



Concepts of Customer Value

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Overview

In the previous chapter, we discussed the concept of CRM and understood its role, evolution, and future. In this chapter, we explore what can be gained by strategically utilizing CRM and which pitfalls you should be aware of. At the heart of strategic CRM stands relationship marketing which has gained substantial traction also in light of the digital transformation. The goal of a company that employs relationship marketing is to sustain relationships with its customers by tailoring its offerings to the individual customer's needs. This approach stands in stark contrast to traditional mass-marketing and has become achievable and feasible due to the advances made in flexible manufacturing processes such as mass-customization, the shift to the internet with its possibilities regarding data collection, interaction with customers, high reach even for niche offerings, and individualized advertising, as well as progress made in analytical and predictive modelling. These opportunities associated with the ongoing digital transformation go hand in hand with threats of a rise in competitive pressure, especially online where barriers to entry are low and competition is truly global (EIU, 2007).

At the same time, consumers increasingly demand products and services that meet their

specific and individual needs as they have gotten used to being able to choose from a large variety of suppliers and an abundance of offerings (EIU, 2016). Consequently, marketers need to recognize that, today, relationships with individual customers are at the heart of decision-making and the foundation of competitive advantage. In this regard, there has been a visible shift from product-based marketing to customer-based marketing (EIU, 2016). Furthermore, in order to stay relevant, companies must be able to maximize the value they deliver to their customers while at the same time extracting enough value from customers to achieve positive ROIs (Kumar & Reinartz, 2016) – as indicated by the highlighted area in ■ Fig. 2.1. As we are showing in this chapter, strategically implemented CRM is a key component to meet this challenge.

The chapter is structured as follows: First, we elaborate on the importance of creating value *for* customers in order to derive value *from* them. Subsequently, we illustrate the underlying processes using the Satisfaction-Loyalty-Profit Chain (SPC). Finally, we dive deeper into the concept of value of customer relationships dissecting it into four core dimensions of value that companies can derive from their customers.

2.1 Value to the Customer

A company's very existence is based on the premise that it creates value for its customers – regardless of whether in terms of a good or a service, an end product or an input factor, and whether in a B2B or B2C setting. Only when it achieves to deliver value to customers, it is able to extract value from customers. Unsurprisingly, the majority of the most valuable companies in the world have a mission statement that mentions the creation of value for their customers and/or stakeholders (Kumar & Reinartz, 2016).

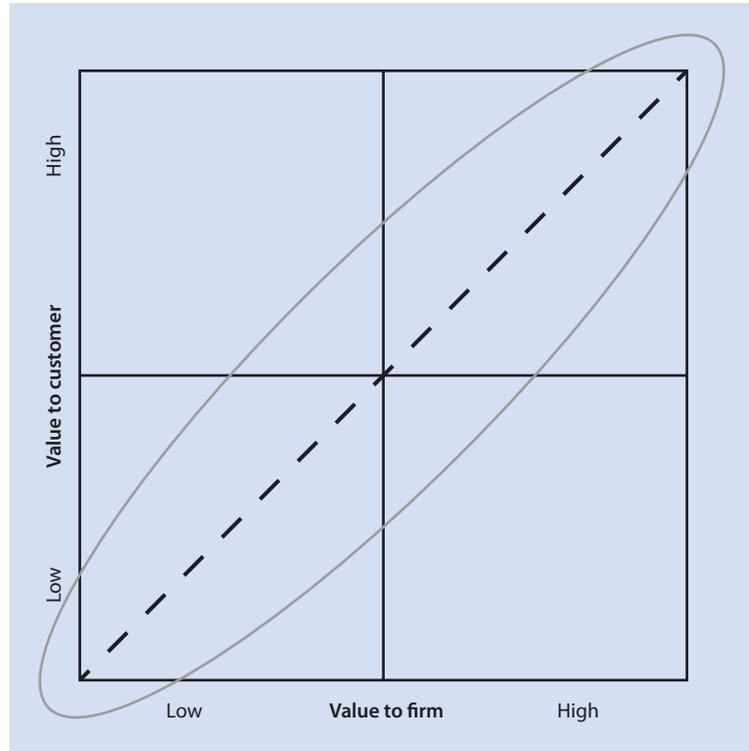
Consequently, creating and sustaining value for customers is at the heart of business in general and marketing and CRM specifically as they are the vehicles through which companies can deliver value to its customers.

