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NEW MARKETING IN BUILDING A CUSTOMER LIFETIME VALUE

1. Introduction

Nowadays earning only on selling products is becoming more and more difficult, as customers do not expect products but ways helping them to solve their problems. By solving these problems customers feel that trust and values are built. Customers are important assets: the longer they are kept, the bigger input they have in creating value. For marketing managers proving an influence of marketing on a company value growth has a significant meaning from the viewpoint of competing for limited resources with other cells in the organizational structure of a company and of circumstantiating increasing costs in marketing activities. It is in the centre of marketing activities complying with the modern way of thinking that marketing situates a customer. Good relations with a customer constitute the most important company potential. By analyzing factors which constitute a customer lifetime value (a current income and turnover brought to companies, turnover and income potential possible to be generated by a customer in the future, a supplier's readiness to change, development potential, reference potential, a customer's role possible to play as an informer, customer participation, a possibility of participation) it is possible to state that every company should care for adapting its activities in the largest measure to these customers who represent the biggest value.

2. Customer Lifetime Value and company value

The cusp of the 20th and 21st centuries impressed particularly strongly on people that a company value treated as a basic objective of its activity depends on lifetime value of its customers. It was revealed by researches conducted by different centres, as well as, by the last financial crisis. According to J.C. Bogle, real money of companies and in the whole business come from customers¹. Different researches show that a company value in 90% is formed by purchasers as goods and services consumers².

A dominating view pointing a company value growth as an aim of a business activity defines a company value management as „rules, propositions and solutions within the scope of taking strategic and operating decisions, the purpose of which is maximization of a company value for their owners and other stakeholders connected with the company: customers,

¹ *The last crisis in world finances has shown that this sector was responsible for the profit fall in 2007 in the amount of 90%, but it generates additional high costs of financial mediation bringing no economic value. J.C. Bogle, Dość. Prawdziwe miary bogactwa, biznesu i życia, PTE 2009, (p. 37 and 47).*

² *P. Fisk, Geniusz konsumenta, Oficyna & Wolters Kluwer Business, Warszawa 2009, p. 48.*

employees, suppliers, lenders, a local community and a society”³. Nevertheless, in practice meeting shareholders’ expectations takes place at the end of the chain of a created value, after taking into consideration a customer value, employees and a company’s needs for development. Another author (R. Martin) forms it as a new paradigm moving the weight from striving for creating a value for shareholders to guaranteeing a customer satisfaction, as a better formula of a company value maximization⁴.

A customer equity as a source of value acquires a particular meaning because a company’s market value depends to a lesser and lesser extent on an accounting value often referring to the money flow history and their further prediction. Especially that companies, of a new economy in particular, bear high investments in the early phase of their lifecycle, which very often causes at first minus money flow and hinders a correct valuation of a company and the sources of its growth on the basis of usual methods (i.e. DCF - *discounted cash flows*).

Currently more and more researchers verify a possibility of a valuation of a company through customers equity and they analyse possibilities of influence on companies’ financial performance and on a value for shareholders through marketing strategies oriented on the growth of a customer lifetime value⁵.

Different studies have proved that the companies which have implemented customer lifetime value management have reached higher increases of a company value than the others⁶. Profit margin, frequency of purchasing, additional sales index have grown, which has translated into a customer equity growth by 19.4% and a company value from the B2B market has grown by 32.8%, whereas on the B2C market a customer lifetime value has grown by 23.3% and a market value of a company has increased by even 57.6%. These increases were considerably higher than those of an exchange-traded weather index S&P 500, commonly used by the analysts in the USA to compare share values, respectively twice higher in the case of a company B2B and even 3.6 times higher in the case of B2C.

