[Mobile book] Driving Customer Equity: How Customer Lifetime Value Is Reshaping Corporate Strategy

Driving Customer Equity: How Customer Lifetime Value Is Reshaping Corporate Strategy

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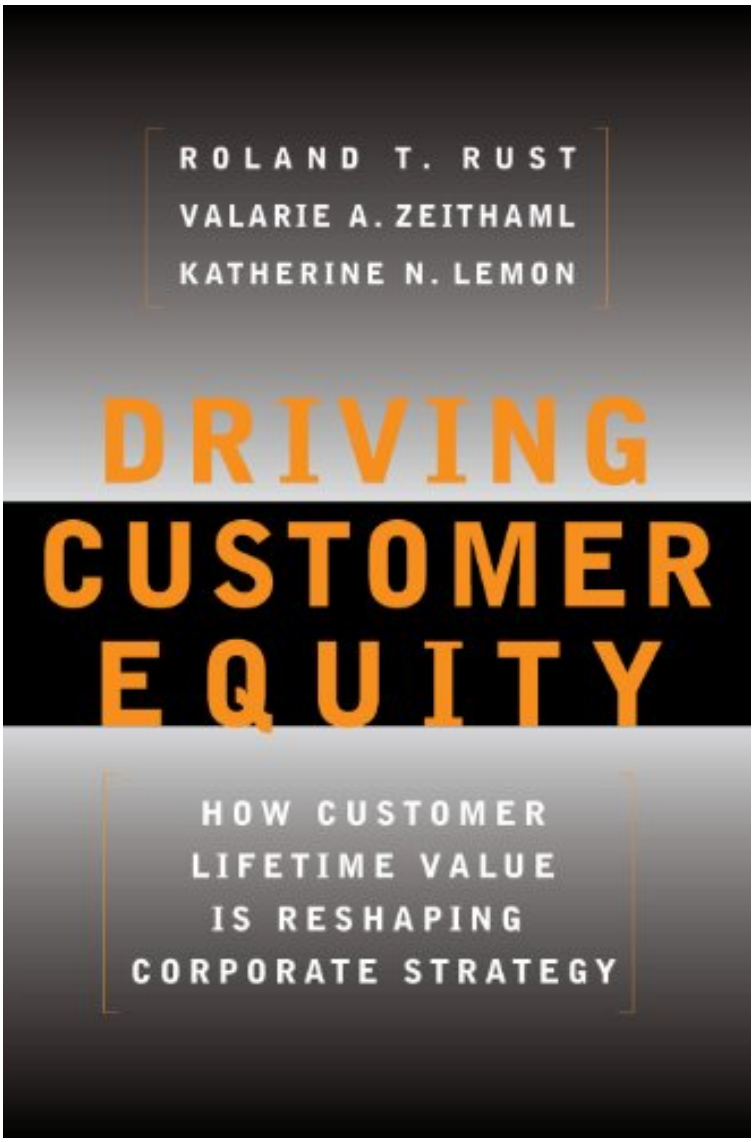

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Valarie A. Zeithaml, Katherine N Lemon, Roland T Rust : Driving Customer Equity: How Customer Lifetime Value Is Reshaping Corporate Strategy before purchasing it in order to gage whether or not it would be worth my time, and all praised Driving Customer Equity: How Customer Lifetime Value Is Reshaping Corporate Strategy:

0 of 0 people found the following review helpful. Beware...electronic version is missing figures and chartsBy CustomerExtremely disappointed by the electronic version of this book for one simple reason: none of the figures or charts from the print version have been included. This oversight seriously detracts from the overall reading experience.

To make matters worse, other e-books don't seem to suffer from this issue.12 of 12 people found the following review helpful. Customer Equity: Moves the reader fom consepts to numbersBy Tor W. AndreassenI approached this book as a heavy consumer of marketing literature in general and customer lifetime value literature specifically. Based on previous readings my expectations were low. However, the book's basic messages pertaining to customers not products, services not products, identifying the three drivers of customer equity and finally, how to estimate the numbers fascinated me. Through Customer Equity the reader can learn about some of the fundamentals behind what drives a company's profitability. CEOs are not concerned about the 4P's of marketing. Their focus is on the overall recourses allocation in order to secure future revenue from current and future customers. This book recognizes this and provides the reader with a roadmap to the allocation of the marketing budget among three main drivers of customer equity, i.e. brand equity, value equity or retention equity. Customer Equity provides the reader with sophisticated tools to estimate the financial consequences of the alternatives before they are executed. The ability to estimate the impact of improvement in any of the three areas on customer equity, will in my mind regain marketers access to the CEO -an access they lost to finance and strategy in the 1980s. In an era influenced by customer relationship management thinking, Customer Equity is a must reader for enlightened managers.0 of 0 people found the following review helpful. book for my MBABy nelhewI ordered that for one of my MBA courses, and was very helpful. I bought a Used - Like New book, and was perfect

