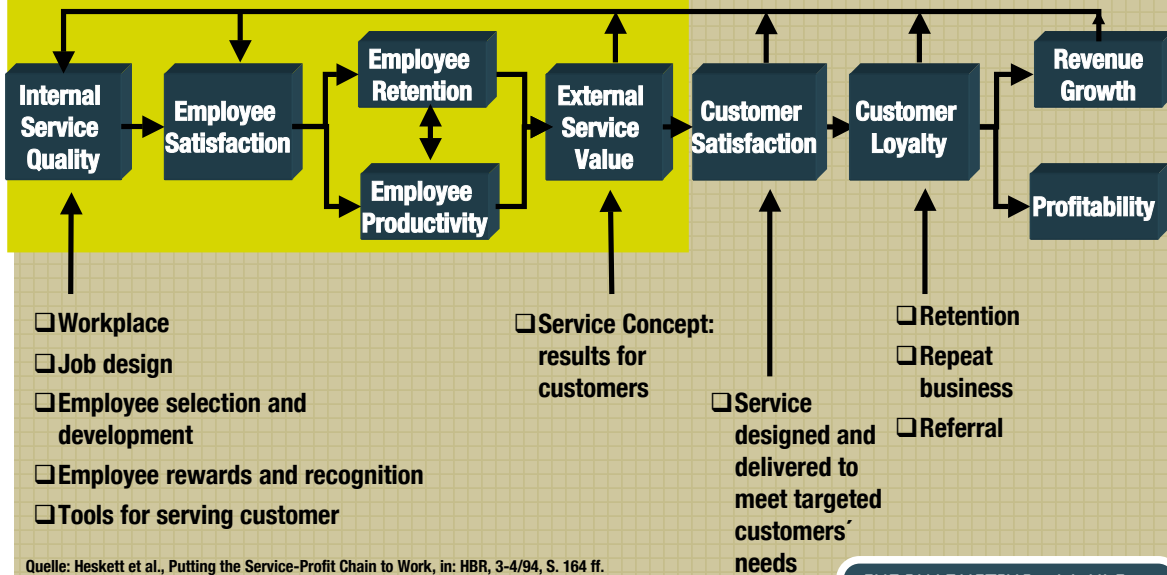
- ▶ TECHNOLOGICAL B.
- ▶ LEGAL B.
- ▶ ECONOMICAL B.
- ▶ EMOTIONAL TIES
- ▶ REWARD BEHAVIORS THAT ENHANCE CONNECTION