But what is value from a customer's point of view? In classical economic theory, customers strive to maximize utility, i.e. they choose the product/service that delivers them the highest value. However, as common sense dictates, what constitutes the highest value for a customer is highly heterogeneous across as well as within individuals (Zeithaml, 1988). This means that the value of a cold beer might be perceived very differently by you vis-à-vis your spouse and even by yourself dependent on the time of the day, the location, the temperature, the number of beers you have already consumed, etc. Hence, when we talk about value to the customer at the end of the day we always talk about perceived customer value.

Perceived customer value, in turn, can be deconstructed into perceived benefits and perceived costs. Customers derive benefits from the

2.1 · Value to the Customer

■ Fig. 2.1 Alignment of value to the customer and value to the firm



different attributes of the offering and a company can influence the perception of benefits by altering the offering's attributes. Perceived costs do not only include the price of an offering but also other costs that are often neglected by researchers and practitioners such as different transaction costs, learning costs and risks (Kumar & Reinartz, 2016).

An offering can be dissected into a variety of attributes that are product- and service-specific. Of these, some can be assessed and compared objectively while others are of more subjective nature. For a camera, these might constitute zoom, the number of pixels, the size of sensor, weight, size, color. Customers rarely perceive these attributes individually but rather in composite, in this case, for example, image quality, compactness, and design. The resulting benefits or costs can be perceived directly or indirectly (e.g. high image quality from a good camera is a direct benefit while recognition from your peers for good photos constitutes an indirect benefit) and they may occur immediately or delayed (e.g. costs for memory cards or additional batteries for the camera) Gutman, 1982).

A key component of CRM and its application is its direct and two-sided interaction with customers through a variety of touchpoints. Hence, a core function and capability of CRM is its ability to influence a customer's perceived value of the company's offering. Let us take the example of a mobile service: In the physical store, the customer goes to the helpdesk to ask questions about her new device, which decreases her learning costs. At home, through the use of a self-service app, she tops up her credits, thus reducing transaction costs in the form of time if she had to go to a shop or call a hotline. Before going to Europe for holidays she calls customer care to ask for her tariff's roaming costs. The CRM agent on the other end of the line suggests her a special data package for Europe, effectively customizing the attributes of the company's offering to meet her personal needs, thereby increasing the customer's perception of benefits.

In summary, strategically employed CRM can improve customers' perception of an offering and meet the demand for solutions to customer-specific needs.

2.2 Value to the Company

In the previous chapter, we have described the importance for companies to deliver value to their customers. In the following chapters, we will explore what is in it for the company. ▶ Section 2.2.1 presents the Satisfaction-Loyalty-Profit chain (SPC) that explains why and under which circumstances delivering value to customers can, in the end, translate to value for the firm while ▶ Sect. 2.2.1 presents the Satisfaction-Loyalty-Profit chain (SPC).

2.2.1 From Value for Customers to Value from Customers: The Satisfaction-Loyalty-Profit Chain

The SPC is a key concept in the realm of customer management as it links CRM activities to profits (see Fig. 2.2). It has been popular since the early 1990s, when companies realized the importance of measuring and managing customer satisfaction (Heskett et al., 1994). The key underlying idea is that improving product and service attributes will lead to an improvement in customer satisfaction. Increased customer satisfaction, i.e. increased value for the customer is expected to lead to greater customer retention, which is often used as a proxy for customer loyalty, which then is expected to lead to greater profitability or value from the customer. Despite the almost self-evident nature of these positive links, the empirical evidence from a number of

years of research shows only mixed support (Zeithaml, 2000). Likewise, translating the conceptual framework into practical reality has been problematic for many firms. For example, a firm may have improved its performance on a key attribute, only to discover that the overall satisfaction score did not noticeably increase. At other times, changes in overall satisfaction scores have failed to show a demonstrable impact on customer retention (Ittner & Larcker, 2003). We believe, therefore, that it is critical to have a complete understanding of the entire SPC and its individual links in order to manage customers in an efficient manner. In the following, we disassemble the SPC and analyze its individual components one by one. Thereby, we show under which conditions CRM activities in fact lead to increased profits and which pitfalls to avoid. After considering the level of analysis, customer level vis-à-vis firm level, we analyze the shortcomings of drawing a direct link between customer satisfaction and profits. Subsequently, we discuss under which circumstances increased customer satisfaction may improve a firm's customer retention rate and how increased retention rates, in turn, may lead to higher profits.

