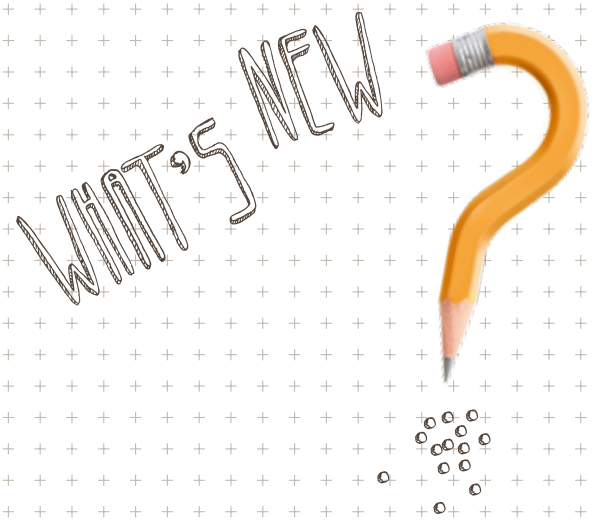
GfK Marketing Intelligence Review

GfK Association


WHAT'S NEW

CONTENTS

EDITORIAL

The response to our first issue of the new GfK-Marketing Intelligence Review (MIR) magazine has been extremely good. Above all, our readers value the interesting choice of topics and the reader-friendly design and graphic presentation of the contributions. I am delighted at this positive resonance and should like to thank all our readers for their constructive feedback. In the coming year, we shall be broadening the basis of feedback still further by way of systematic reader surveys. However, I would also urge you to use the MIR website http://www.gfk-mir.com to let us have your comments and opinions. The website also gives more details on the design of the magazine, and how you can subscribe to it.

The positive response to our first issue is yet another incentive to offer our readers a meaningful and convenient medium for finding out about important developments in international market research, and on how they can be used to gain new insights into consumer behavior. At the very top of the agenda in recent months has been the global economic crisis, which is currently putting marketing under extreme pressure. Despite conditions of severe financial stress, the battle is on for the necessary budgets for appropriate marketing action to respond to the demands of the crisis. However, these efforts will only succeed if there is suitable evidence of the return on investment where marketing outlay is concerned. As a result, market researchers and marketing managers are confronting the particular challenges of presenting convincing arguments in favor of and quantifying the results of marketing for the benefit of the company concerned. With this, the trend towards tighter financial control of marketing expenditure which has been evident for some time, has gained ground. The key words here are: ''marketing metrics''. Complex target group sizes, the market success of new products, customer value and brand value must all be measured with the utmost possible precision and with penetrating analytical content, and substantiation of the positive impact on the financial position of the company obtained by expanding the potential value of these aspects.

This second issue of GfK-MIR examines these new challenges in a series of different articles. In their contribution, L. Aaksoy, B. Cooil, Ch. Groening, T. Keiningham and A. Yalcin investigate ''The Long-Term Stock Market Valuation of Customer Satisfaction'', and examine whether a high level of customer satisfaction can influence the stock valuation of a company in the longer term. In this way, they quantify the return on marketing from the viewpoint of the financial markets, which is not only of the utmost significance for the implementation of comprehensive market orientation for companies, but also for the status of their marketing departments. The findings of their profound, well-anchored analyses evidence the positive impact of above average levels of customer satisfaction, and at the same time, trace how skilful analysis of publicly available time series data – in this case, the satisfaction scores achieved by certain companies and their share price development – responds to the requirements of marketing metrics.

V. Kumar, R. Venkatesan and D. Beckmann use two case studies to show that linking the intensity of customer management to customer value is a worthwhile endeavor (''Implementing Profitability through a Customer Lifetime Value Management Framework''). They develop an appropriate planning routine for this and explain its use in detail, using IBM by way of example, and showing how the company was able to significantly improve the profitability of its marketing in this way. The same applies for the case study of an apparel retailer, where the issue was not B2B, but B2C marketing.

The return on investment of advertising expenditure is subject to particularly critical review at this time of crisis. In their study, ''Preparing for the Adoption of the new Arrival'', R. Castano, M. Sujan, M. Kacker and H. Sujan show that the advertising message where technical product innovations are concerned must be different shortly before or during launch, from that used during the pre-announcement phase. Rather than explaining the advantages of a product to customers in general

terms during the launch phase, customers need to be shown how to use the new product and how it will improve their lives. The contribution outlines the value of an approach using controlled experimental studies whereby the advertising effects can be demonstrated and underpinned by theory.

Price increases are a particularly hot topic at times of economic crisis. More and more companies are consequently developing partitioned price systems with several price components, in order to improve customer reaction to price, or to address particular target groups with specific product features or supplementary services and in this way, to generate willingness to pay the price. Until now, the question of which product or service components consumers are most price sensitive to, or where they are less price-resistant, has remained unanswered. In their contribution, ''When 2+2 is not the Same as 1+3: Understanding Customer Reaction to Partitioned Prices'', R. Hamilton and J. Srivastava show that consumer perceptions of benefit are primary in this respect. The higher the perception of the benefit of a particular product or service component, the lower the resistance to prices.

However, the financial crisis also demands economies in market research itself by means of skilful deployment of methodologies and optimization of survey instruments. In this context, cross-mode surveys, where various data gathering media are used for the same survey topics, e.g. customer satisfaction, are on the rise, especially since the ability to address all the target subjects with a single medium is becoming increasingly rare. However, unfortunately such data may not always be entirely comparable, since the various media (e.g. telephone or online) produce various styles of response. Media-specific measurement errors arise in particular because of media bias and differences in acquiescence and disacquiescence on the basis of set ratings' scales and as a result of different midpoint and extreme response styles. These same effects can also be observed in cross-country surveys. B. Weijters, M. Geuens and N. Schillewaert introduce a new procedure for correction of such errors in their article, ''Response Styles and How to Correct Them'', in which they demonstrate this by way of identical measurement of trust using paper-and-pencil, telephone and online surveying.

Rounding off the information presented in this issue is an interview with the CEO of GfK SE, Prof. Dr. Klaus Wübbenhorst, on the current challenges facing institutional market research and the way in which GfK, the fourth biggest market research organization in the world, deals with these.

We very much hope that the subject mix introduced here will be of great interest to our readers all over the world. It documents the striving of this magazine to convey new insights into consumer behavior and to discuss interesting and innovative strategic and operational alternatives open to marketing, as well as introducing new developments on the methodology side of market research.

I hope you enjoy reading the magazine and look forward to receiving feedback from you.

Nuremberg, October 2009

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{*Editorial Board*}

EDITORIAL BOARD

{*New Theories*}

DOES CUSTOMER SATISFACTION LEAD TO AN INCREASED FIRM VALUE?

Aksoy Lerzan, Bruce Cooil, Christopher Groening, Timothy L. Keiningham and Atakan Yalcin

Does customer satisfaction really lead to increased firm value? Traditionally, most financial valuation models do not include customer-related metrics such as customer satisfaction in the process. Studies in marketing, on the other hand, have consistently found that customer satisfaction improves the ability to predict future cash flows, long-term financial measures, stock performance, and shareholder value. This research examines the impact that customer satisfaction has on firm value by employing valuation models borrowed directly from the practice of finance. The data used in the analysis is compiled by merging publicly available customer satisfaction data from the ACSI (American Customer Satisfaction Index) with financial data from COMPUSTAT, and Center for Research in Securities Prices between 1996 and 2006. The results indicate that a portfolio of stocks consisting of firms with high levels and positive changes in customer satisfaction will outperform lower satisfaction portfolios along with Standard & Poor's 500… Customer satisfaction does matter!

The Role of Customer Satisfaction in Creating Firm Value

The stock market is traditionally seen as the barometer that signals how a company is performing and the promise it holds for the future. But recently U.S. firms' earnings have become much less correlated with stock prices. Why has this happened? This phenomenon has been attributed to the failure of analysts to account for intangible assets of a firm. While it is easy and relatively simple to estimate the value added of tangible assets such as plant and equipment, intangible assets such as brand names, patents and technological expertise are just more difficult to value.