In their efforts to become more customer-focused, companies everywhere find themselves entangled in outmoded systems, metrics, and strategies rooted in their product-centered view of the world. Now, to ease this shift to a customer focus, marketing strategy experts Roland T. Rust, Valarie A. Zeithaml, and Katherine N. Lemon have created a dynamic new model they call "Customer Equity," a strategic framework designed to maximize every firm's most important asset, the total lifetime value of its customer base. The authors' Customer Equity Framework yields powerful insights that will help any business increase the value of its customer base. Rust, Zeithaml, and Lemon introduce the three drivers of customer equity -- Value Equity, Brand Equity, and Retention Equity -- and explain in clear, nontechnical language how managers can base their strategies on one or a combination of these drivers. The authors demonstrate in this breakthrough book how managers can build and employ competitive metrics that reveal their company's Customer Equity relative to their competitors. Based on these metrics, they show how managers can determine which drivers are most important in their industry, how they can make efficient strategic trade-offs between expenditures on these drivers, and how to project a financial return from these expenditures. The final section devotes two chapters to the Customer Pyramid, an approach that segments customers based on their long-term profitability, and an especially important chapter examines the Internet as the ultimate Customer Equity tool. Here the authors show how companies such as Intuit.com, Schwab.com, and Priceline.com have used more than one or all three drivers to increase Customer Equity. In this age of one-to-one marketing, understanding how to drive Customer Equity is central to the success of any firm. In particular, Driving Customer Equity will be essential reading for any marketing manager and, for that matter, any manager concerned with growing the value of the firm's customer base.

Don Peppers and Martha Rogers Partners, Peppers and Rogers Group Read this book before your competitors do. It will help you get a handle on customer value and loyalty as must-know metrics in the new economy.About the AuthorRoland T. Rust is the Madison S. Wigginton Professor of Management and Director of the Center for Service Marketing at the Owen Graduate School of Management of Vanderbilt University.Excerpt. copy; Reprinted by permission. All rights reserved.Chapter One: Beyond Brand EquityThe business world is increasingly organizing itself around customers rather than products. This is an inevitable reaction to a series of historical trends. Customer focus requires a new approach: managing according to Customer Equity (the value of a firm's customers), rather than Brand Equity (the value of a firm's brands), and focusing on customer profitability instead of product profitability. In fact, as we will see in Chapter 2, a slavish devotion to product profitability can be hazardous to a company's health.From Brand Equity to Customer EquityOur Argentinian friend Marcos was involved with launching a popular American consumer products brand in Argentina. The brand was already a top brand in the United States, Europe, and most of the world. It was number one in the market in terms of market share, although its quality was only equivalent to that of its competition, and its price was similar to most competing brands and greater than that of the discount brands. The brand was known worldwide, even in countries in which the brand was not available. By any measure this brand had outstanding Brand Equity. Everyone expected that such a powerful brand would quickly assume a dominant market position in Argentina, and subsequently in the rest of Latin America.What actually happened came as a complete shock. When the brand was rolled out, it failed to gain much of a foothold. Its market share remained anemic, and the local brands continued their market superiority, in spite of the fact that their quality and price were no better than the American brand. How could such a thing happen to such a powerful brand, with its superior level of Brand Equity?In retrospect, what happened was clear. The American brand had superior Brand Equity, but the domestic brands owned the customers. The American brand had more Brand Equity, but that was not enough. Customer Equity, not Brand Equity, was the key to market success.What Is Customer Equity?The long-term value of the company is largely