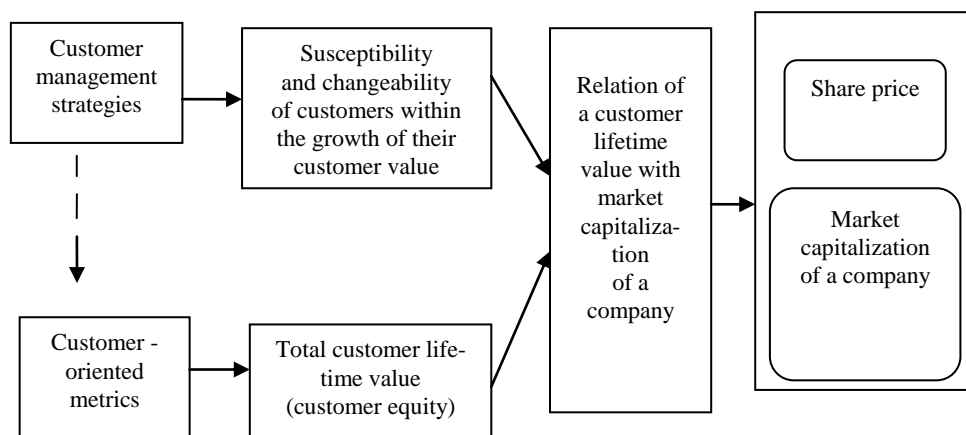
Translating a customer lifetime value into a market valuation of a company is presented on the scheme.

³ A. Szablewski, *Budowanie wartości i społecznej odpowiedzialności przedsiębiorstwa*; w: *Value Based Management: koncepcje, narzędzia, przykłady.*, pr. zb., red. nauk. A. Szablewski, Deloitte, Poltext, Warszawa 2008, p. 25.

⁴ R. Martin, *Age of Customer Capitalism*, *Harvard Business Review*, styczeń – luty 2010, p. 58-65.

⁵ R. J. Best, *Market-based Management. Strategies for Growing Customer-Value and Profitability* Pearson Practice Hall, New-Jersey 2005; A także: B. Dobiegała-Korona, *Wartość dla klienta, generatorem wartości przedsiębiorstwa*; w: *Współczesne źródła wartości przedsiębiorstwa*, pr. zb., red. nauk. B. Dobiegała-Korona, A. Herman, Difin, Warszawa 2006, pp. 230-235.

⁶ V. Kumar, D. Shah, *Expanding the Role of Marketing: From Customer Equity to Market Capitalisation*, *Journal of Marketing*, November 2009, pp. 119-136.



Scheme 1. A customer lifetime value and a company value

Source: Own study.

Empirical studies' results and a model created on their basis show and prove a high degree of translating a customer lifetime value into a company value. It constitutes, as well, a confirmation of the thesis concerning the possibility of a measurable influence of marketing initiatives and programmes on a company value⁷. A necessary condition of an efficient use of these close relations: a customer lifetime value – a company value is a valuation and evaluation of what a customer brings into the company, as well as, orienting the organizational structures on the growth of a customer lifetime value.

3. A place of new marketing in company management

"Marketing is the whole company's being", indicate the authors of the book entitled "Marketing Revolution"⁸. The revolution does not concern, according to the same authors, marketing functional influence on the totality of management, but it concerns the acknowledgement of how external events influence internal processes of a company". And they continue: "Managers must understand that creating a value for customers and other stakeholders is not possible outside the marketing functions (department)". It manifests itself in the following necessary actions of a value creation process:

1. Recognizing and prioritising customers' needs, preferences as a chance for a company and for defining purposes of its activity;
2. Organizing innovation processes which create new customer values according to their needs;
3. Analysing and evaluating the effectiveness and efficiency of process actions on the basis of satisfaction and value for a company.

⁷ P. Doyle, *Marketing wartości, Felberg SJA, Warszawa 2003, p. 45.*

⁸ P. Gamble, A. Napp, A. Marsella, I. M. Stone, *Marketing Revolution, Kogan Page, London and Philadelphia 2005, p. 67.*

The latest definition of marketing include a wide approach to creating a value for all the stakeholders.

