

MARKETING MANAGEMENT

12th edition

5

**Creating
Customer Value,
Satisfaction, and
Loyalty**

Kotler

Keller



Chapter Questions

- What are customer value, satisfaction, and loyalty, and how can companies deliver them?
- What is the lifetime value of customers?
- How can companies both attract and retain customers?
- How can companies deliver total quality?
- What is database marketing?



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.



The Value Proposition

The whole cluster
of benefits the
company promises
to deliver



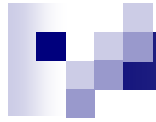
Measuring Satisfaction

- Periodic surveys
- Customer loss rate
- Mystery shoppers
- Monitor competitive performance



Product and Service Quality

Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs.



Quality

- Conformance
- Performance



Total Quality Management

TQM is an organization-wide approach to continuously improving the quality of all the organization's processes, products, and services.



Maximizing Customer Lifetime Value

- Customer profitability
- Customer equity
- Lifetime value



Estimating Lifetime Value

- Annual customer revenue: \$500
- Average number of loyal years: 20
- Company profit margin: 10
- Customer lifetime value: \$1000



Drivers of Customer Equity

- Value equity
- Brand equity
- Relationship equity



Framework for CRM

- Identify prospects and customers
- Differentiate customers by needs and value to company
- Interact to improve knowledge
- Customize for each customer



CRM Strategies

- Reduce rate of defection
- Increase longevity
- Enhance share of wallet
- Terminate low-profit customers
- Focus more effort on high-profit customers



Table 5.1

Mass vs. One-to-One Marketing

Mass

- Average customer
- Customer anonymity
- Standard product
- Mass production
- Mass distribution
- Mass advertising
- One-way message
- Economies of scale

One-to-One

- Individual customer
- Customer profile
- Customized market offering
- Customized production
- Economies of scope
- Share of customer



Customer Retention

- Acquisition of customers can cost 5 times more than retaining current customers.
- The average customer loses 10% of its customers each year.
- A 5% reduction to the customer defection rate can increase profits by 25% to 85%.
- The customer profit rate increases over the life of a retained customer.



Describing Market Dynamics

- Permanent capture markets
- Simple retention markets
- Customer migration markets



Building Loyalty

- Basic
- Reactive
- Accountable
- Proactive
- Partnership



Reducing Customer Defection

- Define and measure retention rate
- Distinguish causes of customer attrition
- Estimate profit loss associated with loss of customers
- Assess cost to reduce defection rate
- Gather customer feedback



Forming Strong Customer Bonds

- Add financial benefits
- Add social benefits
- Add structural ties



Database Key Concepts

- Customer database
- Database marketing
- Mailing list
- Business database
- Data warehouse
- Data mining



Using the Database

- To identify prospects
- To target offers
- To deepen loyalty
- To reactivate customers
- To avoid mistakes