The Level of Analysis

When employing the SPC concept, it is worthwhile to consider the level of analysis. Most of the empirical studies have looked at aggregate, *firm-level* results. For example, a series of studies (Anderson, Fornell, & Lehmann, 1994; Anderson, Fornell, & Rust, 1997) looked at how firm-level

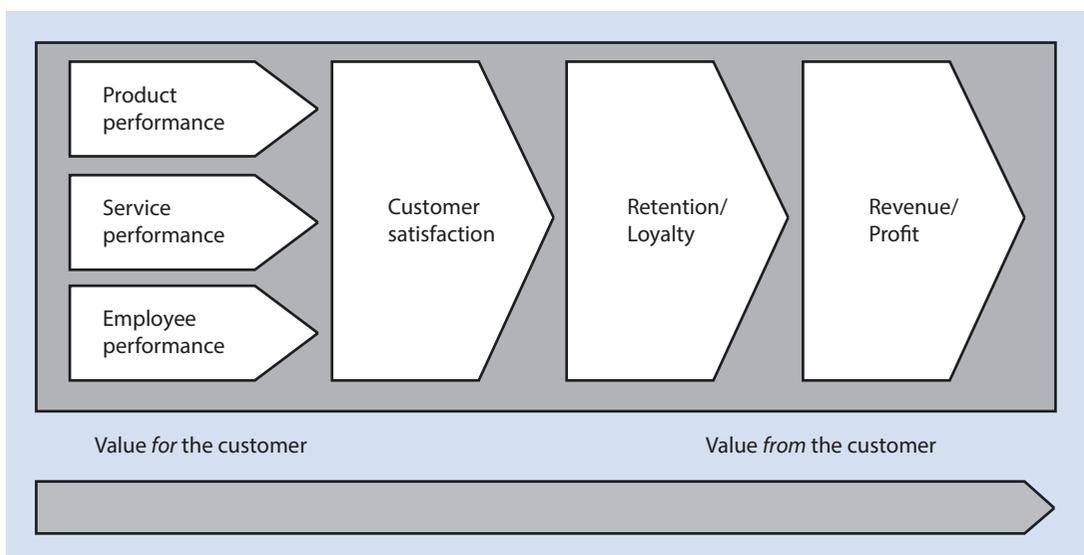


Fig. 2.2 The satisfaction-loyalty-profit chain (Source: Adapted from Anderson & Mittal, 2000, p. 107)

customer satisfaction indices are linked to firm-level performance.

The findings from this and similar studies indicate a positive association between the companywide satisfaction score and company's overall performance. However, in a world where resources are allocated on the individual customer level, the chain needs to be implemented at a *disaggregated level*. There is much less hard evidence of the nature of the SPC on the individual customer level. Although one would expect a correlation between firm-level and individual-level results, it is not clear how strong this correlation really is.

The Direct Link Between Customer Satisfaction and Profits

The direct link between customer satisfaction and profits suggests that as customers experience greater satisfaction with a firm's offering, profits rise. For example, a study by Edvardsson and colleagues (2000) found that the *stated sales satisfaction* of Volvo customers is significantly linked to *new car profitability* (e.g., through closing financing and insurance deals, Volvo card membership, and workshop loyalty). Many companies other than Volvo can attest to the benefit of SPC. For instance, Zappos Inc., an online shoe and apparel retailer has gone to great lengths to maintain its high level of customer satisfaction. The company's focus on customer service includes utmost customer satisfaction and, free return shipping in case of problems with the purchase. While excessive returns may eat into company profits, for Zappos this is an «acceptable risk» in return for increased profits through customer loyalty. This customer service selling point, in addition to special training for their customer service representatives, has propelled Zappos to its success.

But, what do we know, in general, about this direct link between satisfaction and profitability? Although early proponents of the SPC argued customer satisfaction always has a positive bottom-line impact, we have a much more complete picture today. It is interesting to note research on the direct relationship between satisfaction and profits has shown both positive effects in a limited number of studies (Ittner & Larcker, 1998), and no effects in other studies (Zeithaml, 2000). In other words, while there is empirical evidence to suggest that a variety of quality strategies failed to deliver anticipated business performance, there is also contrasting evidence that indicates a positive correlation between customer satisfaction and return on assets.

What is important to understand and explains some of the seemingly contradictory findings, is that it is simply not enough to link satisfaction and revenues. Improving customer satisfaction comes at a cost, and once the cost of enhancing satisfaction is factored in, it may well be that offering «excessive satisfaction» does not pay. This is because the marginal gains in satisfaction decrease, while the marginal expenses to achieve the growth in satisfaction increase. This falls in line with what is said about the vastly improved product quality offered by many firms today. As the general level of quality reaches high levels, it becomes more and more costly to improve satisfaction with a further rise in quality. For example, is an investment in another ride justified for an amusement park, given the expected incremental traffic? Although the additional ride is likely to increase customer satisfaction, the question is whether it generates enough additional revenues to offset the investment. In addition, increasing customer satisfaction leads, in many cases, to an adaptation of expectation levels; consumers quickly get used to a better service level without necessarily rewarding the firm with additional purchases. What this probably means is that there is an optimum satisfaction level for any firm, beyond which increasing satisfaction does not pay. To find such an optimum level, firms need to conduct longitudinal satisfaction studies to investigate changes in customer satisfaction *over time* and link them to improvements in their offering.