According to her “marketing is an activity, a group of institutions and processes that serve in creating, communicating, supplying and exchanging offers which have a value for consumers, customers, partners and a society”⁹.

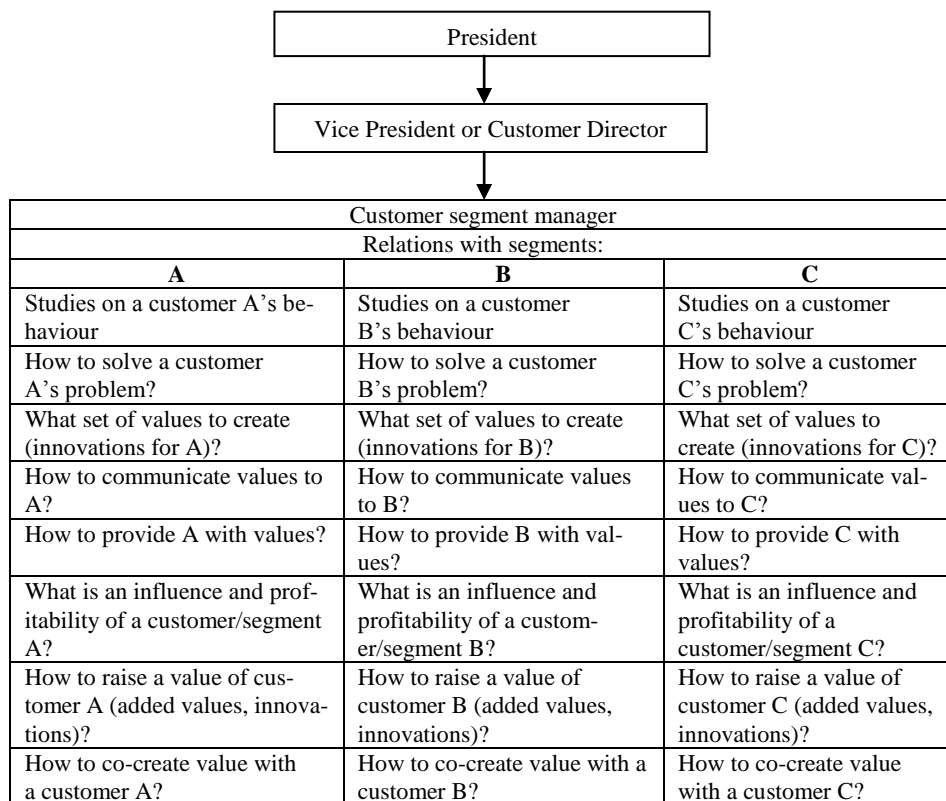
The new role of marketing requires not only its new definition, but it also sets a series of challenges: how to translate it into the whole company’s efficient and effective activities. New living conditions of consumers make their requirements different than in the past, whereas marketing strategies, which guaranteed a competitive advantage to the leading companies, are immediately copied and become a standard. Experiences become more important for customers than products and services, mass products must be replaced with individual relations. Customers have, as well, unlimited possibilities of choice. The segmentation of markets deepens and becomes a dynamic phenomenon. Customers appreciate more and more such values as: community, authenticity and closeness, and they want to be active and to have an influence on creating for them offers of products, services and experiences. Growing costs of customer service require more and more emphasis on effectiveness and efficiency of activities in customer service. This new marketing role and position in a company value management must mean leaving a focus on goods and services sales, which companies can and want to manufacture and moving on to building a company’s culture based on long-term relations with customers, which lead to providing them with such values which are important for them. Sales departments and product manager must be replaced with a customer department and customer specialists (managers) (c.f. Scheme 2.). Due to close relations and storing knowledge about customers, customer departments (segments or individual customers) may identify better what problems customers have and what purposes they want to fulfill, and on this basis, companies may specify what to offer their customers. Specifying what kind of customer lifetime values a company may provide customers with must be the basis of a company resources allocation for their creation, and subsequently a decision how to communicate with customers and which distribution channel to use to supply these values.