Difficulty in valuation of intangibles, however is not the sole reason for its exclusion. Why have analysts historically resisted including information about customer satisfaction into firm valuation models?

Analysts tend to believe that consumer attitudinal data provides little additional information beyond what is contained in other commonly used data sources to forecast performance. Additionally, a focus on improved customer satisfaction requires a longer-term perspective. Investors, however, tend to be driven by short-term performance. Furthermore, chief executive officers (CEOs) are forced to focus on the short-run due to the limited time they have on the job. A recent study of 476 of the world's largest public and private companies found that almost half of all CEOs had held their positions for fewer than three years, with approximately two-thirds holding the position for fewer than five years. CEOs therefore have less time to prove themselves and secure future employment.

Despite this focus on the short-term by managers and investors, there is a growing appreciation that a large part of the market value of firms today is attributable to intangible assets. The market-to-book ratio for Fortune 500 companies averages 3.5, suggesting that more than 70 % of the market value of the Fortune 500 firms derives from their intangible assets. In fact, the magnitude of intangible assets in today's economy and estimated capitalized value of intangible assets is estimated to be in excess of $6 trillion.

Why is customer satisfaction likely to have a positive impact on a company's value? Well how much does it cost a company when its customers are not happy with the product they just purchased...with the level of service they received...when their questions go unanswered... when their order had to be returned?

The answer is that lowered customer satisfaction ultimately damages the value of a company's most valuable asset: its customers. A great deal of research demonstrates that happy customers tend to be better customers. For example, customer satisfaction has been found

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to have a positive effect on customer retention, share of spending, increased receptiveness to cross-selling efforts, reduced complaints, and referrals. This in turn translates into increased cash flows, reduced cash flow variability, and greater buzz about the company.

Data Sources and Approach

To understand the impact of customer satisfaction on firm performance, we investigated the relationship between customer satisfaction information and a company's stock performance. We tracked customer satisfaction using a national barometer called the American Customer Satisfaction Index (ACSI), developed by the University of Michigan. This ACSI measures customer satisfaction for 43 industries, and more than 200 companies and federal or local government agencies. These companies are broadly representative of the U.S. economy serving U.S. households. We then appended the monthly stock market returns for each of the publicly traded firms in the ACSI sample. The period in this study covers the third quarter of 1996 through the first quarter of 2006 with a total of 151 unique firms.

We examine both the absolute level in customer satisfaction and the changes in customer satisfaction over time by forming portfolios of companies based on a company's customer satisfaction performance over time. Specifically, we devised a classification scheme for portfolios where each firm is allocated into one of the four groups depicted in Figure 1 (Refer to Figure 1).

» The magnitude of intangible assets in today's economy and estimated capitalized value of intangible assets is estimated to be in excess of $6 trillion. «

As new data is released from the ACSI each quarter, firms are then reclassified based upon the new information. This resulted in 117 monthly value weighted portfolio returns from December 1996 to August 2006. This large, robust data set offered us the opportunity to investigate the impact that customer satisfaction has on shareholder wealth by examining the monthly series of the four portfolio returns.

Performance Differences Based on Customer Satisfaction

How much is $100 that is invested in a high customer satisfaction portfolio likely to bring in 10 years? A lot! An investment of $100 in Portfolio High at the beginning of December 1996 more than triples to $312 by August 2006. If we compare this to the S&P 500 index, our $100 only grows to $205. And low satisfaction results in a dismal market performance. An investment of $100 in Portfolio Low decreases to $98 by the end of the 10 year investment horizon (See Figure 2).

Does this mean that stocks of firms with high customer satisfaction perform better than expected? An analyst might question the results as a function of risk. This is because high risk is associated with higher returns, without necessarily implying abnormal returns.

To address whether customer satisfaction truly creates shareholder value, we turn our focus on excess (or abnormal) returns. This allows us to understand whether the returns generated are indeed due to higher returns rather than accepting high-risk investment strategies. To this end we used three popular valuation models frequently used in finance: the Captial Asset Pricing Model (CAPM), the Fama French 3 Factor Model, and the Fama French (Carhart) 4 Factor Model.

CAPM is a very popular (albeit controversial) model in investment markets and project evaluations. It is widely believed that CAPM does not work well, especially in certain situations such as when using cross sectional data. It does, however, tend to have a more positive reputation in models where time series data are used. CAPM predicts a positive linear relation between an asset's expected rate of return and its covariance risk with the market.

More recently the Fama French 3 Factor Model has gained increased popularity. It is a model that is empirically driven (although it is sometimes criticized for being non-theoretical). It is very popular in financial valuation.

