

Life time value of a customer

What is it?

- Most basic formula:

Total Customer Revenue X Number of Loyal Years
X Company Profit Margin

Why is it so important?

Larger Picture: Relationship Marketing

The Spectrum



Deeper commitment

Higher dependency

Specific product

Single purchase

Larger Picture: Relationship Marketing



- In general, customers want to be on the right, and companies want to be on the left.

Larger Picture: Relationship Marketing



Examples?

- Xerox
- Halliburton

Who has the power, buyer or seller?

Larger Picture: Relationship Marketing

The Spectrum



Costs of switching?

System Benefits

- e.g., compatibility

What is the customer like?

The Spectrum



- Who has the longer time horizon?
- Who takes on more risk?
- Who has more loyalty?
 - Companies have “loyal” customers” but customers don’t always have loyal companies

What's most important?

The Spectrum



- Technical and product direction (strategy)
- Vendor stability

- Product features
- Price
- Delivery & availability

Marketing approaches

□ Success

Relationship marketing → Relationship buyer

Transaction marketing → Transaction buyer

□ Failure

Relationship marketing → Transaction buyer

Transaction marketing → Relationship buyer

Real accounts

The Spectrum



- Most companies are somewhere in the middle and have customers on the whole spectrum

Real relationship marketing

□ Continuous benefits

- Compatibility
- Should have a fundamental impact on how the company works - R&D
- Embedded?