Such an organizational system encourages a limitation of risk born by companies while launching new products (product innovations), the ideas of which are not based on relations with customers. Simultaneously it guarantees translating knowledge about a customer, their problems and purposes into a company’s success in the long run. While managing relations with customers within its whole period of lifetime value, managers may have appropriate knowledge how to raise and maximize a customer lifetime value for a company. These decisions must be supported by new measurement methods of effectiveness and efficiency of relations with customers. (c.f. Chart 1).

Polish companies are already moving little by little on to a customer orientation, although the process is not advanced yet. They are in the middle of transformation from a product model to a purchaser oriented model. The process is much faster in younger and

⁹ *The American Marketing Association Releases New Definition for Marketing, komunikat prasowy, 14 stycznia 2008; w: Ph. Kotler, H. Kartajaya, I. Setiawan, Marketing 3.0, MT Biznes, Warszawa 2010, p. 33-34.*

smaller companies of a Polish capital.¹⁰



Scheme 2. The role and place of marketing in a new organizational structure

Source: Own study.

Chart 1. Standards of effectiveness and efficiency measurement of relations with customers

Traditional approach (product oriented)	New approach (customer oriented)
Product profitability	Product profitability
Current sales	Customer Lifetime Value
Brand equity	Customer equity
Market share	Customer equity share

Source: Own study on the basis of: R. Rust et al., op. cit.

A paradigm of a valuation of a customer lifetime value and its management constitutes a very important twist in perceiving the role of marketing in a company management. The

¹⁰ Cf. B. Dobiegala-Korona, *Polskie firmy uczą się orientacji na klienta*, Harvard Business Review, grudzień 2010- styczeń 2011, pp. 71-72.

strategies of a customer value management in order to guarantee high value customers to a company are a critical element of strategies of a company as a whole. Investments in a customer must be treated as strategies of a cost return in the long run. The more precisely the customer groups will be recognized, referring to their problems, expectations, experiences, knowledge, the more adjusted the customer value strategies will be and thus the more effective the strategies of the growth of customer lifetime value for companies will be. Due to the variety of streams created by particular customers, companies should build customers' portfolios in order to guarantee themselves the supply of these streams, which are indispensable for them in building and increasing a company value in specific time and conditions.

4. Translating a new role of marketing into company practical activities

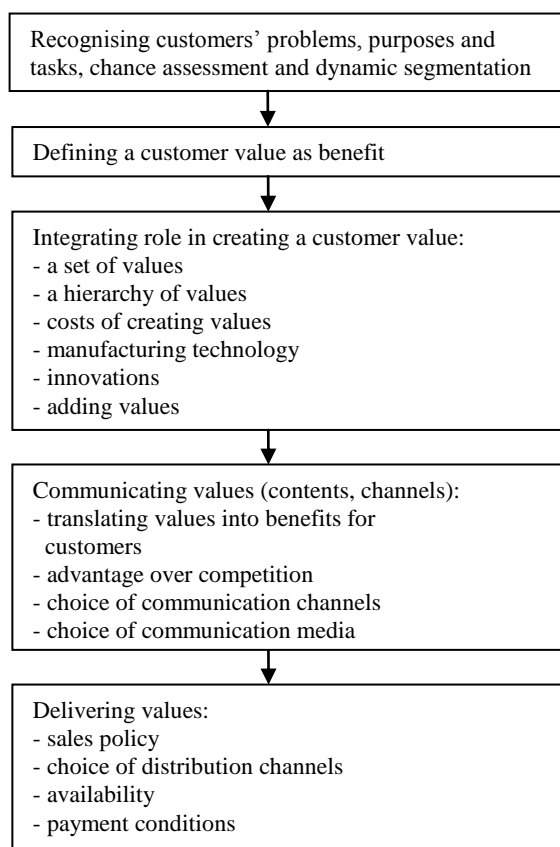
A great danger in the sphere of building a customer lifetime value and customer management oriented on a company value is a traditional identification of a marketing role and function with sales and promotion or only advertising. Marketing is the most often treated as an element of functional structures, located at the very end of a decisive process in a company, excluding all the instrumentation of the discipline which serves to specify a company's purposes and their realization. Marketing in practice is most often isolated from such functions as identification of market chances, innovation development process, usefulness of implemented production technologies and of building databases in companies, and, most of all, building organizational structures. A traditional marketing composition in the shape of 4P, 5P or 7P has been used mainly to promotional activities and pushing a product onto the market (sales), but not always taking into consideration an influence on the structure of distribution channels or a marketing department structure.