The Link Between Satisfaction and Retention

Given some of the difficulties associated with establishing unequivocal links between customer satisfaction and company performance, the 1990s witnessed many managers increasingly turning to customer retention as a long-term goal. By focusing on customer retention, managers moved closer to the ultimate dependent variable – profits. ■ Figure 2.3 shows a typical shape confirmed by a number of studies (even though there can be considerable departures from this shape). The data is typically derived at the firm level, not the customer level.

The data show the link between satisfaction and retention is asymmetric: Dissatisfaction has a greater impact on retention than satisfaction. A satisfied customer is influenced by many factors when making a purchase and has many options. Even if the level of satisfaction is high, retention is not guaranteed, as there may be another product

Fig. 2.3 Illustration of the satisfaction-retention link. Note: The dotted line represents a linear approximation of the nonlinear relation shown (Source: Anderson & Mittal, 2000, p. 114)



that would satisfy the customer to the same extent. Conversely, if the customer is dissatisfied, then the other product becomes more enticing. The link is nonlinear; the impact of satisfaction on retention is greater at the extremes. The flat part of the curve in the middle has also been called the zone of indifference (Jones & Sasser, 1995). As seen in the industry-level databases (such as the ACSI from the University of Michigan), a number of factors—including the aggressiveness of competition, degree of switching cost, and the level of perceived risk—influence the shape of the curve and the position of the elbows (the two points in the graph where there is a sharp change in the shape of the curve).

An example of the variable link between satisfaction and retention can be demonstrated.

Figure 2.4 shows the variability in the relationship across industries. In Figure 2.4, in the competitive automotive industry, very high levels of satisfaction are necessary for a customer to repurchase the same brand again. On the contrary, consumers may incur considerable switching costs when utilizing an airline. This cost might increase due to bonus-point build-up in frequent-flyer programs or limited airline choice at any given airport. Thus, consumers tend to re-patronize an airline even though satisfaction might only be moderate.

The same caveats that apply to the satisfaction-profit link also apply to the satisfaction-retention link. First, firms should thoroughly investigate the nature of the link for a specific industry, category, or segment. For example, two firms operating in two

different industries might have identical satisfaction levels, yet the relationship between customer satisfaction and retention might be quite different for the two firms. To assess the impact of satisfaction on retention in a better manner, firms must account for the attractiveness of alternatives in addition to what they offer. Another aspect to consider is that the link might change, depending on the measurement employed for the loyalty measured. For example, a study (Mital & Kamakura, 2001) found that repurchase behavior is a better measure than repurchase intent. Finally, we know comparatively less about the link on an individual customer level as compared to a company or industry level analyses.