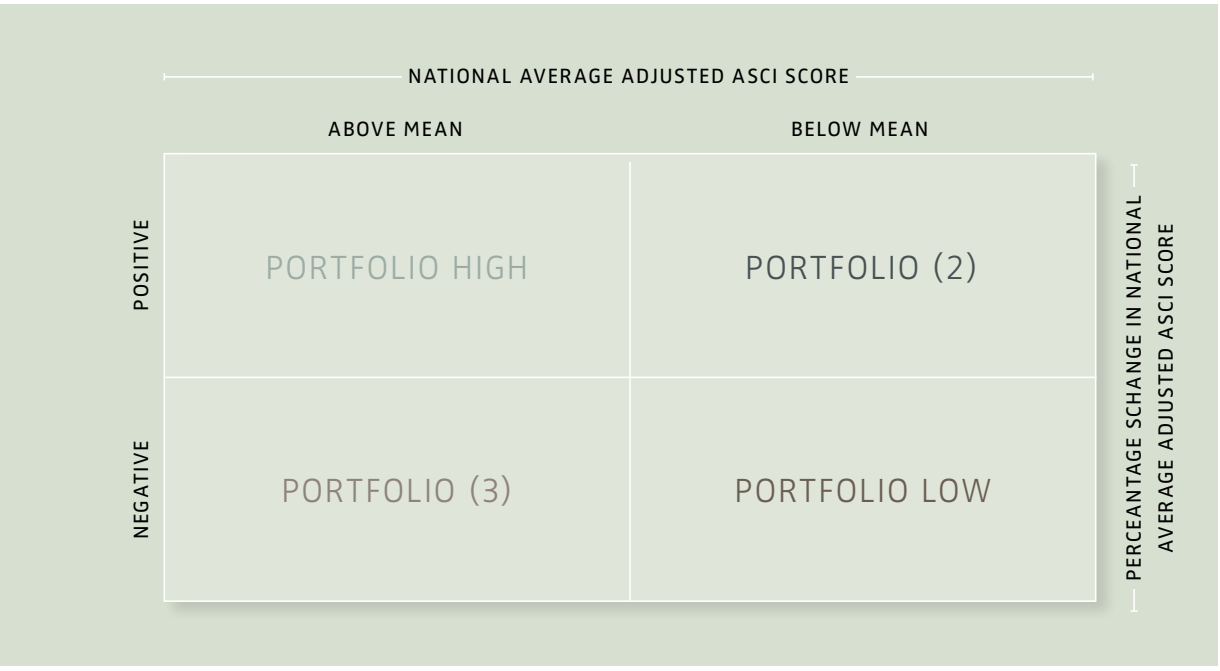


FIGURE 1
Portfolio Formation

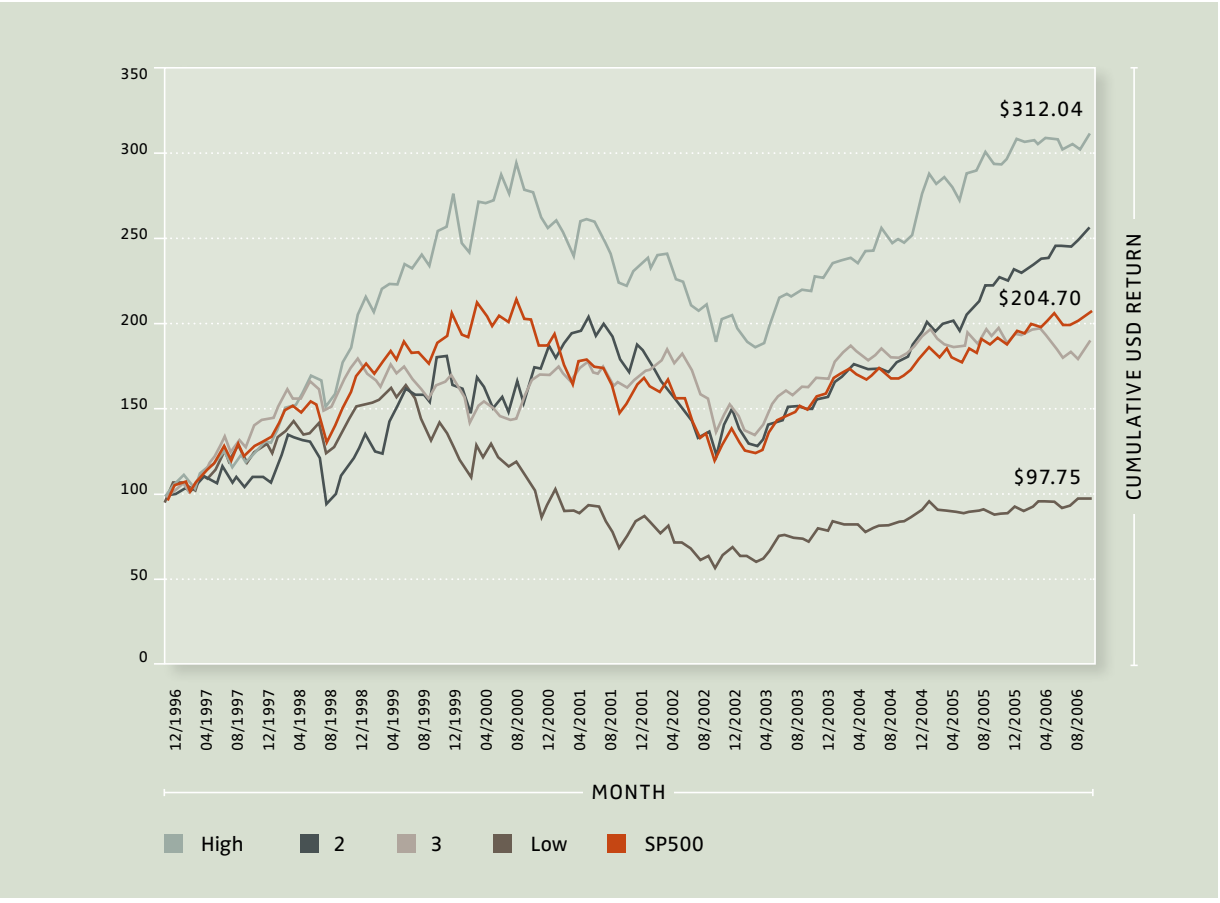
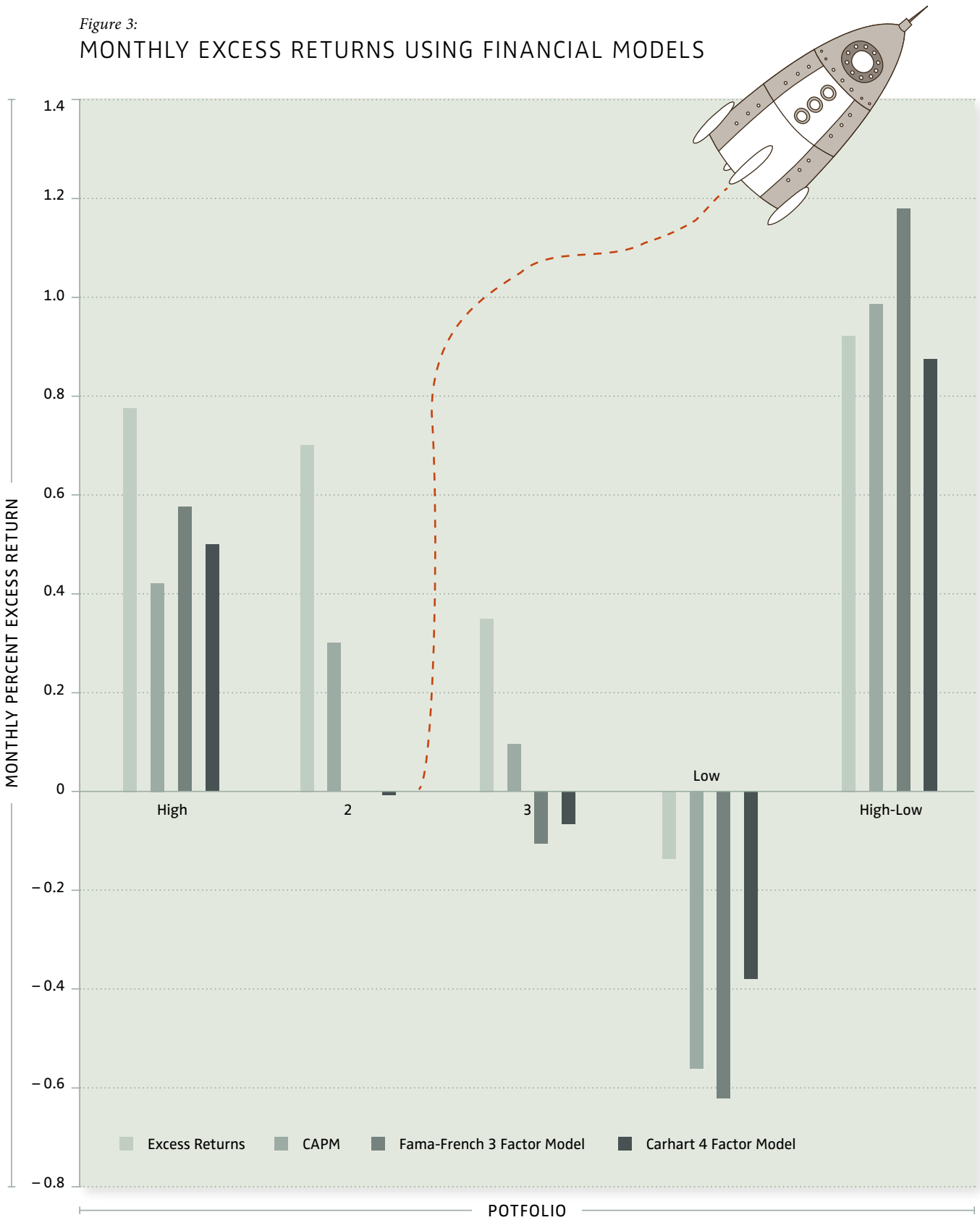


FIGURE 2
Customer Satisfaction and Cumulative Portfolio Returns

Figure 3:

MONTHLY EXCESS RETURNS USING FINANCIAL MODELS



Fama and French argue that a three-factor model which incorporates size, value, and the market factors can explain almost all pricing anomalies.

The final model used to estimate abnormal portfolio returns is the Fama French (Carhart) 4 Factor Model. In addition to the variables in the Fama French 3 Factor Model, a momentum variable is included as an additional risk factor. This risk factor accounts for the popularity of the stock in the market.

Running these models on the data indicate striking results in terms of the impact of high levels and positive changes in customer satisfaction over time. If one is to invest in Portfolio High, it would bring a clear positive excess return of 0.78 % per month above and beyond the risk factors!

Furthermore, the maximum gains would be achieved by following an investment strategy where one would build a zero net-investment portfolio. This would imply buying stocks in Portfolio High and short selling those in Portfolio Low (High-Low). Based on this investment strategy it is possible to make an average monthly excess return of 0.92 %.

