

## DIFFERENTIATED CUSTOMERS' LOYALTY DEVELOPMENT IN RELATION TO DIFFERENT CUSTOMER LIFETIME VALUES

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*This paper shows that it is not effective to increase the total market share at present, but it is more effective to pay attention to increasing the share at key customers (wallet share). Building a differentiated customer relationship management and a customers' loyalty according to different customer lifetime value (CLTV) is a must. This paper presents the results of a qualitative marketing research by means of the method of individual interviews with SBU managers, marketing managers and sales managers in the Czech industrial firms operating on B-to-B markets. This research was focused on the benefits of customers' loyalty development and on mapping the customers' loyalty development instruments available for building long-term relationships with key customers in the contemporary turbulent market environment.*

### Introduction

It has been a long time since the markets got gradually saturated, the firms were dividing the

market place and building their positions for a stumbled war which was necessary to break at the moment when the market place has been

divided. The main objective of marketing effort was to maximise the new customers' acquisition and to get the biggest possible market share. The companies were gradually entering the environment where no unattended customers remained. The mass, untargeted marketing gradually stopped functioning and the company acquisition costs started to grow up. The companies had to search after possibilities for increasing revenues and profit. There are two methods of doing so: to win the customers from competition or to try to increase the revenues from the company's present customers.

It is evident that the effort to acquire new customers on a mature market (i.e. to lure them away from competitors) is mostly joined with overgrowing acquisition costs and with a growth of necessary incentives for customers, including price lowering. It provokes price wars where there are mostly no winners [7].

The second possibility is to increase the profits by the growth of share on expenses of present customers, i.e. to increase a "wallet share" at these customers [9]. The purpose is to transfer the effort of acquiring the largest possible number of customers with a typical "market share" indicator to focusing on 1-to-1 marketing, combined with an intention to maximise the share on expenditures of each perspective customer.

It is required to develop an aiming work system with these customers. Its object is to create an intense emotional, often even personal relationship between "valuable" customers and their business partners, based on customers' satisfaction, positive experiences and also their reliance upon suppliers' future good reputation. Such customers grow loyal. Customers' loyalty, in a current sense of the word, brings not only a possibility of firms' benefits

risers issuing from mutual co-operation expansion, but it also results in a lot of other profits determining significantly the profitability of a firm.

### **Customer lifetime value as a basis for customers' loyalty development**

Nowadays the companies mostly evaluate attractiveness of target markets according to present customer value for a company, i.e. according to a single customer's current profitability, e.g., for a period of a last year, however, it is very short-sighted. What is more, dividing customers only according to their current value gives just a limited answer to the question of how to work with different customers. It is important to consider the customers' profitability during the whole period of co-operation with them and to work with the so-called "customer lifetime value" (CLTV) [5], which is determined by the customer's profitability for the whole period of his/her relationship with the company. The CLTV value is given by a net present profit value for the whole life-cycle of co-operation with a customer.

The profit a customer has brought to a company this year is not important, however, what matters is the following: it is the acquisition costs the company has outlayed on the customer, the profit brought by the customer to the company in the last years, the dynamics of the customer's profitability, the development of the company's share on the customer's expenses (wallet share), the estimated period the customer will stay with the company, the potential profit the company can expect to gain from the customer in the future. The current customer's profitability does not consider the aspect of the company's past co-operation with the customer from the point of view of profit

or cash flow and what it will bring in the future. The CLTV concept works with the whole life cycle of this relationship and evaluates an asset of the customer for the company on the basis of the net present profit value during the whole life-cycle of mutual co-operation. From the company's point of view, it is crucial to work with customers as if they were the company's long-time assets and to regard the marketing costs as if they were company's investments.

Customer value rises in the course of time. A new customer is mostly not profitable, because in most branches the acquisition costs are today rather extensive. A credit building and a closer customers' relationships promotion ask for high investments and concentrated effort, especially in the first stage of co-operation. Therefore mutual co-operation prospects must already be considered at the customers' acquisition. It does not make sense to go all out and invest to an acquisition and keeping of the non-perspective customers. Potentially "valuable" customers deserve a special care and investments to the quality co-operation building by right of merit, because the relationship between

a customer and a supplier turns more intensive only in this case (cf. Picture 1).