deliver high customer satisfaction

- ▶ SERVICE-PROFIT-CHAIN

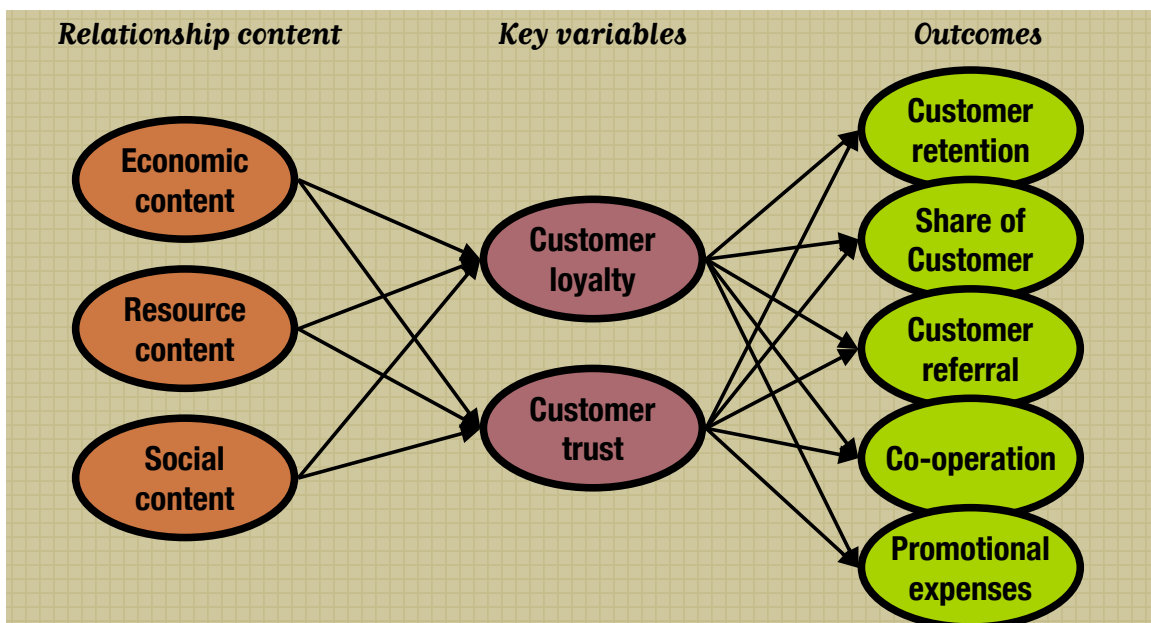
SERVICE-PROFIT-CHAIN

Operating Strategy and Service Delivery System



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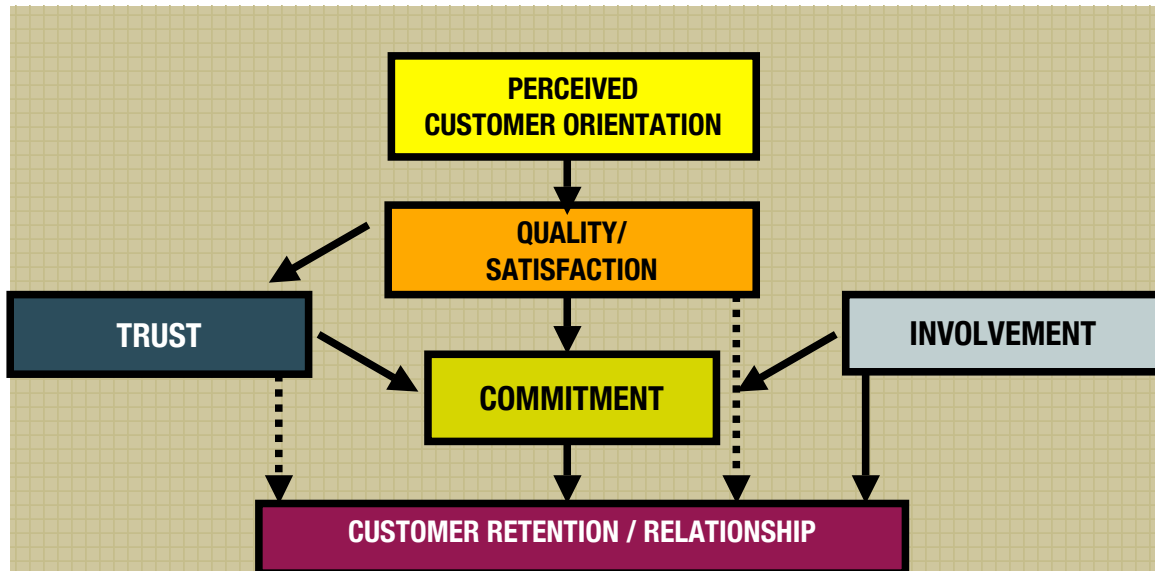
RELATIONSHIP MODEL OF CUSTOMER RELATIONSHIP PROGRAMS



Morgan, Crutchfield & Lacey in Henning-Thurau/Hansen, p. 79

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IMPACTS ON CL



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DEFINITIONS

Commitment

„a desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship and a confidence in the stability of the relationship“ Anderson/Weitz 1992

Commitment as a feeling of obligation or solidarity

Trust

A willingness to be vulnerable to the actions of another
 ... based upon positive expectations about the intention and
 behaviour of that person
 ...under conditions of risk and interdependence

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THE LINK BETWEEN SATSICATION AND RETENTION

FIGURE 7
Illustration of the Satisfaction-Retention Link



NOTE: The dotted line represents a linear approximation of the nonlinear relationship shown.