As Figure 3 indicates, monthly abnormal returns for the various portfolios are quite varied with the highest gain from Portfolio High and negative returns from Portfolio Low. The other portfolios are somewhere in between. The results are clearly quite consistent across the 3 different financial models used. When we examine the zero net investment portfolio based on the Fama French (Carhart) 4 Factor Model for example, the results indicates an abnormal return (risk-adjusted) of 0.88 % per month. This is a sizeable gain which adds up to a significant 10.56 % per year even after controlling for risk! The only risk factor that is significant in this portfolio is a momentum effect present in stock returns. Portfolio High tends to have in-favor stocks whereas Portfolio low tends to have stocks that are mostly out-of-favor with investors.

In summary, these results provide strong evidence that high and increasing customer satisfaction leads to abnormally high stock returns, indicating that the stock market is slow to recognize the full extent of the intangible value created (Refer to Figure 3).

What did experts in the area of finance have to say? Personal interviews that we conducted with senior executives of one of the largest institutional securities firms pointed to the need to conduct rigorous testing of multiple start-end dates (referred to in the industry as ''backtesting'') for the portfolios we formed. Specifically, analysts wanted to see ''a rigorous and realistic backtest of the investment hypothesis, which should include periods of adverse investment environments, may provide some confidence in the potential performance of the investment process. Finally, a detailed performance and risk attribution analysis is critical to identifying the degree of insight in the specific investment hypothesis''.

To address these concerns of the finance community, we calculated the returns of each portfolio and the S&P 500 for various holding periods from a one-quarter minimum holding period to a seven-year minimum holding period. At the end of each end date, each portfolio is assigned a finishing position from first to fifth place. Consistently Portfolio High finishes first place in terms of performance regardless of the start and end date of portfolio formation.

Furthermore, the state of the economy also has the potential to affect company valuations. A weakening of the economy, as indicated by the National Activity Index (NAI) for example, can result in a negatively impacted earnings growth and vice versa. To test the performance of the portfolios across different states of the economy, we divided the data in two based on whether the average NAI is positive (economy expanding above average) or negative (economy expanding below average). The results indicate that in general the results found earlier remain consistent despite changes in economic performance. In fact, the findings suggest that firms with high and increasing customer satisfaction can leverage this resource to provide larger returns to shareholders in periods of economic expansion. In addition, there is some indication that the value of having highly satisfied customers might dampen the negative impact of an overall economic downturn.

What Does All This Mean for Managers?

The bottom line is that creating customer satisfaction does matter! And intangible assets such as this measure of customer equity can yield valuable information in addition to traditional tangible asset metrics.

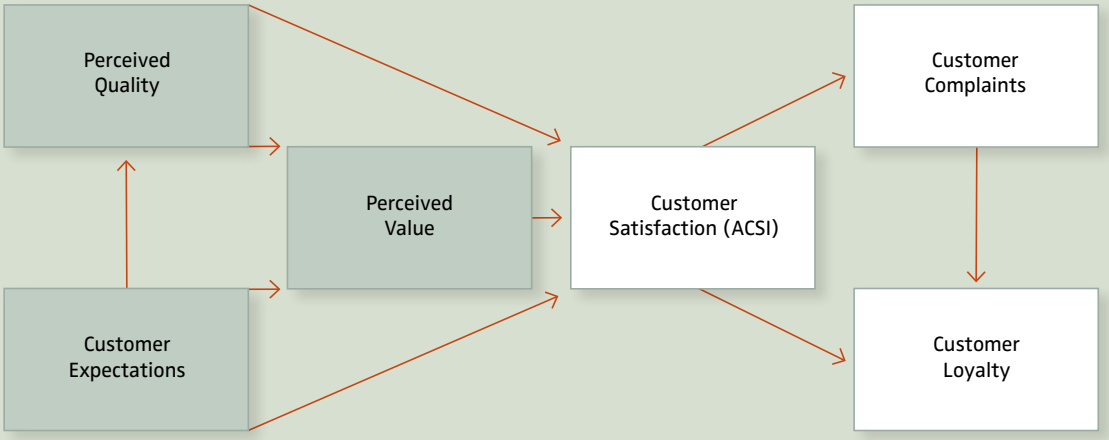
We demonstrate that investing in a portfolio of firms with high and increasing customer satisfaction is far superior to investing in a portfolio of firms with low and decreasing customer satisfaction. This strategy beat the market, far outperforming the S&P 500 index.

ACSI (The American Customer Satisfaction Index)

ACSI reports scores on a 0 – 100 scale at the national level and produces indexes for 10 economic sectors, 44 industries (including e-commerce and e-business), and more than 200 companies and federal or local government agencies. In addition to the company-level satisfaction scores, ACSI produces scores for the causes and consequences of customer satisfaction and their relationships. The measured companies, industries, and sectors are broadly representative of the U.S. economy serving American households.

The American Customer Satisfaction Index uses customer interviews as input to a multi-equation econometric model developed at the University of Michigan's Ross School of Business. The ACSI model is a cause-and-effect model with indices for drivers of satisfaction on the left side (customer expectations, perceived quality, and perceived value), satisfaction (ACSI) in the center, and outcomes of satisfaction on the right side (customer complaints and customer loyalty, including customer retention and price tolerance).

The indexes (shown in the diagram below) are multivariable components measured by several questions that are weighted within the model. The questions assess customer evaluations of the determinants of each index. Indexes are reported on a 0 to 100 scale. The survey and modeling methodology quantifies the strength of the effect of the index on the left to the one to which the arrow points on the right. These arrows represent "impacts". The ACSI model is self-weighting to maximize the explanation of customer satisfaction (ACSI) on customer loyalty. Looking at the indexes and impacts, users can determine which drivers of satisfaction, if improved, would have the most effect on customer loyalty.



Source: www.theacsi.org

Given that riskier portfolio strategies invariably bring with it higher potential returns, there was a need to adjust for risk factors by using models such as the CAPM, Fama French 3 Factor Model, and Carhart 4 Factor Models. The results indicate the only significant risk factor to be momentum (winner / loser effect). High customer satisfaction portfolios tend to have more in-favor stocks, and low-customer-satisfaction portfolios tend to have more out-of-favor stocks. Therefore, it turns out that even after we adjust for relevant risk factors, the results indicate a positive risk-adjusted return for a high customer satisfaction portfolio that can add up to over 10 % return a year!

We also find that the intangible value created by high customer satisfaction is more likely to be undervalued by Wall Street immediately following customer satisfaction information announcements made. Even though the market initially undervalues positive customer satisfaction information, it adjusts over time.

These results have important implications for research analysts and portfolio managers alike. Customer satisfaction is found to have an important influence on firm value and thus can be used actively in portfolio strategies to generate superior returns. Forming portfolios on the basis of satisfaction data, especially when such data are publicly available, has the potential to generate valuable excess returns.

One of the frequent criticisms of and skepticism towards marketing is its perceived inability to quantify its value added to business. Due to this lack of accountability, expenditures in increasing customer satisfaction are deemed unnecessary or even useless. This research however clearly demonstrates the superior returns to shareholders that investments in customer satisfaction can provide. •

FURTHER READING

American Customer Satisfaction Index:
http://www.theacsi.org

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KEYWORDS:

Customer Satisfaction,
Firm Value,
Marketing Metrics


BUY
NEW
YEAH
PRODUCT!
SPECIAL OFFER

PREPARING FOR THE ADOPTION OF THE NEW ARRIVAL

Raquel Castaño, Mita Sujan, Manish Kacker and Harish Sujan

The emotional state of many expecting parents shifts from unbridled joy to anxiety as the reality of learning to care for a newborn and forsaking their current lifestyle sinks in. Similarly, consumers have different concerns when they first hear about a new product compared to the time when they consider buying it. If the buying decision is in the distant future, consumers are primarily concerned with the benefits derived from using the product, such as how the product performs and symbolic benefits of owning the new product. As the buying decision draws closer, consumers shift attention to cost-related issues, such as how long will it take to learn how to use the product or how much will it cost to maintain and use it. Executing a two-phased communication strategy by management that is synchronized with this shift in mental processes by first emphasizing new product benefits and features and later focusing on the practical aspects of using the innovation can have a beneficial impact on both organizational performance and consumer welfare.