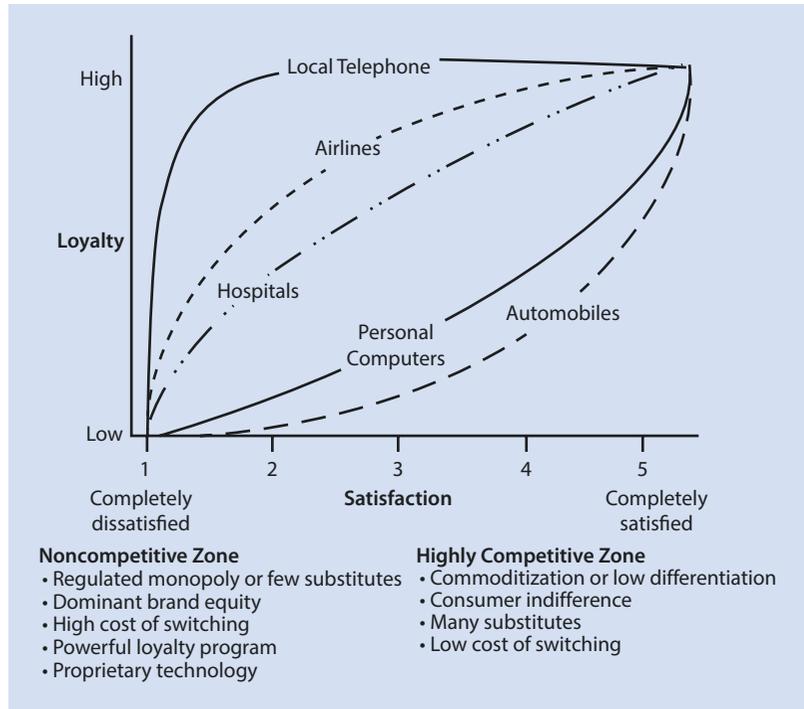
The Link Between Loyalty and Profits

Due to the complexity and specificity of the links, taking customer satisfaction as a proxy measure for customer loyalty or for customer profits is not a viable solution. Therefore, it is not surprising to see increasing interest in examining the direct link between customer retention and a firm's performance. The key proponent of looking at this link is Frederick F. Reichheld, who, in a series of writings, stresses the importance of managing customer retention (Reichheld, Markey, & Hopton, 2000).

Long-term customers supposedly do the following, according to the principal hypotheses of Reichheld:

- Spend more per period over time.
- Cost less to serve per period over time.

■ **Fig. 2.4** How the competitive environment affects the satisfaction-loyalty relationship. Note: Loyalty was measured as the customer's stated intent to repurchase (Source: Jones & Sasser, 1995, p. 5)



- Have greater propensity to generate word-of-mouth customers.
- Pay a premium price when compared to that paid by short-term customers.

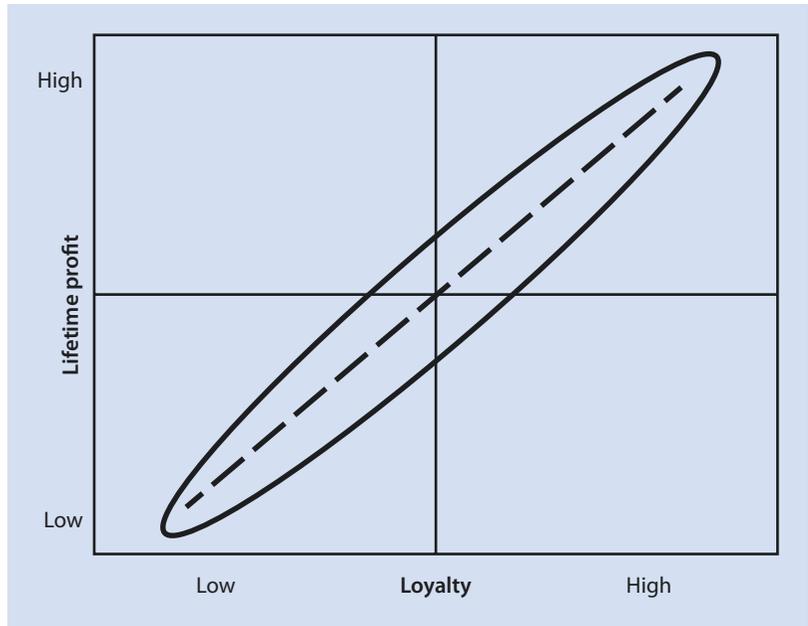
The underlying argument is that customers are acquired at a cost, which then gets recovered over time, thus becoming more and more profitable over time. Although this might hold true in a contractual relationship (e.g., magazine subscription, cable TV contract) it hardly holds true in a non-contractual relationship (such as shopping in a department store). In a noncontractual relationship, the revenue stream must be balanced by the cost of constantly sustaining the relationship and fending off competitive attacks. However, managing these constant investments in customer relationships can be quite tricky. Obviously, a high retention rate is very desirable, but increasing the marginal retention comes at an increasing cost. Blindly increasing retention spending will eventually lead to overspending. Clearly, efforts at increasing customer satisfaction and retention not only consume a firm's resources, but are subject to diminishing returns. In addition, be aware that Reichheld's propositions are derived from *asking managers about what they believe* the benefits of relation are. Since managerial opinions can be

biased and self-serving, it is important to consequently investigate actual customer behavior in order to investigate the true, more underlying, link.

Reinartz and Kumar have tested Reichheld's propositions by investigating the profitability of a sample of more than 16,000 individual customers across four industries (Reinartz & Kumar, 2002). Their results bring out a different picture. Essentially, the researchers found the relationship between customer retention and customer profits is not as strong as anticipated. Reinartz and Kumar demonstrate, for example, that, across different firms, there is a segment of customers who are loyal but not very profitable (due to excessive resource allocation), and a segment that generates very high profits although it has only a short tenure. Since these short-term customers can be very profitable, it is clear that loyalty is not the only path to profitability. As the following figure illustrates, the overall trend shows a direct correlation between loyalty and profitability. However, outliers on the graph who generate high profits while not having high loyalty will outperform those customers with a high level of loyalty but low profitability (see ■ Fig. 2.5).