Growing in strength of competition due to globalization and companies' technological possibilities has lead not only to decreasing a sales level, but finally to the bankruptcy of many companies. Companies invested more and more in promotional activities and training sellers, which, however, did not raise a company value in the long term. The turn of the centuries indicated a necessity of changing the approach to the role, tasks and place of marketing in companies. Currently marketing is defined much more widely, beginning with institutions and functions of identifying, creating, communicating and delivering customer (consumer) values with the benefit for customers themselves, for investors, employees and all other stakeholders of a company, so suppliers, mediators and a local and even global.¹¹ (cf. scheme 3).

The above activities specific to the contemporary marketing provide basic premises of the structure of a company development strategy oriented customer value management.

The first link in a customer value management system is defining these values including dynamic segmentation process.

¹¹ Cf. Ph. Kotler, K. Kelner, *Marketing Management, 12 e Pearson Prentice Hall, 2008.*



Scheme 3. Customer service processes construction

Source: Own study.

Currently the basic challenge in the area of integrating employees' activities over the functional system is a formation of awareness that the processes must be understood as processes of customer service (of customer segment), whereas the customer service process is a process of delivering a value to customers¹², which is not limited to products and services, but embraces much wider area of values (i.e. emotional, ethical, etc.) in the realization of consumers' aims and tasks. The processes of customer (customers) service must be supported by other management methods used in companies, such as:

- managing innovations as essential customer values;
- projects management oriented on solving customers' problems;
- quality management (it is a customer who decides on quality – to what extent a given value and its quality meet their need);
- knowledge management - the most important segment of knowledge in a company is knowledge about customers;

¹² Cf. also: M. Hammer, *Reinżynieria i jej następstwa*, Wydawnictwo Naukowe PWN, Warszawa 1999, p.10.

- managing costs of activities customer service oriented.

Overcoming the barriers of cooperation in the processes of customer service over the functional systems requires most of all:

- leaving the development of a function and the financial, technological, production, organizational, marketing, scientific and technical progress tools separately from the other functions;
- creating a common language of communication inside a company concerning the categories of customer value, which employees from different departments should use;
- skills of listening to customers' problems and of observation what purposes and tasks they want to fulfil and what values companies can help them in it with;
- managing the knowledge about a customer perceived as a selection of appropriate data, providing reliable sources to acquire them, processing these data into a knowledge of a customer and an ability to share this knowledge;
- mastering skills of customer acquisition to co-create values.

Collecting data and information about a customer, as far as the extent and sources are concerned, is very important; companies often have them in their databases but they will have a value for a company only when this knowledge is available to employees and is used in the processes of building and realizing the strategy of customer lifetime value growth. With the contemporary technological possibilities, building databases embracing information about every customer is practically impossible, but in the process of efficient customer knowledge management companies must also care for „clearness” of these bases through updating this knowledge and getting rid of unnecessary knowledge. The surplus of information may sometimes be more dangerous than its lack (deranges the clearness of a customer's image).