In keeping with its heritage of innovation, Michelin has developed the Tweel, a no-air combination tire and wheel technology. The Tweel performs well on uneven terrain, buckling when it goes over bumps and obstacles and then rapidly recovering its original shape. Consumers are frequently confronted with such innovations that require them to adopt new behaviors and discontinue past habits. While consumers are initially excited by the performance potential of these new products, they become increasingly concerned with the uncertainties associated with the costs of adopting such products and gravitate back to familiar options as the time to make an adoption decision approaches. Our research provides a strategy managers can use during the roll out phase of new product introductions to proactively manage these shifting consumer perceptions with the goal of increasing consumers' adoption and satisfaction with new products.

Why do consumers move from approach to avoidance for new products? Research examining how people visualize a near and distant future provides the answer. When a person is considering an action in the distant future, the focus is on the benefits and the positive outcomes of the decision. However, as the action draws near, the decision maker focuses on the efforts and costs of the action and the downside risks of the option. Temporal construal theory also explains why early product concept test results often provide unreliable data on product acceptance. Product preferences, obtained when consumers perceive the product as being far from market, overestimate the benefit related features of the product and underestimate the cost related features, including the challenges of learning and using the product.

Early product concept test results may provide unreliable data on product acceptance. Product preferences, obtained when consumers perceive the product as being far from market, often overestimate the benefit related features of the product and underestimate the cost-related features, including the challenges of learning and using the product.

Consumers are unsure about the characteristics of new products introduced to the market. The term ''really new product'', refers to new technologies perceived by consumers as innovations with high uncertainty and risk levels. Important sources of uncertainty associated with really new products or services include:

a) performance uncertainty – What is the expected utility of the product? How useful will the product be to me?

b) symbolic uncertainty – How socially desirable is the product? How will others see me if I adopt this product?

c) switching-cost uncertainty – How difficult will it be to switch from using the current product to the new product? Will I be able to learn how to use it?

d) affective uncertainty – What is the extent of emotional attachment to existing options? How will I feel if I forgo the old?

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» Systematic shifts in communication strategy from preannouncements to market launch can reduce consumer perceptions of uncertainty and increase adoption levels and satisfaction with new product adoption. «

What is of critical importance in designing effective communication strategies for launching new products is accounting for how the relative importance of these different types of uncertainties shifts during the different phases of the decision making process for new products (Refer to Figure 1).

Our empirical research (Study 1) establishes that the types of uncertainties that dominate consumer thinking change as the product adoption decision progresses. When adoption is in the distant future, consumers are primarily concerned with benefit-related uncertainties, such as performance benefit (how will the tires perform?) and symbolic benefit (e.g., what will others think of the new tires?) uncertainties. As the adoption decision approaches, consumers shift their attention to cost-related uncertainties, such as switching costs (e.g., how easy will it be learn to drive on Tweels or maintain them?) and affective (e.g., how much will I miss my traditional pneumatic tires?) uncertainties.

It is fundamental to understand the concerns of consumers in each phase of the decision making process for new products in order to design a more effective communication strategy for each phase. Consumers first deliberate about uncertainties related to the performance and symbolic features of new products and only later consider the challenges and uncertainties about learning new technologies and their feelings about forgoing the familiar.

Organizations can adapt their communication strategies to address these shifting consumer concerns. Research on motivating behaviors suggests that people can be motivated to visualize the future in two ways, one by simulating the results of an action, and two by simulating the process of taking the action. For example, a consumer deciding whether or not to buy a new technology phone could imagine the outcomes (the ''whys'') of using the new technology phone (e.g., access to e-mail, improved web-browsing). That is the consumer could simulate the reasons for switching from an old cell phone to the new technology. The person could also imagine the process (the ''how-tos'') of using the new phone (e.g., imagine transferring the data from the computer to the phone, downloading applications, calling the company to resolve difficulties, budgeting for the increased monthly fee). That is, the consumer could simulate the process of switching from an old cell phone to the new technology. Which type of simulation works better for communicating about the new phone?

Our research (Study 2) finds that preannouncements for new products due to be launched in the relatively distant future should guide consumers to elaborate on the ''whys'' of adoption (e.g., new and better technology). In contrast, communication strategies for product launches in the relatively near future should encourage consumers to elaborate on the ''how-tos'' of adoption (understanding the costs and operating procedures for the product). Synchronizing communication strategies with temporal distance to adoption increases the actual product adoption rates and equally importantly, such temporal synchronization increases satisfaction with the product after adoption.

Preannouncements that promote the visualization of the outcomes or benefits of using the new product should be replaced by communications at market entry that help consumers visualize the concrete challenges and the process or steps of successfully adopting the new technology.

Thus, we find that if communication efforts are properly focused over time, they will reduce the specific uncertainties and risks that consumers consider during the different phases of deliberation and purchase of new products. In addition, in our research (Study 3) we find these communication efforts are more efficacious for more-new versus less-new products.

Preannouncements should promote visualizing the benefits of using the new product. How can this be best achieved? First, preannouncements should encourage distant thinking with phrases such as ''in the making''

Figure 1:
KEY QUESTIONS AND RESEARCH DESIGN

Do consumers' concerns shift as the time to adoption nears?

What communication strategies are effective during the pre-announcement phase and the market entry phase of new products?

Are these communication strategies equally effective in promoting adoption at all levels of product newness?

STUDY 1

Experimental Study

Temporal Frame
(Near Future vs. Distant Future)
effects on
– Uncertainty thoughts
– Emotions
– Behavioral Intentions

Longitudinal Study

Temporal Frame
(Near Future vs. Distant Future)
effects on
– Uncertainty thoughts
– Emotions
– Behavioral Intentions

STUDY 2

Experimental Study

Temporal Frame
(Near Future vs. Distant Future)
×
Type of Communication Strategy
(Process Simulation vs.
Outcome Simulation)
effects on
– Uncertainty thoughts
– Emotions
– Behavioral Intentions
– Adoption
– Post-consumption Satisfaction

STUDY 3

Experimental Study

Temporal Frame
(Near Future vs. Distant Future)
×
Type of Communication Strategy
(Process Simulation vs.
Outcome Simulation)
×
Level of Product Newness
(More vs. Less)
effects on
– Uncertainty thoughts
– Behavioral Intentions

STUDY 2A

Experimental Study

Temporal Frame
(Near Future vs. Distant Future)
×
Type of Communication Strategy
(Process Simulation vs. Outcome
Simulation vs. Control)
effects on
– Uncertainty thoughts
– Behavioral Intentions
– Behavioral Intentions
(delayed)

{*Study 1*}

TEMPORAL DISTANCE AND THE ADOPTION PROCESS FOR NEW PRODUCTS

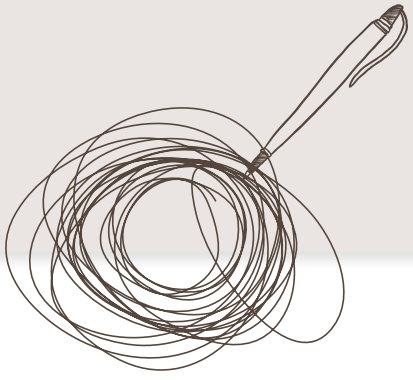
The purpose of Study 1 was to assess how the relative importance of different types of uncertainties associated with the adoption of new products change over time with both experimental and longitudinal studies. We investigated the adoption of a newly offered virtual class in a Mexican university. We conducted a pretest to measure perceived newness. For the participating students, the average of the newness measure for a virtual course was high (8.56 on a ten-point scale), and none had previously taken a virtual course. For the experimental study we used a one-way analysis of variance (ANOVA) (time frame: near versus distant) between-subjects design and for the longitudinal study a one-way ANOVA (temporal distance: near versus distant) repeated measures design. In both cases we measured the effects of temporal frame (near future versus distant future) on uncertainty thoughts, emotions and behavioral intentions. Study 1 demonstrates that the uncertainties of concern in the adoption of a new product shift from performance and symbolic uncertainties in the distant future to switching cost and affective uncertainties and anxiety in the near future. Furthermore, behavioral intentions decline as the time to make an adoption decision approaches. The converging evidence from the experimental and longitudinal studies adds to previous experimental work on intertemporal choice and validates the view that people are able to simulate adopting an unfamiliar product or service in the near and distant futures. Figure 3 illustrates these results.