Nowadays the loyal customers are not only expected to do repeated purchases. It is necessary to build the loyalty in the modern sense so that the firm can turn all set of benefits to account after some time. In our opinion, it is possible to divide these benefits according to their influence on the revenues increase or the costs reduction of a supplier ([4], [11]) – modified and completed on the basis of the results of our personal qualitative investigation in industrial companies):

1. *Customers' loyalty benefits influencing the supplier's revenues increase*

- Loyal customers extend their business relationships – revenues of the firm increase thanks to repeated purchases of a customer and extend mutual co-operation.
- Loyal customers are ready to pay more for products only on account of good services, good experience and personal relationships, they are less price-sensitive.

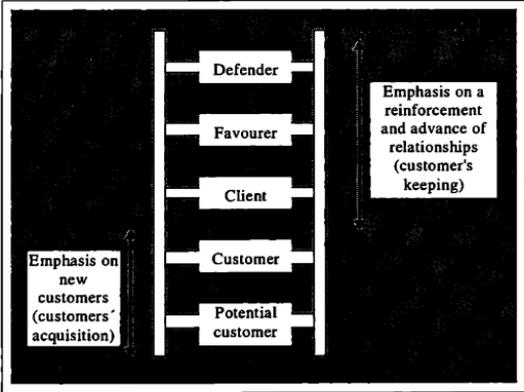


Fig. 1. Customers' loyalty chart [8]

## 2. *Customers' loyalty benefits influencing the supplier's costs reduction*

- Loyal customers are a source of positive references the image and goodwill of the firm improve and at the same time the new customers' acquisition is cheaper and simpler.
- Loyal customers are not a source of negative references – the firm need not repeatedly build its goodwill.
- The service of loyal customers is easier and cheaper – thanks to mutual understanding and good relationships it is possible to meet the requirements and problems of customers more easily and quickly and to reduce inefficient activity, too.
- Loyal customers bring information about market and competitors – the firm obtains credible and topical market information without complicated and expensive investigations; what is more, this information is often inaccessible in a standard way.
- Loyal customers make it possible to keep a standard level of production – the firm needn't often change its production program, it can improve planning, production regulation, etc.
- Loyal customers co-operate with a supplier – loyal customers can undertake certain services which are usually provided to new customers (e.g., certain tests) or they can come up with their experience, e.g., in the research and development of new products.
- Loyal customers favourably influence the fluctuation and morale of the personnel in the firm, thus they reduce the firm's personnel costs – strong, es-

tablished, reliable and regular customers create a favourable atmosphere of assurance and stability in the firm and thus positively influence the performance and fluctuation of the personnel.

It can be claimed that the above mentioned benefits make the new customer's acquisition even ten times more expensive than keeping the regular customers. It is evident that these benefits are not equally available from each customer. A competitive company must be alive not only to the current customer value (that is what the company could forfeit if the customer was lost now), but it must anticipate the future, too. It is necessary to differentiate the access to customers on the basis of both current and especially future expected benefits, and the investment to a long-time co-operation must also be accordingly allocated.

### **Differentiated customer relationship management on the CLTV basis**

While deciding on the customer care system it is necessary to divide the customers not only according to the level of their current customer value but particularly according to CLTV. In this way we can distinguish four segments of customers: the first – most valuable customers of a high current customer value and high CLTV, the second – customers of a high potential growth performing at a lower current customer value, however, a high CLTV (they represent a true challenge for marketing), the third – customers of a positive current value (which is necessary to be exploited), however, of a lower CLTV, and the fourth segment – customers of a very low current customer value and a very low CLTV, who could be transferred to competitors, as they generate only a very low profit, sometimes even a loss for the company.

