

# UNIT 106 – UPSC - Value and Retention

Value: In business sector, it is necessary to focus on customer satisfaction and trustworthiness to maintain prosperity. Company can maximize customer satisfaction by delivering valuable products to customers so that they keep on buying more of the products and services that fulfill their needs. Customer value means customer's evaluation of the difference between all the benefits and all the cost of products. Customer value is described as the ratio between customers' perceived benefits (economic, functional and psychological) and the resources such as monetary, time efforts used to obtain those benefits. Perceived value is relative and subjective (Schiffman, 2007). Woodruff proposes that "Customer value is a customer's perceived preference for evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations"(1997).



To create Customer Value, it is helpful to use the value chain proposed by Micheal Porter. The value chain consists of company actions that create value and add costs in an organization. The prime activities in the value chain are:

- Bringing materials into the company (inbound logistics)
- Converting materials into finished products (operations)
- Shipping out finished products (outbound logistics)
- Marketing the products (sales and other marketing activities)
- Servicing the products (customer service)

Primary activities include secondary support activities such as procurement (or purchasing), technology development, human resource management and firm infrastructure. These support activities may be managed by particular departments or by multiple departments.

Academic literature revealed that high customer loyalty can be generated through delivering high customer value. A company must devise a competitively superior value proposal aimed at a specific market segment (Michael Lanning).

In a highly competitive market, a company can survive by creating and delivering superior values. This involves 5 capabilities:

- Understanding customer value
- Creating customer value
- Delivering customer value
- Capturing customer value
- Sustaining customer value

To perform customer value analysis, company must recognize major attributes and benefits that customers value, assess the qualitative importance of different attributes and benefits, evaluates company's and competitor's performance on different customer values against rated importance, investigated ratings of specific segments and monitor customers values over time.

Dimensions of customer values: These dimensions include:

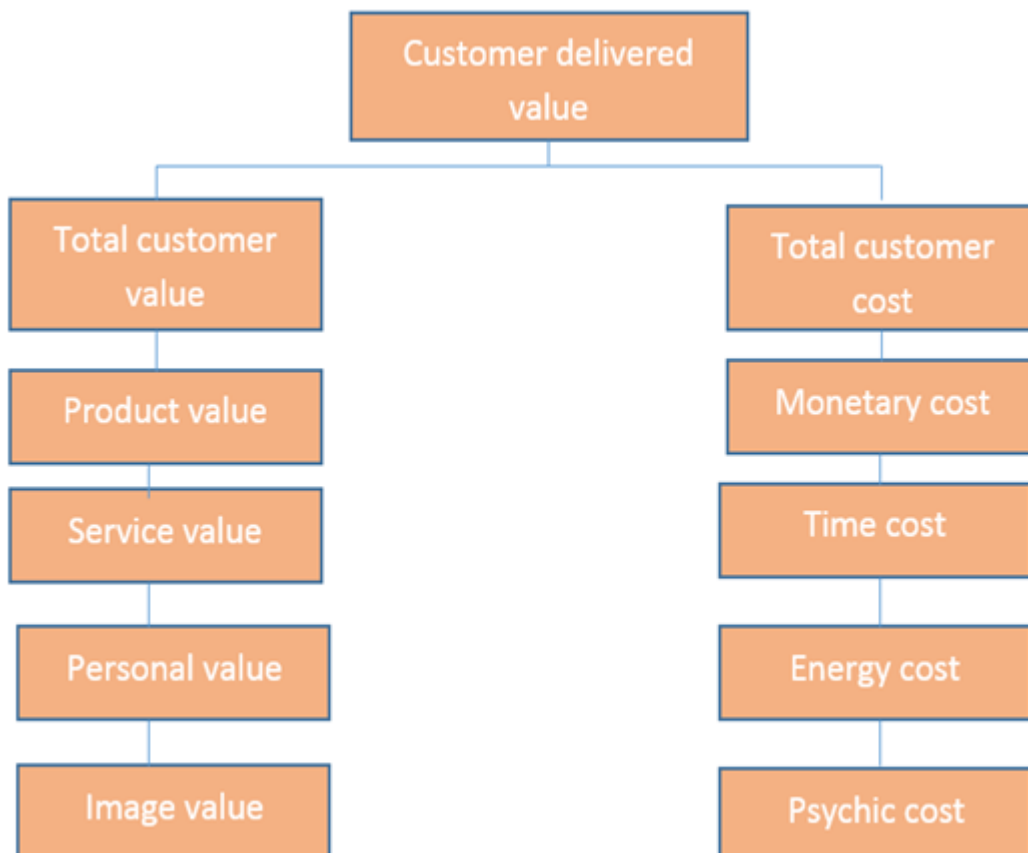
- Conformance to requirements
- Product selection
- Price and brands
- Value added services
- Relationships and experiences

#### Determinants

of

#### Customer

#### Value:



**Retention:**

Many companies lose customers due to feeble marketing strategies. It is maintained in literature that through maximizing customer satisfaction, companies can retain customers for longer periods and these customers continue to make contributions to profits. The main objective of giving value to clients continuously and more effectively than competition is to retain satisfied customers. This strategy of customer retention makes it in the best interest of customers to stay with the company instead of moving to other firms.