''new technology breakthroughs in our RandD being prepared for market introduction''. Then, preannouncements should be focused on consumer goals and benefits conveyed at an abstract level. This can be achieved by communication rich in the contextual details surrounding the new product, achieved by depicting typical consumers in typical situations enjoying the benefits of the new introduction. Anticipations of the benefits are best achieved via landscape shots taken at some distance from the product so as to focus on the benefits created by the product, rather than the product itself.

{*Study 2*}

MENTAL SIMULATION AND TEMPORAL DISTANCE

The purpose of Study 2 was to test communication strategies that were likely to reduce the different types of uncertainties associated with new product adoption at different temporal distances to adoption. As in Study 1, adopting a newly offered virtual class in a Mexican university served as the context. The experiment was a 2x2 between-subjects design, crossing focus of simulation (outcome versus process simulation) with temporal frame (near future versus distant future). Participants were randomly assigned to one of the four conditions. Participants were presented with the written description of the virtual course and imagined themselves making the decision whether to enroll in a virtual course tomorrow (near-future condition) or next year (distant-future condition). Half of the participants engaged in outcome-oriented imaginations of the benefits of enrolling in a virtual course, and the other half engaged in process-oriented imaginations of working through the constraints of a virtual course. Actual enrollment data were observed for all participants 25 – 28 days later. Post-consumption satisfaction was recorded two weeks after the start of classes. Results show that process simulation directed at helping consumers reduce switching cost uncertainties and affective uncertainties is constructive when the adoption decision for a new product is in the near future; meanwhile, outcome simulation directed at reducing performance and symbolic uncertainty is productive when the adoption decision is temporally distant. Furthermore, students who had considered adopting a virtual course believing that the decision was imminent and had simulated the process of dealing with the constraints of the new course format were more likely to register in a virtual course 25 – 28 days later and appeared to be the most satisfied with the course after the first two weeks of the course. Figure 3 illustrates these results.



{*Study 3*}

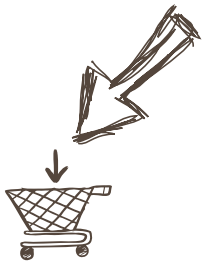
ADOPTION PROCESS FOR MORE-NEW VERSUS LESS-NEW PRODUCTS

In Study 3, we examined the efficacy of simulation strategies for two levels of product newness. We examined adoption intentions for car concepts that varied in newness (active-cruise control car versus automatic car). The experiment was a 2x2x2 between subjects design, crossing focus of simulation (outcome versus process simulation) with temporal frame (near future versus distant future) and newness of the concept (more new versus less new). Students at a Mexican university participated in the experiment and were randomly assigned to one of the eight experimental conditions. Participants were presented with one of two car descriptions that varied in the degree of newness. Before reading the description they were told to imagine themselves in a situation in which they needed to make the decision of whether to buy and use the car either next week or next year and to imagine either the benefits or the process of buying and using the car. Study 3 validates the position that the importance of uncertainty management in new product adoption is contingent on degree of newness and more important for really new products relative to incrementally new products.

For robotic vacuum cleaners the landscape shot is of a clean room, the IRobot is in a distant corner at work, and a relaxed person is on a couch. These suggestions are congruent with the successful launch of the iPhone by Apple in 2007. The iPhone was first announced with ''in the making'' announcements. Apple's communication strategy highlighted the benefits of adopting the iPhone. Apple's television commercials and website focused on, for example, the innovative and abstract benefit of individualization and entertainment that the revolutionary touch-screen interface and multimedia capabilities afforded the consumer.

Preannouncements should be structured to include phrases such as ''in the making'' to promote a distant time horizon, and use landscape shots that depict the benefits created by the product rather than on the product itself.

At the time of market entry, communication messages should help consumers visualize the concrete challenges and steps of successfully adopting the new technology. How can this be best achieved? First, market launch announcements should encourage proximate thinking with phrases such as ''now available for the first time''. Then, market launch announcements should be focused on procedures for easing adoption conveyed at a very concrete level. This can be achieved by demonstrations focused on the product itself, achieved by depicting typical consumers in typical situations actually interacting with the new introduction. Anticipations of usability are best achieved via close-up shots of the product so as to focus on the mechanics of use of the product. So for robotic vacuum cleaners the close-up shot is of a consumer pressing the ''clean'' button to make the IRobot spin. Consistent with these suggestions we see that as the launch of the iPhone drew closer, Apple's communication strategy shifted to emphasizing the ''how-tos'' of adoption – television commercials and the website featured close-up demonstrations of actual use of the phone and service options by consumers.



Market entry advertising should be structured to include phrases such as, ''now in market for the first time'', to promote a proximate time horizon and should use close-up shots that demonstrate how the product can be easily operated by the consumer.

There is a widespread awareness across companies and industries of the need to develop products that are really novel as a means to ensure profitability in difficult business environments. Hence, the execution of the introduction of a new product becomes a critical task, especially as the level of product newness increases. The communication dimensions of launch implementations are a crucial part of success – tailoring the communication strategy to the proximity of the product launch and adoption can enable innovative firms to fully capture the fruits of their labor.

Our ideas have public policy implications as well. The ideas can help policymakers generate popular acceptance for new initiatives that substantially depart from the status quo by introducing the ''whys'' of change before the ''hows'' of change.

Our ideas have public policy implications as well. The ideas can help policymakers generate popular acceptance of new initiatives that substantially depart from the status quo. Based on our findings, initial communications about big policy changes, for example, around health care in the United States, should encourage citizens to simu-

Figure 2:

Q AND A IN NEW PRODUCT INTRODUCTIONS

Do consumers' concerns shift as the time to adoption nears?

What communication strategies are effective during the pre-announcement phase and the market entry phase of new products?

Are these communication strategies equally effective in promoting adoption at all levels of product newness?

WHEN ADOPTION IS DISTANT

Performance benefits and symbolic benefits are paramount.

AS THE DECISION NEARS

Learning and switching costs are paramount.

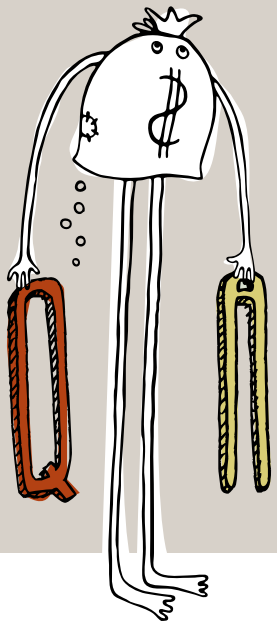
WHEN ADOPTION IS DISTANT

Preannouncements should promote visualization of the outcomes (the "whys") of adoption using landscape shots focused on the performance and symbolic benefits created by the product, rather than on the product itself.