The scope of knowledge which may efficiently guarantee building of customer value strategy may be acquired and developed only as a result of relations of customers with a company, and knowledge acquired in such a way constitutes for a company a stock impossible to copy by competitors. No traditional quantity methods of market researches cannot provide this kind of knowledge about a customer. This should be considered as a source of distinctive customer values as a form of a construction of a competitive advantage.

5. Conclusion

According to the conception of a company value management, an economic justification may be found only for such strategies and activities, the growth rate of which exceeds an equity cost. Marketing activities undertaken by contemporary companies should lead to a company value growth. What is also considerably changing is the role of marketing which cannot be treated as one of cost-driving functions of a company but it should be recognized as a basic management process, the ultimate purpose of which is a value growth through development and the management of tangible and intangible company resources. The starting point to create an effective marketing is understanding customer needs and presenting them such an offer that they will consider more attractive than the others'.

6. Literature

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Summary

Technological changes, new competition, changing tastes and consumers' preferences causes that what yesterday was appropriate, today becomes old-fashioned, and thus a field for new offers appears, including new marketing. Marketing based on values not only enriches with these values objectives realized by shareholders but also makes marketing more efficient. The new concept of marketing quits treating marketing as a specialist discipline and heads for incorporating marketing in the holistic management process, which reveals itself in the following definition: „Marketing is a management process oriented on maximization of returns for shareholders by consolidating relations with valued customers and creating a competitive advantage”¹³.

Investment in a value growth constitutes nowadays a very demanding strategy. In the following article it has been tried to particularly accentuate that marketing based on values consists in developing solutions enabling customers raising efficiency of a business led by them. Currently, making small deals with a large number of customers is more and more often quit in favour of bigger deals with fewer customers, but of a great value. As a result, it enables a supplier to offer an additional value by adapting solutions to individual needs.

Keywords: customer lifetime value, company value, new marketing, company value management.

¹³ P. Doyle, *Marketing wartości*, Felberg SJA, Warszawa 2003, s. 35.

NOWY MARKETING W BUDOWIE WARTOŚCI KLIENTA

Streszczenie

Zmiany technologiczne, nowa konkurencja, zmieniające się gusty oraz preferencje konsumentów powodują, że to, co wczoraj było odpowiednie, staje się przestarzałe, a tym samym powstaje pole dla nowych propozycji, w tym także dla nowego marketingu. Marketing oparty na wartościach wzbogaca o te wartości nie tylko cele realizowane przez akcjonariuszy ale także czyni marketing bardziej skutecznym. Nowa koncepcja marketingu odchodzi bowiem od traktowania marketingu jako specjalistycznej dyscypliny zmierzając w kierunku włączania marketingu w całościowy proces zarządczy, co przejawia się w następującej definicji „Marketing jest procesem zarządczym ukierunkowanym na maksymalizację zwrotów dla udziałowców poprzez utrwalanie relacji z cenionymi klientami i tworzenie przewagi konkurencyjnej”¹⁴.

Inwestowanie we wzrost wartości stanowi w obecnych czasach niezwykle wymagającą strategię. W artykule starano się szczególnie zaakcentować, iż marketing oparty na wartościach polega na opracowywaniu rozwiązań umożliwiających klientom, podnoszenie efektywności prowadzonej przez nich działalności. Obecnie coraz częściej odchodzi się od robienia małych interesów z dużą liczbą klientów na rzecz większych interesów z mniejszą liczbą klientów, ale o dużej wartości. W efekcie pozwala to dostawcy na zaoferowanie dodatkowej wartości poprzez dostosowywanie rozwiązań do indywidualnych potrzeb.

Słowa kluczowe: wartość klienta, wartość przedsiębiorstwa, nowy marketing, zarządzanie wartością przedsiębiorstwa.

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¹⁴ P. Doyle, *Marketing wartości*, Felberg SJA, Warszawa 2003, s. 35.