

Preface

This book is aimed at top/mid-level management of small, medium, and large business-to-business (B2B) and business-to-consumer (B2C) enterprises that have the power and resources to change customer management strategies in their organization. This book also serves as a guide for executives-on-the-rise to understand the importance of customer-oriented strategies.

What constitutes an effective customer management strategy? Is it enhancing customer loyalty, widening the customer base, or maximizing customer profitability? Although conventional wisdom suggests that enhancing customer loyalty and widening the customer base are effective strategies, this book focuses on the profitability angle and establishes that managing customers based on their profitability is the most effective approach to customer management.

This book identifies three paths to profitability a firm can undertake: operational excellence, brand equity, and relationship marketing. If relationship marketing is selected as a path to profitability, managing customer loyalty becomes crucial. While managing loyalty programs, companies have traditionally placed undue emphasis on maximizing customer loyalty. This book adopts a fundamentally different approach toward customer management and demonstrates that stable healthy growth of a company is built on the profitability of customers, not just on their numbers or loyalty. This book also shows that loyal customers are not always profitable, and not all profitable customers are loyal. Therefore, when firms are developing a customer management strategy, they must adopt an approach that closely links loyalty with profitability.

To effectively manage loyalty programs, firms use several customer selection metrics, such as Recency-Frequency-Monetary value (RFM), Past Customer Value (PCV), Share of Wallet (SOW), and Customer Lifetime Value (CLV). This book concludes that CLV outscores other metrics when it comes to profitable customer management. CLV outscores the other metrics in this regard because it is a forward-looking metric and because it factors future customer behavior into current marketing initiatives.

Empowered with CLV, firms can reevaluate and overhaul their existing customer management strategies. This book offers nine strategies to manage customers profitably. These strategies aim to select the right customers, manage them profitably, and retain them through optimal allocation of resources. Furthermore, these strategies demonstrate the benefit of pitching the right products to the right customers at the right time, holding on to profitable customers, encouraging multichannel shopping, increasing brand value for customers, acquiring potentially profitable customers, and identifying customers who provide value through referrals. The knowledge obtained through implementing these strategies can then be leveraged to acquire prospective customers with a higher profit potential.

Although CLV can be an effective tool to measure and manage direct (transactional) contributions made by customers, it overlooks the indirect (referral, word-of-mouth) contributions toward firm profitability. To maximize profit, the crucial contribution made by customer referral behavior has to be carefully monitored and managed. This book introduces Customer Referral Value (CRV) as a metric that firms can use to maximize the indirect contributions made by customers. CLV, used in conjunction with CRV, will enable marketers to implement strategically designed marketing initiatives to profitably manage customer loyalty.

This book identifies organizational and implementation challenges that firms might encounter when adopting a CLV-based approach and suggests appropriate guidelines to overcome such challenges. Firms need to adopt an “interaction-orientation” approach when dealing with customers. By establishing a strong firm-customer relationship, and by treating customers as a resource, managers can effectively implement the CLV-based strategies. Because CLV is a dynamic approach, marketing strategies have to be constantly updated for sustained profitability. This book recommends a balanced approach, keeping in mind the ethical issues involved in collecting and managing customer-level information. This book also outlines issues that firms might potentially face when implementing a CLV-based approach and suggests the necessary strategies to stay ahead of the competition.

Organization of the Book

This book adopts a strategic approach toward profitable customer management and illustrates the strategies needed to manage customers efficiently. It presents techniques to aid in customer-oriented marketing initiatives using the concept of Customer Lifetime Value. The book consists of 15 chapters.

Chapter 1 introduces key concepts of customer management. It describes the different paths to profitability and identifies relationship marketing as the one that leads to profitable customer management. It also discusses the role of loyalty programs in bringing firms and customers closer to each other. Chapter 2 links loyalty with profitability and discusses the drivers of profitable customer loyalty. After establishing the need for managing customers for profit, Chapter 3 reviews the popular metrics used to measure customer loyalty. The concept of Customer Lifetime Value is discussed, as is how to measure CLV. Chapter 4 describes how to build and sustain profitable customer loyalty and calls for a fundamental outlook change to manage customer loyalty. Chapter 5 outlines nine strategies available to managers to maximize CLV. These strategies will help firms decide how to select the best customers (Chapter 5), make loyal customers profitable (Chapter 6), optimally allocate resources (Chapter 7), pitch the right products to the right customers at the right time (Chapter 8), prevent customer attrition (Chapter 9), encourage multichannel shopping behavior (Chapter 10), maximize brand value (Chapter 11), and link acquisition and retention to profitability (Chapter 12). Chapter 13 introduces the concept of Customer Referral Value (CRV), which firms can use to measure the indirect impact (referrals, word-of-mouth) made by customers toward the firm's profit. Chapter 14 discusses potential organizational and implementation challenges when adopting a CLV-based approach, and Chapter 15 covers potential issues that need to be addressed to sustain profitable customer management.