The key implication of Reinartz and Kumar's finding is that caution must be exercised when equating customer retention with customer

■ Fig. 2.5 Lifetime duration-profitability association (Source: Reinartz & Kumar, 2000)



		<i>Percentage of customers</i>		<i>Percentage of customers</i>	
High profitability	Corporate service provider	20%	Corporate service provider	30%	
	Grocery retail	15%	Grocery retail	36%	
	Mail-order	19%	Mail-order	31%	
	Direct brokerage	18%	Direct brokerage	32%	
		<i>Percentage of customers</i>		<i>Percentage of customers</i>	
Low profitability	Corporate service provider	29%	Corporate service provider	21%	
	Grocery retail	34%	Grocery retail	15%	
	Mail-order	29%	Mail-order	21%	
	Direct brokerage	33%	Direct brokerage	17%	
		Short-term customers		Long-term customers	

■ Fig. 2.6 Association of profitability and longevity of customers (Source: Reinartz & Kumar, 2002, p. 86)

profitability. Firms ultimately have to make an effort to obtain information on individual or segment profitability (see ■ Fig. 2.6).

What Does It All Mean?

Although the SPC is conceptually sound, measuring and managing customer satisfaction is not enough. By not understanding the exact nature (e.g., strength, symmetry, and nonlinearity) of the

various links, many companies have seriously mis-allocated resources based on an incorrect understanding of the underlying mechanisms. The key conclusion from this section’s discussion is the importance of moving to the ultimate end of the SPC. Moving to the ultimate dependent variable, customer profits are ultimately required for making good marketing decisions. This does not mean that knowing the status of customer satisfaction or

customer loyalty is no longer important. However, it is important to assess the various links in the SPC in a correct manner. As we know today, these links are almost always nonlinear, asymmetric, and certainly segment- and industry-specific. As such, taking customer satisfaction or customer loyalty as a simple proxy measure for customer profits, is not sufficient, and we therefore need to make every effort to measure customer-level profitability. However, since firms cannot influence profits *per se* (but do so via product and service quality) the impact of customer satisfaction and customer loyalty as key mediators cannot be neglected.

Eventually, it is important for companies not only to have a loyal customer base but also to have an active or engaged customer base.

For sake of simplicity, we focused on customer profitability as the only outcome variable resulting from value for the customer, satisfaction, and loyalty so far. Companies can, however, profit from engaged customers in other more indirect ways, too. These different dimensions of values that companies can derive from their customers are examined in the following chapter.

2.2.2 Extending the Concept of Customer Value

The value that firms derive from their customers has traditionally been referred to as customer lifetime value (CLV) while the total value derived from its entire customer base is called customer equity (CE) (e.g. Gupta et al., 2006). Managing and increasing these two key performance indicators has always been a major area of responsibility of CRM. The basic idea of CLV is that value is not only calculated for a single purchase event or all past purchases but that the entire length of relationship between a customer and a company is estimated alongside the assumed cumulative value generated by the customer over that relationship lifetime discounted for time and costs incurred by sustaining the relationship. This perspective is hugely beneficial for managers as – and in contrast to other widely used metrics – it is not only backward but also forward looking. Researchers and practitioners have traditionally used CLV specifically for purchase incidents over the lifetime. However, engaged customers also provide other forms of value to companies that are more indirect and

harder to quantify. Therefore, Kumar et al. (2010) have established the concept of customer engagement value (CEV) which comprises four core dimensions of value from the customer to the firm. Each of these core dimensions is explained in the following:

Customer Lifetime Value (CLV)

CLV is defined as «the present value of future profits generated from a customer over his or her life of business with the firm» (Kumar et al., 2010, p. 299). Hence, it takes into account revenues as well as costs. More loyal customers can lead to higher CLV through a higher willingness to pay, a higher share of wallet, a longer relationship with the firm or cross- and up-selling. As discussed in the previous chapter, loyal customers usually – but not necessarily – exhibit a higher CLV. The importance of CLV for managerial decision making is supported through several studies. For example, Gupta, Lehmann, and Stuart (2004) confirm the positive link between CLV and firm value while Kumar and colleagues (2008) show that optimizing resource allocation based on CLV can increase revenues by a factor of 10.