Source: "Strengthening the satisfaction-profit chain", Eugene W Anderson, Vikas Mittal. Journal of Service Research, Nov 2000. Vol 3, Iss.2, p 114

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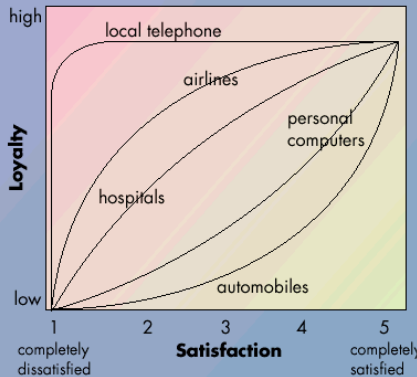
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THE LINK BETWEEN SATSICATION AND RETENTION

How the Competitive Environment Affects the Satisfaction-Loyalty Relationship

Noncompetitive Zone

- Regulated monopoly or few substitutes
- Dominant brand equity
- High cost of switching
- Powerful loyalty program
- Proprietary technology



Highly Competitive Zone

- Commoditization or low differentiation
- Consumer indifference
- Many substitutes
- Low cost of switching

Source: "Why satisfied customers defect", Jones, Thomas O, Sasser, W Earl Jr. Harvard Business Review. Boston: Nov/Dec 1995. Vol. 73, Iss. 6

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SOME EMPIRICAL FINDINGS

Bloemer/de Ruyter 1999

□ High-involvement products: emotions moderate the correlation between CS and CL

Ganesh/Arnold/Reynolds 2000

□ Dissatisfied „switchers“ are more loyal to the new supplier than satisfied customers, who switch to another company

Wangenheim/Bayon/Weber 2002

□ Customers that receive positive (negative) WOM about a supplier are more satisfied (dissatisfied) as customers, that did not receive WOM

Keiningham/Perkins-Munn/Evans 2003

□ Positive, nonlinear relationship between CS and share of wallet, with the greatest positive impact occurring at the upper extreme of satisfaction levels

Eg., Lam et al 2004, Roman 2003,

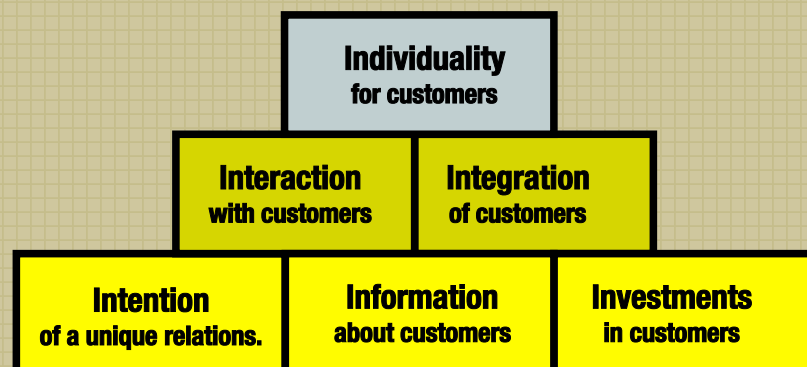
□ CS drives CL (positive impact of CS on CL)

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THE 6 „I“ OF CRM



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FREQUENCY (LOYALTY) PROGRAMS

key criteria to meet:

- Customer earn points frequently enough to accumulate sufficient rewards
- Rewards are meaningful and worth „saving for“ or receiving
- Margins of product/service offered are high enough to justify such a program

Example (Bank):

- REWARDS FOR
- Number and lengths of relationship
 - Loans held
 - Credit card products used
 - Number of referrals made
 - Use of investment services

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NON-MONETARY PROGRAMS

- Special recognition and treatment programs
 - Nonmonetary approach
 - Eg, upgrades, early boarding
- Affinity, emotional connection & community programs
 - Increase commitment through affinity groups
 - Key aspects: firm or brand becomes integral part of customer, strong emotional ties
 - KURT JOHNSON: affinity programs only applicable when brand represents strong lifestyle

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KNOWLEDGE-BUILDING PROGRAM

- Build retention upon trust
- Use advances in database technologies
- Learning from every transaction
 - **Streamline / peapod**: monitor consumer purchase behavior, suggest products that consumers might like
 - Based upon other consumers with similar preferences
 - Build „learning relationships“ (eg. **AMAZON**)



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CRM AT WORK:

Bloomington Rewards Plus Program

- Increasing levels of rewards to customers based upon their annual spending level
- First tier**: Premier Insider- all members that sign up for a Bloomingdales credit card
- Second tier**: Premier Plus Insider- members who spend more than \$1000 annually
- Third tier**: Ultimate Premier Insider – customers who spend over \$2500 each year at Bloomingdales

