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Successful customer value management: Key lessons and emerging trends

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Summary In the past decade, firms have paid increasing attention to customer value management (CVM). Through customer-centric management systems, firms aim to maximize customer value. In this article, we put forth six important lessons that firms can employ for successful CVM, integrating available research knowledge and best practices: (1) use CVM to improve business performance; (2) ensure that CVM is more customer driven than IT driven; (3) adopt customer lifetime value as a core metric; (4) invest in strong analytical capabilities; (5) understand the key drivers of customer acquisition, customer retention, and customer expansion; and (6) manage channels to create customer value.

One of the key developments in marketing and management practice in the past decade has been the growth of customer value management (CVM). Many firms have invested in large customer databases to understand, monitor, and influence customer behavior (Winer, 2001). Recent figures from Forrester show that more than 73% of large enterprises in the United States have implemented or are planning to implement customer management programs. A critical aspect of CVM is the role of customer value, or the economic value of the customer relationship to the firm. Firms aim to increase the value of their customer base by attracting new customers, retaining existing customers, reducing the costs of current customers, and selling more products or service to their customers. According to Forrester, more than 72% of B2C firms regard retaining customers as one of their top priorities (Band, 2010). As a consequence, firms continue to invest in software systems and strategies that enable them to actively manage their customers. For example, in Europe 46% of CIOs and end-users among 500 EU organizations want to invest in customer relationship management applications, according to a survey by telecommunications firm Vodafone. In addition, 45% plan to enhance their data-collection applications and 44% will upgrade their database-management solutions (Diana, 2010). Conceptually, CVM has its roots in relationship marketing.[2] It entails

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[2] One can distinguish between customer value from a customer perspective and a firm perspective. In this article we focus on customer value from a firm perspective, thereby focusing on the (long-term monetary) value of a customer for a firm. When one focuses on customer value from a customer perspective, one is interested to what extent the firm provides value to the customer (e.g., Woodruff, 1997).

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Table 1 Six lessons for customer value management.

Lesson	
1	Use CVM to improve business performance.
2	Ensure that CVM is more customer driven than IT driven.
3	Adopt CLV as a core metric.
4	Invest in strong analytical capabilities.
5	Understand the key drivers of customer acquisition, customer retention, and customer expansion.
6	Manage channels to create customer value.

maximizing the value of a company's customer base and analyzing individual data on prospects and customers. Firms then use the resulting information to acquire and retain customers and to drive customer behavior with developed marketing strategies in such a way that the value of all current and future customers is maximized. In CVM, determining and maximizing the value of a firm's customer base is one of its core goals. Companies can increase the value of their customer base by (1) attracting new customers, (2) increasing customer retention, (3) creating customer expansion, (4) winning back old customers, (5) supporting (active) relationship termination, and (6) effectively allocating resources among customers (Bolton, Lemon, & Verhoef, 2004; Verhoef, van Doorn, & Dorotic, 2007)[3].

Important developments in information and communication technology, which have enabled firms to build large customer databases with real-time access at customer touch points, and the development of strong software packages for analyzing these data have accelerated interest in and application of CVM. Companies such as Capital One, Harrah's Entertainment, IBM, U.K.-based retailer Tesco, and the Dutch mobile phone operator KPN have, as a consequence, invested heavily in customer management. However, multiple companies still struggle with implementing CVM. Many firms report complete failure of their CVM projects, indicating weaker customer relationships and decreased revenues from customer spending (Bohling et al., 2006; Kim & Mukhopadhyay, 2011; Rigby & Ledingham, 2004; Rigby, Reichheld, & Schefter, 2002). In addition, new developments, such as the increasing presence of new (social) media and the rise of customer communities, pose new challenges and opportunities for managing customers.

In the same vein, as firms have adopted CVM principles and begun practicing CVM, academics have embraced CVM as a fruitful research domain. An increasing number of articles in top marketing journals have been published on the topic in the past. Originating from several research streams, such as marketing models, marketing strategy, relationship marketing, database marketing, and sales management, researchers have embraced CVM as a specific research topic (Verhoef, Reinartz, & Krafft, 2010).

This ongoing research within marketing science has provided a strong knowledge base. To provide an actionable, in-depth exploration of CVM, we focus on six key lessons (see Table 1), each of which is discussed through the lens of existing research in CVM. We then describe specific insights from practice on this lesson.

Although multiple literature overviews on CVM and specifically customer lifetime value have appeared in the past (e.g., Blattberg, Malthouse & Neslin, 2008; Kumar, Lemon, & Parasuraman, 2006; Verhoef et al., 2007) this article differs from prior reviews by having a stronger managerial focus. We do so by providing six key-lessons, which we first theoretically discuss and offer insights from marketing science. Importantly, we then use examples from practice to illustrate these lessons. Furthermore, our overview has a broader scope by not only focusing on CLV, but also considering other relevant topics in CVM, such as multi-channel-customer management and customer experience management.

Six lessons on customer value management

Lesson 1: use CVM to improve business performance

Insights from marketing science

As firms continuously seek new ways to gain competitive advantage and to improve performance, recent research suggests that CVM is a sound approach. CVM can improve business performance in three ways: (1) CVM is a market-based resource for competitive advantage, (2) CVM increases a firm's customer-centric orientation, and (3) CVM leads to more accountable marketing (see Figure 1). CVM provides firms with sustainable competitive advantage. A firm's customer database and existing customer relationships are important market-based resources because they are difficult to develop and copy. Research shows that a database containing customer acquisition and retention data improves business performance. In addition, research suggests that formal systems for identifying and managing high potential customers lead to higher economic performance (Becker, Greve & Albers, 2009; Jayachandran, Sharma, Kaufman, & Raman, 2005; Reinartz, Krafft, & Hoyer, 2004)

CVM creates a stronger focus on the customer because it requires a customer-centric approach. Moreover, CVM provides firms with extensive customer knowledge. Extensive research shows that firms with a customer-oriented or customer-centric focus tend to have stronger performance

[3] Our definition of CVM has some similarities with CRM definitions, such as for example provided by Payne and Frow (2005). The focus of CVM is, however, clearly on the use of customer data to develop (customer centric) strategies for the creation of long-term customer value. CRM definitions usually have a broader focus by also mentioning business outcomes, such as shareholder value and including IT. Hence, we clearly distinguish between CVM and CRM. Furthermore, we abstain from using the term of CRM instead of CVM, as CRM also frequently has a negative connotation in practice and is frequently only linked to software of providers, such as Oracle and Microsoft.