Customer Influencer Value (CIV)

CIV is another form of value that is well established in research and management in the form of word of mouth (WOM). However, CIV goes beyond a positive or negative reference to a brand or offering. It also incorporates customers sharing information and knowledge, assisting and generally interacting with existing or potential customers. For the recipients, this can reduce costs in the form of learning costs, transaction costs and risk, and improve the perceived attributes of the offering. Overall, the utility the recipient derives from the offering can be maximized (Kumar et al., 2010).

Many businesses incorporate functionalities and platforms to facilitate this kind of interaction among users on their websites or e-shops. While brand community forums and reviewing elements have already become the norm, new approaches to leverage and increase CIV are constantly being developed. Amazon, for example, has incorporated a «Customer Questions & Answers» element on product pages that prominently features questions asked by potential buyers with answers from customers. It also grooms an active reviewing culture by maintaining a «hall of fame» for reviewers. Berlin-based fashion retailer

Zalando provides an aggregate measure of customers' evaluation of the fit of its footwear.

A key characteristic of CIV is that it stems from customers' intrinsic motivation and, therefore, is basically free for companies. The previous examples, however, show that a company can design systems that encourage and harness CIV to increase its offering's value. It should also be kept in mind that CIV can very well become zero when a customer does not engage in any of the described activities or even negative when a customer spreads negative WOM or misinformation (Kumar et al., 2010). In face of social media platforms and the associated increase in reach of customers' WOM, actively managing CIV is more important than ever before, further increasing the relevance of CRM.

Companies can profit from high CIV through increased conversion rates of prospects, continued usage and, hence, prolonged customer lifetime as well as increased revenues from up- and cross-selling and decreased costs through lower return rates. Measuring CIV has become easier since many of its activities have moved to the digital sphere. Automatically differentiating between a negative and positive comment about a brand or offering is reality today as is measuring its reach. However, the challenge is to capture all of a customer's influencer behavior as it can take place on variety of platforms, through numerous channels, and, of course, offline.

Customer Referral Value (CRV)

CRV is similar to CIV in some respects as it captures the value a customer generates from the referral of new customers. Instead of being intrinsically motivated as in the case of CIV, these referrals are the result of a program initiated and incentivized by the company. Hence, a customer's CRV is motivated extrinsically and, therefore, does not come for free. Nonetheless, CRV, in contrast to CIV, cannot become negative as rewards are only paid out for successful referrals and should not exceed the CEV of the new customer. CRV can reduce a company's acquisition costs and provide future revenues from its increased customer base (Kumar et al., 2010).

Customer Knowledge Value (CKV)

CKV is the value of the information that a customer provides a company with (contrary to information that a customer provides to other customers or prospects which constitutes CIV) (Kumar et al.,

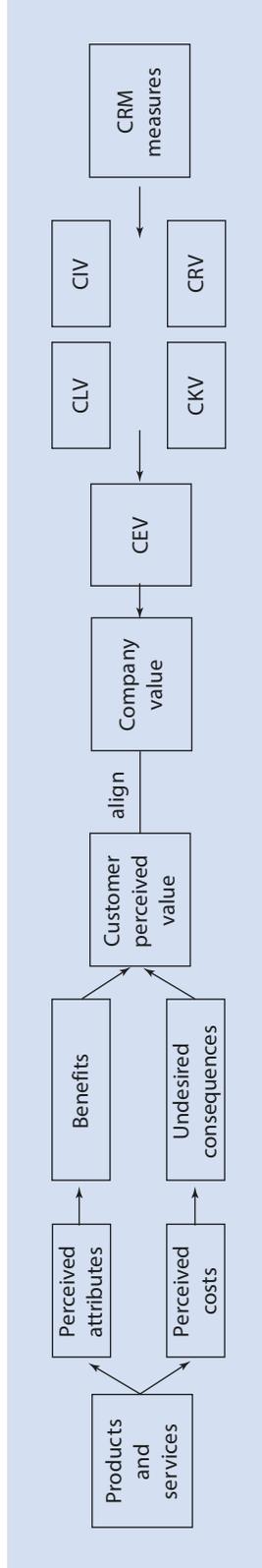
2010). Leveraging customers' knowledge has recently seen considerable traction fueled by customers' demand for personalized and innovative offerings. A prerequisite to meet this demand is information on customers' preferences. A company can extract this information by various means that go beyond traditional market and consumer research. A key source of critical information is customer feedback and complaints. This is not only found in company-owned communication channels but increasingly on online social media or retailer platforms as discussed earlier. Researchers have shown that online customer reviews can be used to automatically and reliably derive customers' perception of brands and product attributes (Lee & Bradlow, 2011) – information that otherwise would only be available through lengthy and costly market and consumer research.