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HOW CUSTOMERS SEE RELATIONAL BENEFITS

SERVICE INDUSTRIES

- Confidence benefits**
 - less risk of something going wrong, less anxiety
 - ability to trust provider
 - know what to expect
 - get firm's best service level
- Social benefits**
 - mutual recognition, known by name
 - friendship, enjoyment of social aspects (**COMMUNITIES**)
- Special treatment benefits**
 - better prices, discounts, special deals unavailable to others
 - extra services
 - higher priority with waits, faster service

LOVELOCK & WIRTZ

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TYPES OF WEB-COMMUNITIES

COMMUNITIES OF <i>relationships</i>	match.com
COMMUNITIES OF <i>fantasy</i>	Doom, Everquest
COMMUNITIES OF <i>interest</i>	Epinions, ciao.com
COMMUNITIES OF <i>transaction</i>	eBay, Amazon

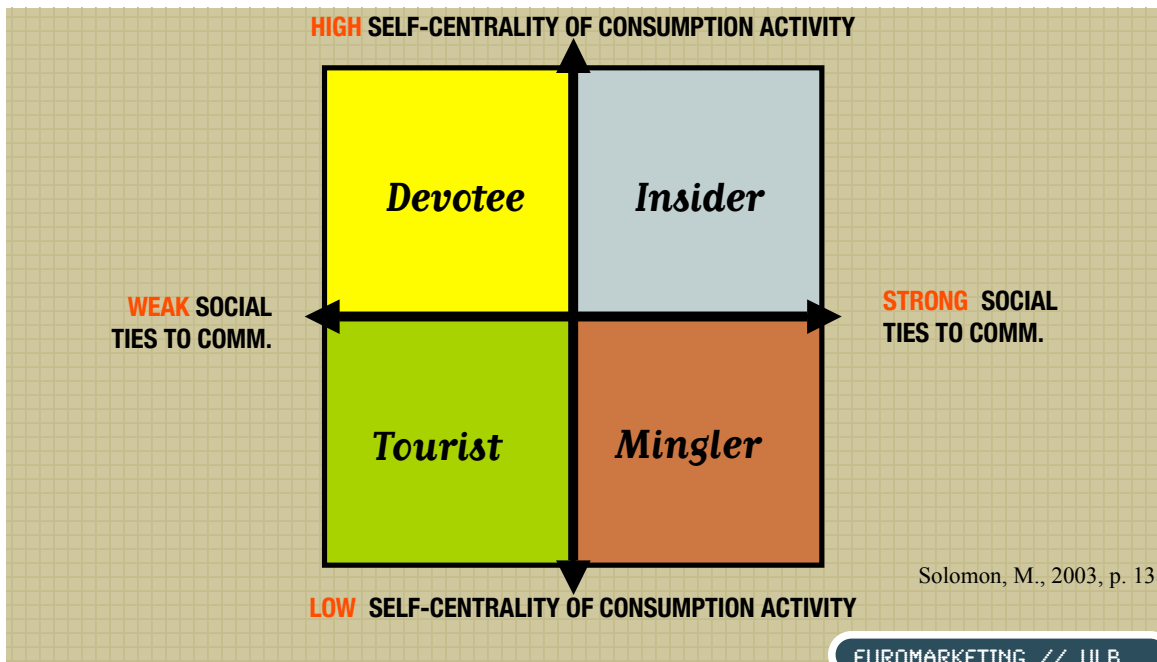
Solomon, M., 2003, p. 138

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WAYS TO PARTICIPATE



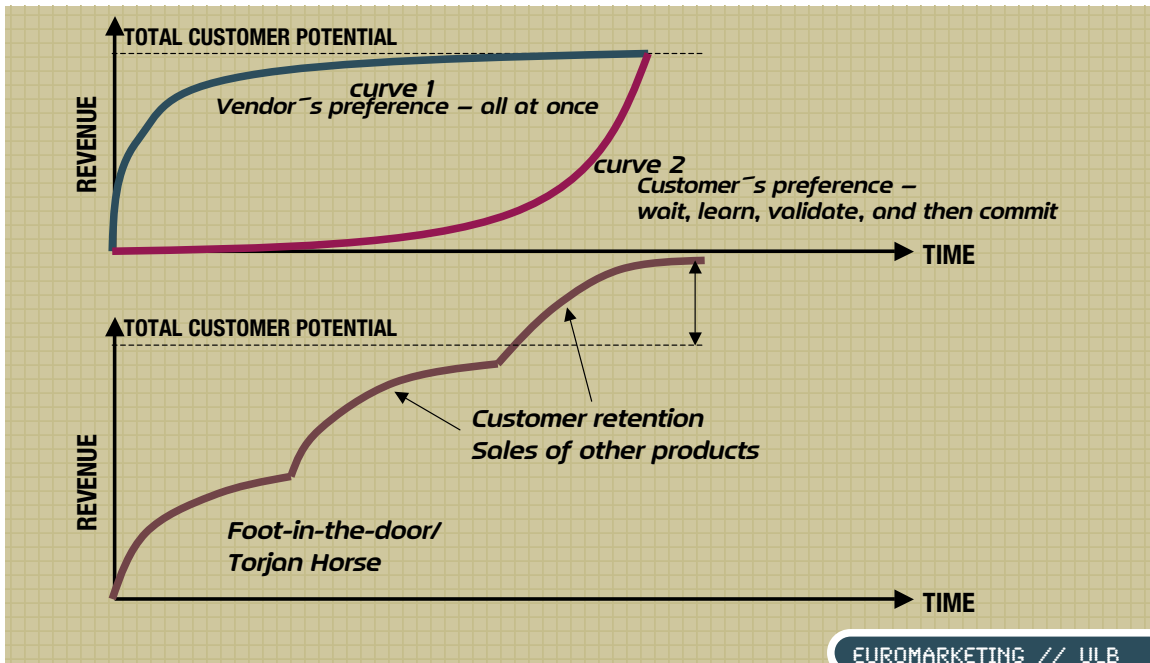
DIFFERENT APPROACHES TO MANAGING A CUSTOMER RELATIONSHIP OVER TIME

a) Foot-In-The-Door Approach

- Breaking down the total offering into multiple, independent components constitutes FITD/Trojan Horse approach
- First component becomes proverbial FITD
- Although size of first sale may be relatively small, time and effort required to close the sale are less and the probability of closing the sale is greater
- Selection of appropriate FITD product is critical to successful execution ideal product:
 - Must migrate consumer risk, that is be impressive enough to purchase without hesitation
 - Product quality impeccable, no chance of failure
 - Highly visible customer problem is solved, forestall competitive entry at later date
 - Progression path for future sales is laid out

DIFFERENT APPROACHES TO MANAGING A CUSTOMER RELATIONSHIP OVER TIME

FOOT-IN-THE-DOOR-APPROACH



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DIFFERENT APPROACHES TO MANAGING A CUSTOMER RELATIONSHIP OVER TIME

b) All-At-Once Approach

- Sell the entire bundle from the outset of the relationship
- Raises important issue in pricing: link between value created for customer and value extracted by vendor
 - Eg., sell product at cost that will lock in service and maintenance contracts at high margins

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A CRM FRAMEWORK

- Identify prospects and customers
- Differentiate customers in terms of their (1) needs and (2) value to the company
- Interact with customers to improve company's knowledge about needs and to build stronger relationships
- Customize products, services, and messages
- Reducing the rate of defection
- Increasing the longevity of the customer relationship
- Enhancing the growth potential of each customer through „share-of-wallet“, „cross-selling“, and up-selling“
- Making low-profit customers more profitable or terminate them
- Focusing disproportionate effort on high-value customers