determined by the value of the company's customer relationships, which we call the firm's Customer Equity. The term was introduced, in a somewhat different context, by Robert Blattberg and John Deighton.To clarify our use of the term, we define Customer Equity as follows:A firm's Customer Equity is the total of the discounted lifetime values of all of its customers.In other words we view the value of the customer not only in terms of that customer's current profitability, but also with respect to the net discounted contribution stream that the firm will realize from the customer over time. Summing these up gives the total value of the customers of the firm, which we call Customer Equity.It is easy to see that for most firms, Customer Equity is certain to be the most important component of the value of the firm. While the value of a firm's customers cannot be the entire value of the firm (for example, the firm's physical assets, competencies, and intellectual property also lend value), a firm's existing customers provide its surest and most reliable source of future revenues. Thus, figuring out how to drive Customer Equity is central to the decision making of any firm. Coherently formulating how to do this can give a firm an important competitive advantage.The Inevitable Shift to Customer EquitySeveral broad interrelated trends that are currently shaping economic change in every developed economy make it inevitable that management will shift its focus from Brand Equity to Customer Equity. The central implication of all of these trends is a shift from a product focus to a customer focus.From Goods to Services. The underlying basis for all of the trends is the dramatic long-term shift of every developed economy from goods to services. For example, in 1900, the percentage of workers in the United States in the service sector was approximately 30%. By 1970 that figure had risen to 64%, and by 1995 that figure was about 77%. Other developed economies lag behind the United States by a few years, but all show the same trend toward service, and similar percentages.From Transactions to Relationships. Let us consider, first, the "old" goods economy. Consider a customer of a typical consumer good -- breakfast cereal. A customer might buy Kellogg's Corn Flakes this time, then switch brands the next time, and then switch the next time to something else. The goods economy tends to be relatively transaction-oriented. Management's attention is naturally drawn to the constant battle for attracting (rather than retaining) customers, and it is on that battlefield that Brand Equity reigns supreme.Now consider the "new" service economy. Services work differently in the marketplace than goods. Think about a typical service -- retail banking. A bank customer opens an account, and has dealings with the bank over time. The customer does not reconsider his/her choice of bank at every transaction, although a bad experience might trigger thoughts of switching. This has led to a shift from a focus on consumer transactions to a focus on long-term, one-to-one customer relationships, fostered by much work by Don Peppers and Martha Rogers.From Customer Attraction to Customer Retention. For the bank, keeping or retaining customers is very important to the bank's success. Managing the relationship with the customer is very important and is central to the bank's thinking. While the bank still worries about attracting new customers, that issue must compete for management's attention with issues such as customer retention and cross-selling. On this battlefield, Customer Equity reigns, and Brand Equity plays a lesser role.From Product Focus to Customer Focus. In general the increasing emphasis on customers and relationship management coincides with a decreasing emphasis on products. It is not as though products are unimportant. It is just that they are secondary to satisfying the customer. Another way of thinking about this is that in a rapidly changing technological environment, products come and go, but customers remain. The secret to success is maintaining a profitable relationship with the customer, regardless of what products are involved, or how the products needed may change over time. Just as an automobile customer's needs and wants may shift over time from a Plymouth to a Chrysler to a Mercedes-Benz, a customer's brand preferences may change over time. The job of the modern company is to maintain the customer relationship (with DaimlerChrysler in this case) even while the individual customer's brand loyalty becomes irrelevant.The Shift to Customer Equity. The continuing shift toward a service economy, thus, leads inexorably toward a shift in emphasis from Brand Equity to Customer Equity. However, unlike Brand Equity, which has been extensively studied by both business people and academics, little has been done at this point to understand Customer Equity. This book provides a framework for understanding Customer Equity and shows how this framework can help management focus its resources to maximize long-term profitability, through the successful cultivation of profitable customer relationships.Where Do Profits Come From?Almost every business carefully accounts for the profitability of its products. Detailed financial reports show the revenues and costs associated with each product, and each product's contribution to the company's bottom line. Profitable products are maintained or spun off into multiple, related products. For example, regular potato chips spin off into barbecue-flavored potato chips and low-fat potato chips. Unprofitable products are jettisoned. The seldom-questioned underlying assumption is that the product is what generates the profits. But is that true?Consider a young retail bank customer. The customer first opens a checking account. Checking accounts are notorious money losers at retail banks, so the bank may be tempted to conclude that the checking account is an unprofitable product. However, what if the customer, having established a relationship with the bank, then opens a savings account, or takes out a car loan, or buys CDs, or takes out a home mortgage? If these events were made possible by the checking account, then the checking account would not look so bad after all. However, product-specific accounting will never reveal this long-term view.Where did the bank's profits come from? It is clear that it was the long-term customer relationship that produced the profits. The profits of individual products are not separate and distinct, but rather synergize to produce a successful and profitable customer relationship.This example shows that profitability needs to be analyzed with