AS THE DECISION NEARS

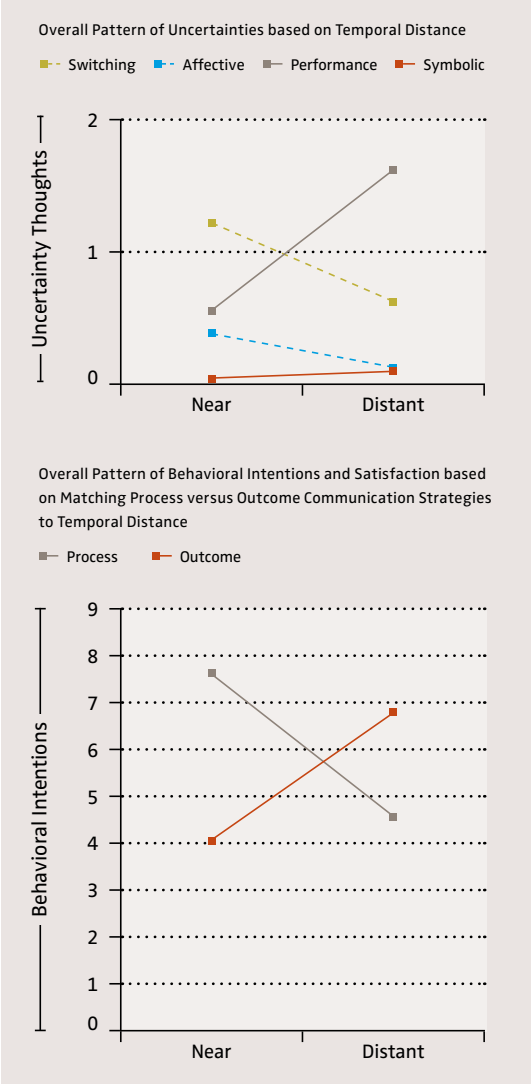
Market entry ads should promote the visualization of the process (the "hows") of adoption using close-up shots that demonstrate actual product use.

While these communication strategies are helpful in the launch of all new products, their efficacy increases as product newness increases.



late and debate the "whys" of adoption to encourage buy-in to the new policies. Closer to the policy implementation, communications must help citizens manoeuver the "how-tos" of adoption for successful implementation of the new plans. Carefully tailored communication strategies that fit the timing of the launch of new product or policy initiatives can have a beneficial impact on both organizational performance and consumer welfare. •

FIGURE 3:
Overall Pattern of Uncertainties, Intentions and Satisfaction



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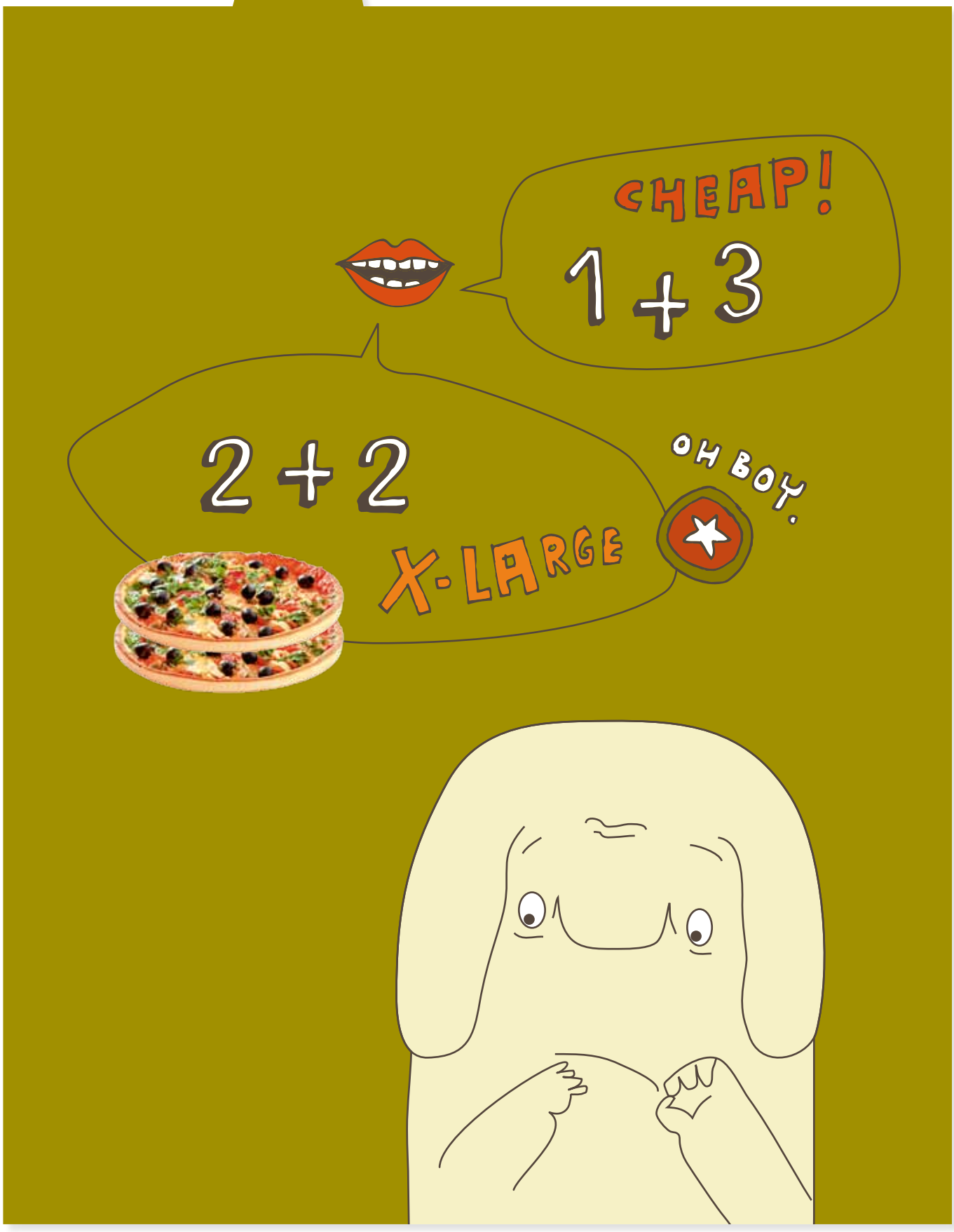
CHEAP!
1+3
2+2
X-LARGE
OH BOY.

WHEN 2+2 IS NOT THE SAME AS 1+3: UNDERSTANDING CUSTOMER REACTIONS TO PARTITIONED PRICES

Rebecca W. Hamilton and Joydeep Srivastava

Firms often use a pricing strategy in which they partition the total price of a product and/or service into two or more mandatory components, such as parts and shipping. In this research, we examine how dividing the same total price differently across the components affects customers' reactions. In a series of studies, we show that customers systematically prefer partitions of the same total price in which the price of low benefit components (e.g., shipping) is lower and the price of high benefit components (e.g., parts) is higher. Thus, for effective pricing, markups on components that consumers believe provide a high degree of benefit should be higher than markups on components that consumers believe provide less benefit.

One of the things that customers say they hate most about buying products online is paying shipping charges. Granted, shipping is a legitimate cost for online retailers, because they must move the product from their warehouse to the customer's door to complete the transaction, but shipping and handling charges are one of the most frequently cited reasons for shoppers abandoning their shopping carts and discontinuing their purchases. One reason for this may be that customers compare shopping online with shopping offline, where they are usually not asked explicitly to pay shipping charges. Both online retailers and their brick and mortar peers incur shipping charges, because both types of retailers must move their inventory from a warehouse to their customers. Brick and mortar stores generally incur the shipping cost prior to the purchase and incorporate this cost in the price quoted to customers without making these costs explicit. In contrast, online stores incur the shipping cost after the purchase and make these costs explicit in the price quoted to customers.

Empirical research suggests that customers buying books online are almost two times more sensitive to changes in the price of shipping than to changes in the price of the product they are purchasing. This suggests that in the case of shipping charges, customers will be happier when a lower proportion of the total price is allocated to shipping and more is allocated to the product itself. Some online retailers, like Zappos.com and Amazon.com, address customer resistance to shipping charges by offering free shipping on some or all purchases (i.e., allocating the total price to the product and none to shipping). As enlightened customers, we know that these online retailers are incurring shipping charges to send their goods to us, so they must be recouping their costs by charging higher prices, but we still love it that they are not charging us explicitly for shipping.