It is evident that the customers with whom the company gains a high “wallet share” now – a group of the most valuable customers (1<sup>st</sup> segment) – do not represent a high potential for growth, because they cannot spend with the company more for the products any longer. The company should care for these customers as much as possible and try hard to keep them as long as possible. They represent a stable profit flow of the company. If the company

tomers, they are important for the company. And their importance will increase, as it is evident from comparing their current value and CLTV.

The customers of the last segment bring about a very low profit or loss at the present time, and this holds true for the whole period of co-operation with these customers. Therefore the company should pay minimal attention to them or could let them go to competi-

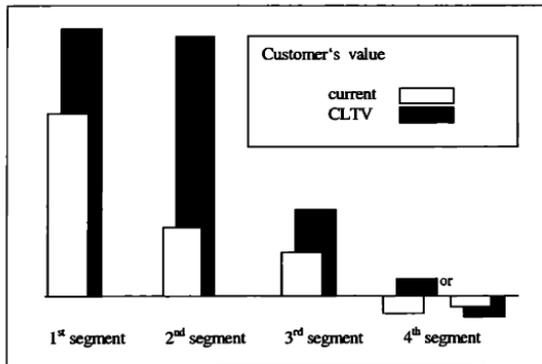


Fig. 2. Market segmentation according to customers' value [9]

loses them in considerable proportion, it would essentially influence its profitability. The loss of one of these customers is equal to the loss of several less valuable customers. The company would have to compensate the loss by acquisition of a multiplied larger number of other customers and the question is if it is possible and effective at all.

Customers in the second and third value segments (customers of the highest potential growth) are the greatest challenge for the company. As early as today these customers generate significant profits to the company. Though these profits do not reach the value of profits coming from the first segment of cus-

toms. This arrangement could lead to a significant increase of the company's profits.

Each of these customer segments calls for a specific arrangement of all marketing mix components. If the company's resources are limited, it should use them effectively according to different CLTV and allocate them adequately during the process of marketing mix planning.

A firm focused on developing permanent and stable relationships with its customers can use all the spectrum of customers' loyalty maintenance instruments for this purpose. Of course, these instruments require certain investments and so it is necessary to utilise and

diversify them individually according to the particular customer's CLTV. A competitive company must bear in mind that a mutual relationship with a customer should be as much profitable as possible for both parties in a long-term horizon. Therefore the company must always use only the instruments that are able to increase the customer's loyalty, but at the same time the total investment costs must not be higher than the benefits resulting from a customer's loyalty expansion. In the course of a target market service customers of a high CLTV are evidently the priority. Only when the customers and segments perform at a high CLTV, it makes sense to offer each of these customers a unique, singular product or service or rather to create in their mind the feeling that a particular supply is tailor-made for them. The customers' loyalty maintenance instruments were specified according to both literature [2], [3], [4], [11] and an investigation carried out this year at our department. In our opinion, these instruments can be divided according to the way they are perceived by customers as benefits or as cost savings:

**1. Instruments increasing the supply value perceived by a customer**

- Assurance of continuous personal communication with regular customers. It contributes to the intensification of reliable relationships and possibly to identification of the latent problems of regular customers and their solution "tailor-made" to a particular customer.
- Assurance and ensuring of a stable and constant quality of products and services – positive experience, certification, testing, reliable and skilled staff, etc.
- Immediate, constructive and effective response to a claim or dissatisfaction

tion or other problems of a loyal customer demonstrated in another way [1].

- Possibility of concluding a long-term contract – an assurance of a responsive, prompt and sometimes also preferential reaction to the demand of a regular customer.
  - The offer and development of new, higher quality products and services satisfying individual requirements of regular customers in a better and adjusted way.
  - Possibility of a long-term co-operation and consultancy of research and development, technology tuning, etc.
  - Possibility of a more confidential and accurate information acquisition from the supplier.
  - Offering special services for regular customers, such as training, special packaging, reservation of a consignment stock, offer of complementary products or services, etc.
  - Events for regular customers, such as company days, meetings, etc.
  - Small presents for regular customers such as calendars, bags, pencils, etc.
- 2. Instruments influencing the total consumer price perceived by a customer**
- Provision of quantity and loyalty discount.
  - Purchasing financial concessions for regular customers (accommodating terms of payment, longer payment deadlines, etc).
  - Easier, simpler and prompter communication as well as availability of services and products for regular customers. We can support this by dint of technology, information and commerce interconnection.

