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MEASURING OF CUSTOMER RELATIONSHIPS FOR THE MARKETING MANAGEMENT NEEDS

Each company influences and is influenced by certain groups called stakeholders. Clients are most important stakeholders from the marketing management point of view. In marketing management, especially in Customer Relationship Management certain measures might be used. The author presents two value measures: Customer Lifetime Value and Value for the Customer and suggests their usage by the companies

"Marketing deals with two important things: money and emotions"
Didier Bonneville-Roussy

1. Customers as a core stakeholders of company from the marketing management point of view

Company management, especially its marketing management, can not exist without knowing of the groups which have influence and/or are influenced by the company. These groups are called company stakeholders. Stakeholder theory (Freeman 1984; Mitchell 1997) is a set of concepts, constructs, and propositions that focuses on the identification, prioritization, and management of stakeholder relationships and an understanding of the environmental issues that bind them together. (Danov, Smith, Mitchell 2003, p. 60) Therefore from the one side the fact of existence of various interested groups should be underlined, from the other side, the relationships between those should be noticed. As a consequence managing of the relations with those group is apparently necessary and in this management process the strength of particular groups and the bonds between them should be taken into account.

In spite of great importance of many various group of stakeholders, it is the customers who must be considered "first among equals" (Reichheld 1994, after: proquest.uni.com). If the company is not totally committed to delivering specific value to customers, nothing else matters. This is true no matter how strong your human capital is, how well-intentioned your initiatives are, or how many resources you dedicate to customer engagement. (Rieger , de Koenig 2003, after: gmj.gallup.com)

2. Core value measures in customer relationship management as a basis of marketing management

2.1. Customer Lifetime Value

First of all it should be stressed that all the actions aimed to build the customer relationship can be treated as a certain form of investment. In order to assess it techniques usually used for the investment assessing can be helpful. Especially adequate might be capital budgeting methods. In the case of investment connected with the clients the value of the whole relationship should be counted. The measure of it will be *Customer Lifetime Value* (CLV) which is based on NPV technique. It shows the net present value of a client in his lifecycle for company. The CLV formula is being shown below:

Formula 1 Customer Lifetime Value

$$CLV = \sum \frac{C_i}{(1+k)^i},$$

where:

C_i – gross margin on the client in the period i,

k – capital cost,

$(1+k)^i$ –discounting factor for the period i

While counting CLV it is important that all the cost connected with the client are taken into consideration. Especially two groups of costs should be stressed:

- costs of gaining of a client,
- costs of a retention of a client.

Of course forecasting the cash flow from even current customers is nontrivial and subject to potential bias. Similarly, adjusting the risk associated with customer behavior dynamics is substantial issue for current customers and is even more difficult for valuing the potential customers that have yet to be acquired. (Hogan, Lehmann, Merino, Srivastava, Thomas, Verhoef 2002, p.27)

In spite of the existence of many serious difficulties in counting the customer relationship value it seems to be an adequate method of measuring the value of the client investment for the company. Also, CLV is a measure which can be applied to customer selection, it shows the scope of the actions that should be undertaken in order to gain, grow and retain the „appropriate" clients within the conducted CRM policy. (Venkatesan, Kumar 2004, p. 106)

The CLV idea is to see client from the viewpoint of company outcomes. Nevertheless it should be noticed that the client perceives the company, its products and services, from the viewpoint of his outcome.

2.2. Value for the Customer

As the opposition of the CLV, meaning the value of the client for the company, the term *Value for the Customer* (VC) has been introduced by T. Woodall (Woodall 2003a, p.1). It has been defined as any demand-side, personal perception of advantage arising out of a customer's association with an organisation's offering, and can occur as reduction in sacrifice; presence of benefit (perceived as either attributes or outcomes); the resultant of any weighed combination of sacrifice and benefit (determined and expressed either rationally or intuitively); or an aggregation, over time, of any or all of these. (Woodall 2003a, p.2).

Value perceived by the customer can vary at different stages of his contact with the company and its products or services. It is depicted at the figure 1 shown below:

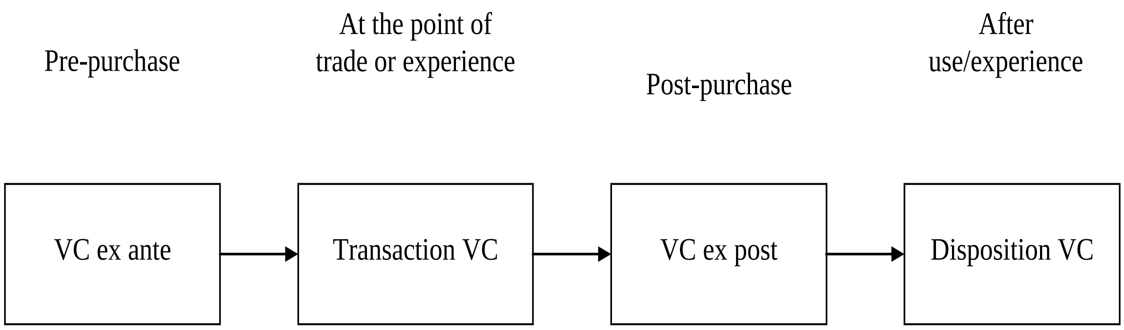

Figure 1 *A Longitudinal Perspective on VC*

Source: (Woodal 2003b, p. 10)

As can be observed, The first VC exists before he purchases the product or service. It is called a VC ex ante. If it if high enough in the customer's perception, service or product if being bought and experienced. At this point transaction VC appears. At after-purchase stage VC is named as "VC ex post". After the whole experience connected with the product usage the disposition VC appears – it shows how high the product is valued by the client after the usage of the product has ended. The higher disposition VC is, the more eager will be the client to purchase company's products or services next time. Therefore the VC can be a really important measure for customer relationship management specifically and for the marketing management as a whole.

3. Other measures for marketing management in customer relations

Obviously, Value for Customer and Customer Lifetime Value are not only measures that might be used in Customer Relationship Management. Some others are:

- PCR – *previous-period customer revenue*, which shows the revenue given by a certain customer while given past period
- PCV – *past customer value* – past value given by the client, meaning the value of the client up to the present moment
- CLD – *customer lifetime duration*, meaning time which the relationship with the given client lasts.
- It should be added, that the comparison of those and CLV, studied in different researches, proves that::
- marketing communication in different channels influences the changes in CLV but it is not a linear dependence (Venkatesan, Kumar 2004, p. 121),
- CLV is a better measure of the accuracy of the client selection than PCR, PCV or CLD Venkatesan, Kumar 2004, p. 121),
- managers can higher their profits by the changes of marketing communication that will lead to Customer Lifetime Value maximizing Venkatesan, Kumar 2004, p. 121),.

As for the Value for the Customer, different measure that can be used are various indexes of satisfaction, loyalty and perception of clients towards certain products and services.

4. Conclusions

The CLV and VC are the measures that should be used by the marketing managers in the companies which compete in the sectors in which the long-term relationship is crucial. Although some parameters of the measures are difficult to estimate, the company can profit enormously from incorporating VC and CLV into the analysis and planning of its marketing strategy and long-term actions.

The application of CLV and VC measures reflects the bilateral connection between the customer and the company. The VC shows the value that company gives to its most important stakeholder (meaning the client) and CLV shows the value that is given by this stakeholder to the company. By knowing those two measures the marketing managers can find a convergence between the company and the customer.

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