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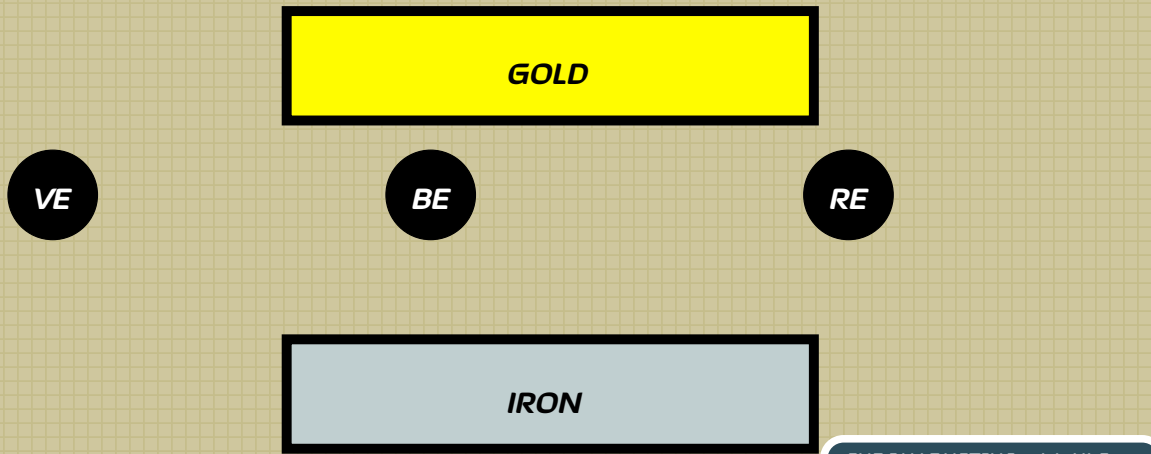
RELATIONSHIP MARKETING INCLUDES...

- Database Marketing:** Involves the use of technology by delivering differentiated service levels to consumers and subsequently tracking the relationship.
- Interaction Marketing:** Usually in B2B context where people and the social process also add mutually beneficial value.
- Network Marketing:** Common in B2B context where companies commit resources to develop positions in a network of relationships with the stakeholders and relevant agencies.

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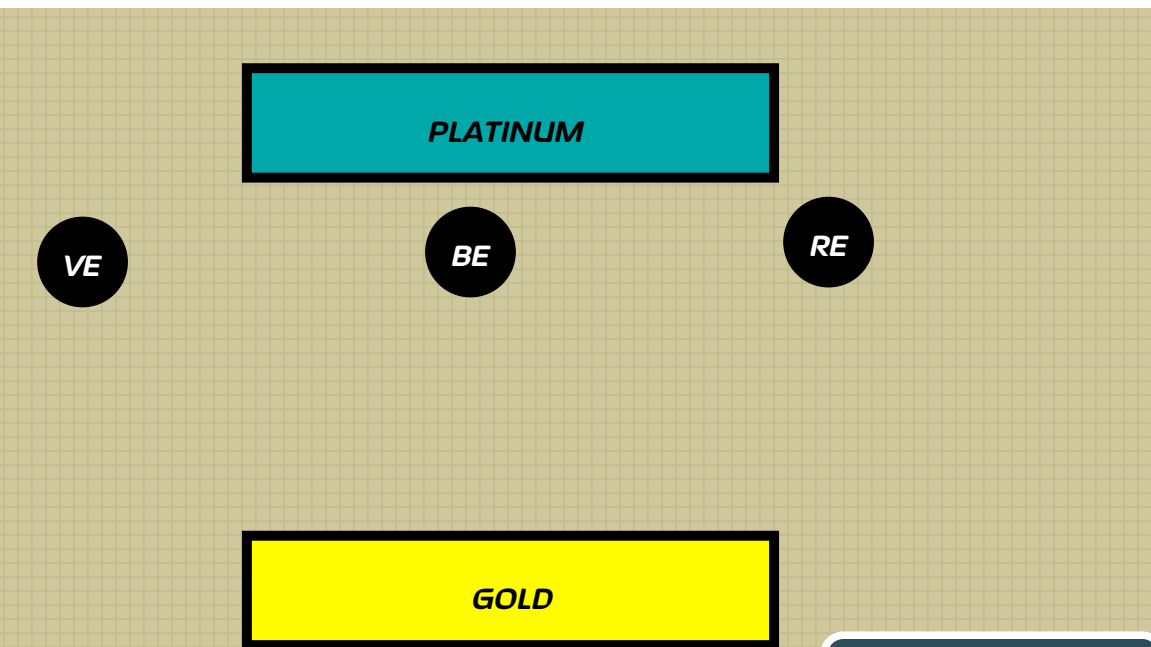
CUSTOMER ALCHEMY

- Customer alchemy is the art of turning less profitable customers in more profitable customers
- Customer Pyramid
- Possible Strategies:



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CUSTOMER ALCHEMY



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