Another method of leveraging customers' knowledge is to directly integrate them into the value creation process in the form of co-creation. Especially in the B2C context, we have seen many examples of this in the recent past such as the campaign by McDonald's that let customers design and vote on self-created burger recipes.

Customers can be integrated in two ways – as information providers or as co-developers. In the case of the McDonald's campaign, customers who voted on new burger creations can be classified as information providers while those who actually created new burger recipes constitute co-developers.

Co-creation has been facilitated greatly through the use of the internet. Companies can easily provide customers with the required tools to become a co-creator such as NikeiD, the online tool that lets customers personalize their Nike shoes. Also, customers can easily collaborate with each other and with the company through the use of online platforms and social media.

Companies that successfully leverage customer knowledge and, hence, increase CKV can reap benefits in the form of higher innovation success rates – which usually exhibit notoriously high failure rates of 40–75% (Stevens & Burley, 2003). But also the quality of existing offerings can be improved when customer knowledge is implemented adequately. While programs that promote and leverage customer knowledge are associated with investments, companies can save costs in the long run, e.g. due to more efficient processes, fewer complaints, and lower spending on retention programs.



■ Fig. 2.7 The facets of value in CRM

Summary

As we have shown in this chapter, delivering value to customers is key for companies to stay relevant in an increasingly competitive market environment with increasingly demanding customers. While a customer's value perception of an offering is a consequence of the offering's attributes, some findings need to be kept in mind:

- As stated before, the perception of benefits and costs and, hence, the perceived value is heterogeneous and volatile – across and within individuals.
- Attributes are not perceived individually but customers will form a composite perception of the attributes offered. The whole is different from the sum of its parts.
- Attributes may be objective or perceived and their effect on value perception may be direct or indirect and may be immediate or delayed.

Companies, however, also need to generate revenues. Therefore, it is essential that they do not only deliver value to customers but also derive value from them. Strategic CRM plays a key role in successfully managing this balancing act as its proper application can reconcile both ends as shown in ■ Fig. 2.7.

By using a customer-value based approach to CRM marketers are able to generate more

profit for the company and increase the satisfaction of their customers in the long run. This leads to the satisfaction-profit chain. The key conclusion from the satisfaction profit chain discussion is the importance of shifting the focus towards measuring profitability on a customer level in order to make sensible, long-term oriented marketing decisions. This does not mean that knowing the status of customer satisfaction or customer loyalty is no longer important. However, it is important to assess the various links in the SPC in a correct manner. As we know today, these links are almost always nonlinear, asymmetric, and certainly segment- and industry-specific. As such, taking customer satisfaction or customer loyalty as a simple proxy measure for customer profits is not sufficient, and we therefore need to make every effort to measure customer-level profitability. However, since firms cannot influence profits per se, but do so via product and service quality, the impact of customer satisfaction and customer loyalty as key mediators cannot be neglected. Lastly, managers must also bear in mind that the value individual customers can provide may go beyond immediate one-off monetary transactions. Over their lifetime as a customer, they can e.g. influence peers, share knowledge, or supply referrals, thus, creating additional revenues or lowering costs for companies.

? International Perspectives: Did You Know?

1. While quality and price still dominate customers' perception of the value of an offering, other factors are entering the equation. A study by The Regeneration Roadmap shows that the environmental and social aspects of an offering are increasingly important attributes for customers. This is especially prevalent in developing markets where 51% of the customers state that they purchase products because they benefit the environment or society (The Regeneration Roadmap, 2012). Consequently, what constitutes value to the customer is subject to change which managers need to be aware of when formulating a value proposition.
2. Many firms have integrated customers in their product development process leveraging customer knowledge value. One example is the Danish toy manufacturer Lego: Lego enthusiast can submit their own creations online and if it gathers at least 10,000 votes by other users, it is reviewed by Lego. If it passes that stage, the creation is brought to market and the creator receives royalties from the sales (Lego, 2017).

? Exercise Questions

1. How do you define CRM?
2. How are CRM activities similar/different from marketing activities? Please discuss.
3. What makes CRM the preferred approach to marketing in the Information Age?
4. What is value from the customer's point of view? What should managers be aware of?
5. Explain what we have learned in the last few years about the SPC.
6. Which dimensions of value from the customer can be distinguished and how do they differ from one another?
7. Which kind of CRM measures that foster or leverage dimensions of value from the customer have you encountered?
8. Illustrate situations where you think companies are following CRM practices. Point out where they are going wrong.
9. Companies want relationships with customers, but do customers want relationships with companies? Please discuss.

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