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, and why is it important to marketers?
• How can companies cultivate strong customer relationships?
• What is the role of database marketing in customer relationship management?

Building Customer Value and Satisfaction
• Customer perceived value (CPV)—the difference between the prospective customer’s evaluation of all the benefits and all the costs of an offering and the perceived alternatives.
Determination of Customer Delivered Value

- Image value
- Personnel value
- Services value
- Product value
- Monetary cost
- Time cost
- Energy cost
- Psychic cost

Total customer value

Customer delivered value

Loyalty

- A deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behavior.

Satisfaction

- A person's feelings of pleasure or disappointment that result from comparing a product's perceived performance (or outcome) to expectations.

Product and Service Quality

- Quality (or grade) is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs.
- Forms
  - Conformance quality
  - Performance quality
**Marketers’ Roles in Delivering Quality**

- Correctly identifying customers' needs and requirements
- Communicate customer expectations properly to product designers
- Be sure orders are filled correctly and on time
- Provide customers with proper instructions, training, and technical assistance
- Stay in touch with customers after the sale
- Gather customer ideas for improvements and convey them to the appropriate departments

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**Customer Profitability**

- A profitable customer is one that over time yields a revenue stream that exceeds by an acceptable amount the company's cost stream for attracting, selling, and servicing that customer.

**Customer Profitability Analysis (CPA)**

- Best conducted with an accounting technique called Activity-Based Costing (ABC).
- Estimate all revenue coming from the customer, less all costs that go into serving that customer.

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**Customer Lifetime Value (CLV)**

- Describes the net present value of the stream of future profits expected over the customer's lifetime purchases. *(See Table 4.1 & 4.2, page 66)*

**Cultivating Customer Relationships**

- Customer relationship management (CRM) is the process of carefully managing detailed information about individual customers and all customer “touch points” to maximize customer loyalty.
- Touch point—an occasion on which a customer encounters the brand and product.
CRM Steps
1. Identify your prospects and customers
2. Differentiate customers in terms of their needs and their value to your company
3. Interact with individual customers
4. Customize products, services, and messages to each customer

Customer Development Process

Building Loyalty
- Interact with customers
- Develop loyalty programs
  - Frequency programs
  - Club membership programs
- Personalize marketing
- Create institutional ties
Customer Database and Database Marketing

- **Customer database**—an organized collection of comprehensive information about individual customers or prospects that is current, accessible, and actionable for marketing purposes.
- **Database marketing**—the process of building, maintaining, and using customer databases and other databases to make contact, facilitate transactions, and build customer relationships.

Data Warehouse and Datamining

- **Data warehouse**—organized data where marketers can capture, query, and analyze it to draw inferences about an individual customer’s needs and responses.
- **Datamining**—statisticians extract useful information about individuals, trends, and segments from the mass of data.

Database Uses

- Identify the best prospects
- Match a specific offer with a specific customer as a way to sell, cross-sell, and up-sell
- Deepen customer loyalty by remembering preferences and offering relevant incentives and information
- Reactivate customer purchasing
- Avoid serious mistakes
Downside of Database Marketing and CRM

- Large investment
- Difficulty in getting everyone to be customer oriented
- Not all customers want an ongoing relationship
- Assumptions behind CRM may not always hold true

Breakthrough Marketing: Tesco

- Customers receive different offers
- Increased sales to $85 billion!