respect to customers. Product-specific financial accounting need not be abolished, but it should assume a lesser role. More important, detailed, customer-specific accounting is necessary to get an accurate picture of profitability and, hence, the long-term value of the firm.Driving Customer EquityWhile it is easy to see that Customer Equity is important, it is more difficult to determine exactly how to increase a firm's Customer Equity. Of all of the potential levers that a company might pull (e.g., advertising, quality, price, retention programs, etc.) which will yield the best return on investment? Where should the firm focus its efforts?Value EquityFor all customers, choice is influenced by perceptions of value, which are formed primarily by perceptions of quality, price, and convenience. These perceptions tend to be relatively cognitive, objective, and rational (for example, there may be little argument about a product's price, or its objective attributes). We call the Customer Equity gained from customers' value perceptions the firm's Value Equity.Brand EquityCustomers may also have perceptions of a brand that are not explained by a firm's objective attributes. (This view of Brand Equity is consistent with the definition of Brand Equity given by Wagner Kamakura and Gary Russell in their pioneering research on the topic.) For example, a car may be considered sexy, or exciting, or classic. These perceptions tend to be relatively emotional, subjective, and irrational. We call the Customer Equity gained from the subjective appraisal of the brand the firm's Brand Equity.Retention EquityCustomer Equity comes from customers choosing to do business with the company. Some of the firm's business comes from customers who chose the company in their most recent purchase occasion and this time choose it again, and some of the firm's business comes from customers who did not choose the firm last time or are new to the market. For repeat customers, retention programs and relationship-building activities can increase the odds that the customer will continue to choose the firm. We call the Customer Equity gained from retention programs and relationship building the firm's Retention Equity.Where to Focus?We can, thus, decompose Customer Equity into its constituent parts: Value Equity, Brand Equity, and Retention Equity. By determining which of these equities is most influential in a firm or its industry, we can then focus on the driver(s) of Customer Equity that has the greatest impact.Customer Equity: The Key to StrategyAnalyzing Customer Equity and its drivers gives a company a road map for effective strategy. It identifies the strategic initiatives that will have the greatest impact on the long-term profitability of its customer base, which should be the primary concern of any business.The rest of the book goes into considerable detail about how to use Customer Equity and its drivers as the basis for effective strategy. We also give specific examples of companies in five industries, using actual customer data. But before we get into detail, it is useful to have the big picture of how management can use these concepts to drive decision making. For this reason we first illustrate a simple, hypothetical example of how a company might proceed.Let us consider XYZ Corporation in the widget industry. The company might first explore which of the Customer Equity drivers make the biggest difference in its industry. It is important to note that the results will not be the same in every industry. For example, in some industries (e.g., telephone service) Value Equity may be the key driver. In other, transaction-oriented industries (e.g., consumer package goods) Brand Equity may be the most important. On the other hand, in some relationship-oriented industries (e.g., banking) Retention Equity may be the most important.In the widget industry Retention Equity is the least important driver of Customer Equity (on average), and Value Equity is the most important. This is very useful information, because it tells XYZ that it should make sure that its Value Equity is very strong and maybe de-emphasize its retention initiatives.Armed with this knowledge, XYZ can then consider its standing, relative to the best in the industry, on Customer Equity and its drivers, and compare it to the company's relative market share. XYZ has a market share that is 80% as much as the leading firm in the industry, but its Customer Equity is only 60% of that of the leading firm. The fact that Customer Equity share is considerably less than the company's market share is a serious red flag, because it indicates that the long-term performance of XYZ is unlikely to be as strong as its current market share might suggest. Clearly XYZ needs to shore up its Customer Equity before its market performance deteriorates.Figure 1-4 indicates clearly where XYZ should focus. Its Retention Equity is the best in the industry, but we already discovered that Retention Equity was not very important in the widget industry. The key driver of Customer Equity in this industry is Value Equity, and XYZ's performance on Value Equity lags badly behind the competition. With this information, XYZ knows that it should focus its attention on Value Equity.XYZ can then drill deeper into the drivers of Value Equity. We see that quality is the key driver of Value Equity, indicating that XYZ must carefully examine its quality performance relative to the competition. If its perceived quality actually is worse than the competition, then the company must then drill down even deeper to identify the key drivers of quality, and perhaps the key sub-drivers of those drivers.Such an analysis facilitates a rifle-shot approach to strategic decision making. Management can focus its resources on the drivers of Customer Equity that will have the greatest long-term impact. Customer Equity provides a broad framework for strategic management, by which executives of a company can identify and drive effective change. Customer Equity is the key to the long-term profitability of any firm, and analyzing the key drivers of Customer Equity provides an overall framework for effectively focusing strategic resources.The remainder of the book makes the case for this customer-focused view and shows in detail how to implement a Customer Equity decision framework within an organization.Copyright copy; 2000 by Roland T. Rust, Valarie Zeithaml, and Katherine N. Lemon