The importance of customer retention: It has been observed that companies put more efforts on attracting new customers and far less attention in retaining customers. Satisfied customers are loyal customers. Studies have demonstrated that small reduction in customer defections produce considerable increase in profit because loyal customers buy more products, they are less price sensitive and do not easily get impressed with competitors' advertisements. Loyal customers spread positive word of mouth and refer to other customers. Additionally, it is established that attracting new customers through marketing efforts is expensive.

Marketers who designate increasing customer retention rates as a strategic corporate goal must recognize that all customers are not equal. Modern marketers develop selective relationships with customers based on ranking of customers in terms of profitability instead of retaining them. In customer retention strategy, companies closely monitor with its customer consumption pattern, established tiers of customers according to their profitability level and develop effective strategies toward each group of customers. Aspinall et al. (2001) stated that 54 per cent of companies visualized that customer retention was more significant than customer acquisition. Marketing literature emphasized the advantages for retaining customers (Ahmad and Buttle, 2002). The benefits of retaining customers to the organization are higher margins and faster growth, derived from the notion that the longer a customer stays with an organization, generally the higher the revenue. Dawes and Swailes (1999) enlighten that unbeaten customer retention lessens the costs of searching new and potentially risky customers, and allows organizations to focus more precisely on the requirements of their existing clientele by building relationships (Pp:36). Researchers have also designated that customer retention has an important impact on profitability and positive customer satisfaction and leads to better financial performance.

In order to categorize customers according to profitability level goes beyond traditional segmentation marketing methods which classify customers on the basis of demographic, sociocultural or behavior characteristics. Consumer profitability focused marketing follows cost and revenue on individual customers and then categorize into tiers based on the consumption behavior that are specific to company's offerings. These strategies are useful to gain knowledge about customer behavior (Schiffman, 2007).

**Traditional marketing concept versus value and retention focused marketing (Source: Schiffman, 2007).**

The traditional marketing concept	Value and retention focus marketing
Make only what you can sell instead of trying to sell what you make	Use technology that enables customers to customize what you make

Do not focus on the product. Focus on the need that it satisfies.	Focus on the product's perceived value as well as the need that it satisfies
Market products and services that match customers' needs better than competitors offerings.	Utilize an understanding of customer need to develop offerings that customer perceives as more valuable than competitors offerings.
Research consumer needs and characteristics	Research the level of profit associated with various consumer needs and characteristics.
Understand the purchase behaviour process and the influence on consumer behaviour	Under consumer behaviour in relation to the company's product
Realize that each customer transaction is a discrete sale.	Make each customer transaction part of an ongoing relationship with customer.
Segment the market based on customer's geographical, demographic, psychological, sociocultural life style and product related characteristics.	Use hybrid segmentations that combines the traditional segmentation bases with data on customers purchase level and patterns of use of the company product.
Target large group of customers that share common characteristics with message transmitted through mass media.	Invest in technology that enable you to send one to one promotional messages via digital channels.
Use one way promotion whose effectiveness is measured through sales data and marketing surveys.	Use interactive communication in which message to customers are tailored according to their response to previous communications.
Create loyalty program based on various purchases.	Create customer's tiers based on both volume and consumption patterns.
Encourage customers to stay with the company and buy more.	Make it very unattractive for your customers to switch to competitors and encourage them to purchase better in manner that will raise company's profitability level.
Determine marketing budget on the basis of the number of customers you are trying to reach.	Base your marketing budget on the lifetime value of typical customers on each of the targeted segments compared with the resources needed to acquire them as customers.

Conduct customer satisfaction survey and present the results to management.	Conduct customer satisfaction survey that include a component that studies the word of mouth about the company and use the results immediately to enhance customer relationships.
Create customer trust and loyalty to the company and high level of customer satisfaction.	Create customer intimacy and bonds with completely satisfied and delighted customers.

To establish effectual strategy for customer retention requires careful planning and should include comprehensive plans and methods for customer identification and registration, segmentation and reward design. In order to be a source of sustainable competitive advantage, organization develop the strategy that must always take into account what is its loyal customers value, since loyalty and retention is inextricably associated to the formation of value (Morgan et al, 2000).

To summarize, it can be maintained that understanding customer value can result in successful marketing if company targets those customers with the highest potential value, not just those with the highest actual value. Customer retention is vital in any business that hopes to flourish in a highly competitive and flooded business market. A business philosophy focused on customer value, satisfaction and retention evolves from marketing concepts and opens up new dimensions of marketing.