- Other customer's cost saving. A customer does not have to be occupied with searching for and testing of new products and suppliers, he/she is accustomed to supplier's dealings and knows what he/she can expect, he/she needn't solve many problems because the supplier solves them for him/her (e.g., returnable containers), etc.
- Sanctions for a long-term contract repudiation and long-term notice periods, i.e. a regular customer is not sanctioned. This instrument, to a certain extent "forced" customer keeping, matters for loyalty support in an up-to-date sense of the word only provided the disabling of a customer immediate leaving provides to the firm sufficient time to troubleshooting and regaining customer's confidence, i.e. persuading him/her about the convenience of the persistence with the supplier. Otherwise we can understand it only as a means of costs compensation originated in consequence of contract repudiation, not as an instrument of loyalty building.

As the recent results of our research prove, it is not advisable to build the customers' loyalty on single special benefits for customers but rather on the whole set of extraordinary benefits, which brings the customer the highest possible customer added value. It calls for creating an integrated competitive advantage on the target markets [6]. This is the only way to reinforce the long-term relationship with a customer, leading to a growth of his/her CLTV. It is true that at selecting from the offer the customers rely upon the so-called "top of

mind" [12], i.e. the brands most deeply anchored in their minds.

The customer's positive emotions, knowledge about the customer and the relationship with him/her are built for a very long time and therefore it is rather difficult to copy and imitate them by competitors.

## Conclusion

The ability of a company to deal actively with the information about customers and to reform it into the customers' added value (according to the strategic importance of a customer for the company) leads to a higher effectiveness in market operations. It issues from a long relationship and great satisfaction of customer's needs and desires, which increases the volume of individually attended customers' purchases, decreases the customers' price sensitivity and makes for a number of other benefits which result from a mutual long-term co-operation. It is necessary to adapt all marketing processes (and not only these) to an intensification of relationships with perspective customers and to use all the available and competent instruments of loyalty support. Of course, the company must have at its command right people and technologies. This process could be part of strategic restructuring [10]. Therefore it is evident that success in the current hypercompetitive market can be made only when a firm really perceives marketing as a business philosophy, not only as a managerial function, and it entails the necessity to manage companies by means of processing management with different intensity and nature of market care according to the CLTV of individual customers.

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## TIKSLINIŲ VARTOTOJŲ LOJALUMO PLĖTRA SKIRTINGŲ AMŽIAUS GRUPIŲ VARTOTOJŲ VERTYBIŲ SISTEMOJE

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### Santrauka

Štraipsnyje parodoma, kad bendros rinkos dalies padidinimas iš karto nėra efektyvus, tačiau gerokai efektyviau veikia strategija, kai dėmesys skiriamas pagrindiniams, tiksliniams klientams. Tdėl svarbiausia plėtoti tikslinių vartotojų tarpusavio santykius ir vartotojų lojalumą pagal atskirų amžiaus grupių vartotojų vėrių sistemas.

Šiame straipsnyje pateikiami kokybinio marketin-

go tyrimo rezultatai, gauti apklausus Čekijos gamybos įmonių, veikiančių verslas-verslui rinkoje, vadovus, marketingo ir pardavimų vadybininkus. Šio tyrimo metu daugiausia dėmesio buvo skiriama nustatyti vartotojų lojalumo plėtros teikiamą naudą ir vartotojų lojalumo plėtros instrumentus, tinkamus ilgalaikius santykius su nuolatiniais vartotojais šiuolaikinėmis besikeičiančios rinkos sąlygomis.

*Įteikta 2004 m. birželio mėn.*