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

Relationship buyer

Deeper commitment

Higher dependency

Transaction buyer

Specific product

Single purchase
In general, customers want to be on the right, and companies want to be on the left.
Larger Picture: Relationship Marketing

The Spectrum

Relationship buyer

Transaction buyer

Examples?

• Xerox
• Halliburton

Who has the power, buyer or seller?
Larger Picture: Relationship Marketing

The Spectrum

Relationship buyer  Transaction buyer

Costs of switching?

System Benefits
  • e.g., compatibility
What is the customer like?

The Spectrum

Relationship buyer

Transaction buyer

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

Relationship buyer

Technical and product direction (strategy)
Vendor stability

Transaction buyer

Product features
Price
Delivery & availability
Marketing approaches

Success
- Relationship marketing
- Transaction marketing

Failure
- Relationship marketing
- Transaction marketing
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?