Chapter 7: Relational and sustainability strategies
Introduction

• Customer Lifetime Value
  – Happy customers spend increasing amounts on the purchase of a specific product/service over time
  – CLTV is the present value of future profits that will accrue from customers lifetime purchase

– Customer Equity
Relationship Marketing in the B2C Context
Figure 7.1 – Loyalty Ladder for B2C Marketers

Loyalty Ladder for B2C Marketers

Suspects
- Not yet even mildly warm leads for the selling company
- Are not yet interested in your products or services
- Companies should not spend too much time or effort on this group of consumers

Prospects
- A better candidate would be found in a prospect
- This is warm lead
- Interest is not a guarantee for purchase
- Too much time should not be spent on prospects
Loyalty Ladder for B2C Marketers

Customers

• He is one who has **actually bought** your product/service

• Try to increase purchase frequency and volume

• Are all customers are “good” customers? (read types of problematic customers)

• Zeithaml Rust and Lemon’s (2001) **customer profitability pyramid** is an important approach to prioritize customers

• Types of problematic customers:
  • **Verbal abusers**: verbally abuses
  • **Blamers**: blames the seller
  • **Rule breakers**: apply their own rules
  • **Opportunists**: looks for an opportunity to get compensation
  • **Returnaholics**: continually return products
Loyalty Ladder for B2C Marketers

Clients

• They are **regular customers**
• They have some level of trust in the seller
• Some clients may feel that they are **hostages** to the seller
• Some clients may be “**mercenaries**”
• Some clients can act as **terrorists** if they become unsatisfied

• Types of customers based on loyalty:
  • Loyalists: keep purchasing and very loyal
  • Apostles: provide positive word of mouth
  • Defectors: neutral of merely satisfied
  • Terrorists: spread negative word of mouth
  • Hostages: unhappy customers but sticking to the company for some reason like monopoly or low price etc
  • Mercenaries: satisfied by not loyal. Can switch any time
Loyalty Ladder for B2C Marketers

Supporters
• *Loyal customers*
• They buy everything you produce that they can use
• You can convert a client into a supporter through great service
• Reward clients for their purchases and loyalty and move them to supporters

Advocates
• *Loyal customers and spread positive WOM* to generate other loyal customers
• The company must try and keep them happy
• Loyalty schemes
  – Loyalty schemes can neutralize competitors, broaden brand distribution, enhance brand image and increase value
Loyalty Ladder for B2C Marketers

Partners

• Helps in value co-creation

• Partnership is when the buyer and seller enter into a joint position of commitment and the buyer often has to modify the ways in which he/she works to accommodate the seller

Example

• LEGO has long seen the value in co-creating products with customers (both young and old). For example, LEGO Ideas is an online community where members can discover cool creations by other fans and submit their own designs for new sets. Fans can vote on submissions and give feedback. If a project gets 10,000 votes, LEGO reviews the idea and picks a winner for an official LEGO Ideas set to be created and sold worldwide. The creator gives final product approval, earns a percentage of the sales and is recognized as the creator on all packaging and marketing.
Figure 7.3 – Steps to build Customer Love

- Engagement
- Enlightenment
- Entrustment
- Empowerment
- Enchantment
- Endearment
- Enlistment
Steps to build Customer Love (7E)

1. **Enlistment**: *Listing a potential customer:* customers care when they share - the key is knowing exactly when and how to include customers

2. **Engagement**: the power of *straight talk* - companies must listen to and talk straight with customers

3. **Enlightenment**: growing customer love - educating and keeping customers *up to date* helps to build their loyalty and commitment
Steps to build Customer Love

4. Entrustment: create trust within customers: affirming the covenant- show customers that you care for them in order to get their care for you

5. Empowerment: give some control to customers through consistency. So, keep the offer intact

6. Enchantment: making the process magical- service which surprise adds the sizzle.

7. Endearment: gifting generously to customer and understand it’s not always about profit
Relationship Marketing in the B2B Context
characteristics of B2B market

• dealing with fewer customers,
• larger transactions,
• customized products,
• negotiated prices,
• The concept of brand is not that important if buyer seller has a good relationship
• selling is far more complex
• using the same types of mechanisms as are used in B2C markets to build relationships often are not effective in B2B market situations.
Figure 7.4 – Loyalty Ladder for B2B Marketers

Successively Higher Levels of loyalty

- May Invest in You
- Seeks to Collaborate on New Product Development
- Is Willing to Pay Premiums
- Resists Competitors’ Blandishments
- Endorses Products
- Wants to Grow the Relationship

Figure 7.5 – Types of B2B Customers

Figure 7.5 – Types of B2B Customers

Commodity buyers

• They are only interested in basic offerings.
• They are primarily interested in shopping the lowest prices.
• They tend to be large volume types of customers, and the strategic focus should not be on trying to sell them on high-value added services, but to strip service costs to the bare minimum.

Underperformers

• Those prestigious accounts that were acquired to build credibility by luring them with very low cost or even free services.
• The best way to deal with them:
  • try to move them to commodity buyers by cutting the level of services provided
  • move them to partners by having them pay more for services
  • to divest them (risky for reputation)
Partners

• Customers who want everything provided for them since they don’t have the in-house capability to handle these needs.

• The key is to provide them the latest and best products available, and price premiums will not be a problem for them.

• They can be helpful in new product development.

Most valuable customers

• These customers are loyal and do not cost as much to maintain as the partners.

• In these cases the customer is willing to pay premium prices although they might not avail all the product categories offered by the seller.