A pricing manager has to decide carefully his partitioned pricing strategy in terms of how to allocate the total

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price between two components such as the product being purchased and charges to ship the product to the customer. Price partitioning is defined as the strategy of dividing a total price into two or more mandatory components, even though the customer is required to pay for all of the components. In the case of online shopping, shipping is a mandatory component of the purchase. Other examples of partitioned pricing include airline ticket prices that include the price of the flight as well as taxes and fees, auto repair invoices that that charge customers for parts and labor, and promotions of consumer packaged goods for which the manufacturer promises to donate a specified amount of the purchase price to charity.

» A pricing manager has to decide carefully his partitioned pricing strategy in terms of how to allocate the total price between two components such as the product being purchased and charges to ship the product to the customer. «

Standard economic theory predicts that there should be no difference in demand based on how a price is partitioned because the total price to be paid by the customer is identical. However, recent research shows that customers react differently to partitioned and non-partitioned prices. Earlier research documents two different ways in which partitioned pricing affects customer price perceptions. First, when prices are partitioned and the total price is not explicitly provided, customers may process one component more thoroughly than another component, thereby underestimating the total price relative to when prices are not partitioned. For example, when evaluating the price of a book purchased online, a customer might focus more on the price of the book than on the price of shipping, thus underestimating the total price being paid. Second, partitioned pricing may draw more attention to the partitioned components than when these components are not partitioned. For example, quoting a separate price for an included warranty when selling a refrigerator might raise concerns about the refrigerator's reliability more than partitioning the price of another component, such as an icemaker.

Although research has contrasted customers' evaluations of partitioned and non-partitioned prices, variations in how a total price is partitioned across components and how these variations may affect customer preferences have been relatively ignored. Our research examines whether customers systematically prefer certain price partitions relative to others when the same total price is partitioned in different ways.

More specifically, we examine whether it matters which components in a partitioned price are large and which components are small in terms of their proportion of the total price. Earlier research suggests that the relative size of the components is the most important factor, but we propose that customers often have strong feelings about the nature of the components as well as their size. If the advantage of partitioned pricing is that customers process the largest component, often the base price, more thoroughly than smaller components, such as surcharges, it should not matter how the base price and surcharge are described. That is, if an online seller chose to partition the total price of a product such that shipping made up the majority of the price and the price of the product was relatively small, like a surcharge, existing theory suggests that customers would focus on the base price and ignore the surcharge, remembering a lower total price. However, the strong negative reaction many customers have toward paying for shipping suggests that customers do care how the total price is allocated across components.

The goal of this research is to answer questions such as the following:

1) When an auto repair shop writes their invoices, they often partition the price of labor from the price of the parts used to perform the repair. Keeping the total price charged to the customer constant, should their markup on labor be higher than the markup on parts

(or vice versa), or should the percentage markup be the same across components? As we will discuss in the next section, participants in our studies systematically preferred a lower markup on labor and a higher markup on parts.

2) In a restaurant that serves both pizza and wings, will customers respond more favorably to a discount on wings or to the same size discount on pizza? As we discuss in the paper, our research suggests that the effectiveness of the same monetary discount differs depending on whether customers come into the restaurant with a goal of buying wings or with a goal of buying pizza.

Are customers more concerned about the relative prices of the components or about the nature of the components?

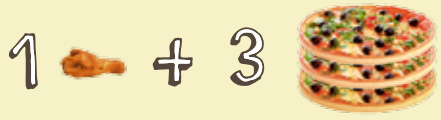
Suppose that a customer needs to repair her car, and she is considering estimates from two different repair shops. Shop A is offering a new front car bumper for $89.95 and charging $32.50 for the labor to install it, while shop B is offering the identical bumper for $69.95 and charging $52.50 for labor. Thus, both shop A and shop B are charging the same total price of $122.45. Which of the two offers is more attractive?

If customers focus more on the base price than on smaller surcharges, as suggested by earlier research on price partitioning, they should prefer to see a discount on the larger price component. This suggests that most customers would prefer shop B because a price discount on the larger component (the front bumper) should have a stronger effect on preferences than an identical price discount on the smaller component (labor).

On the other hand, research on human perception (Weber's law) suggests that customers may be more sensitive to a change in the price of a less expensive component than to an equivalent change in the price of a more expensive component because a higher percentage change is more noticeable. If this is the case, most customers should prefer shop A because the identical price discount is more noticeable when it is applied to the smaller price component (labor) than to the larger price component (the front bumper).

In contrast to both of these predictions based solely on the relative prices of the partitioned components, we argue that it is important to consider the nature of the components being partitioned. Our basic premise is that partitioned pricing allows customers to unambiguously link each component to its respective price, thereby encouraging customers to compare the perceived benefits of each component against its price rather than assessing the benefits of the components jointly.

Customers may perceive the benefits of a good or a service in several ways, including functional, social or emotional benefits. For example, functional benefit comes from a product's capacity for delivering functional, utilitarian or physical performance. Social benefit comes from a product's association with positively or negatively regarded social groups, and emotional benefit is acquired based on a product's association with specific feelings.



» Standard economic theory predicts that there should be no difference in demand based on how a price is partitioned because the total price to be paid by the customer is identical. However, recent research shows that customers react differently to partitioned and non-partitioned prices. «

If partitioned pricing encourages customers to compare each component's benefits with its price, we predict that they will be less sensitive to the price of components perceived to provide relatively high benefits – whether these are functional, social or emotional benefits – and more sensitive to the price of components perceived to provide relatively low benefits. Thus, when evaluating different partitions of the same total price, we predict that customers will prefer partitions in which they pay a lower price for the low benefit component and a higher price for the high benefit component. Specifically, customers will prefer partitions where $X is charged for the high benefit component and $Y is charged for the low benefit component to partitions where $X–Z is charged for the high benefit component and $Y+Z is charged for the low benefit component.

In the case of the auto repair shops we introduced earlier, if our customer believes that labor is a low benefit component relative to parts, she should prefer shop A, which charges $32.50 for labor, over shop B, which charges the same total price but charges $52.50 for labor. The reverse should be true if our customer believes that the auto part is a low benefit component relative to labor. We ran a study in which we asked 43 participants to compare shops A and B, and the majority of the participants (67 %) preferred shop A.

» Partitioning clearly links each component to its respective price, encouraging customers to evaluate the perceived benefit of each component. «

We asked an additional 42 participants to compare offers from auto service shops C and D. Both C and D charged a total price of $167.45, but C charged $127.50 for labor and $39.95 for headlamps, while D charged $107.50 for labor and $59.95 for the same manufacturer-authorized headlamps. This version of the study was a helpful check on the results of the first study, because the price of the part was always lower than the price of labor. Thus, labor could be interpreted as the "base price" and the part could be interpreted as the "surcharge". Again, the majority of our participants (60 %) preferred shop B. Thus, whether the auto part was a new bumper or new headlamps, a significant majority of our participants chose the auto repair shop that charged a lower price for labor. One takeaway from this study is that an auto repair shop is likely to fare better with a high markup on parts rather than a high markup on labor. A more general takeaway, though, is that when participants choose between two partitions of the same total price, the nature of the components (labor vs. parts) matters more to participants than the relative size of the components.

To further test the generality of this effect, we conducted a second, more elaborate study. In this study, we asked participants to compare two different low perceived benefit components, shipping and labor, with an automobile front bumper. We also varied the sizes of the partitions, even including a partition in which the low benefit component was free. One hundred fifty-six participants imagined that they were either evaluating offers from two auto repair shops to provide a front bumper and the labor to install it, or they were evaluating offers from two online auto parts suppliers to provide a front bumper and shipping.

As in the first study, participants consistently preferred partitions in which they paid less for labor and more for the auto part ($32.50 for labor and $89.95 for the bumper, chosen by 69 % of participants) to partitions in which they paid more for labor and less for the auto part ($52.50 for labor and $69.95 for the bumper; chosen by 31 % of participants). Similarly, they preferred partitions in which they paid less for shipping and more for the auto part ($32.50 for shipping and $89.95 for the bumper, chosen by 71 % of participants) to partitions in which they paid more for shipping and less for the auto part ($52.50 for shipping and $69.95 for the bumper, chosen by 29 % of participants).

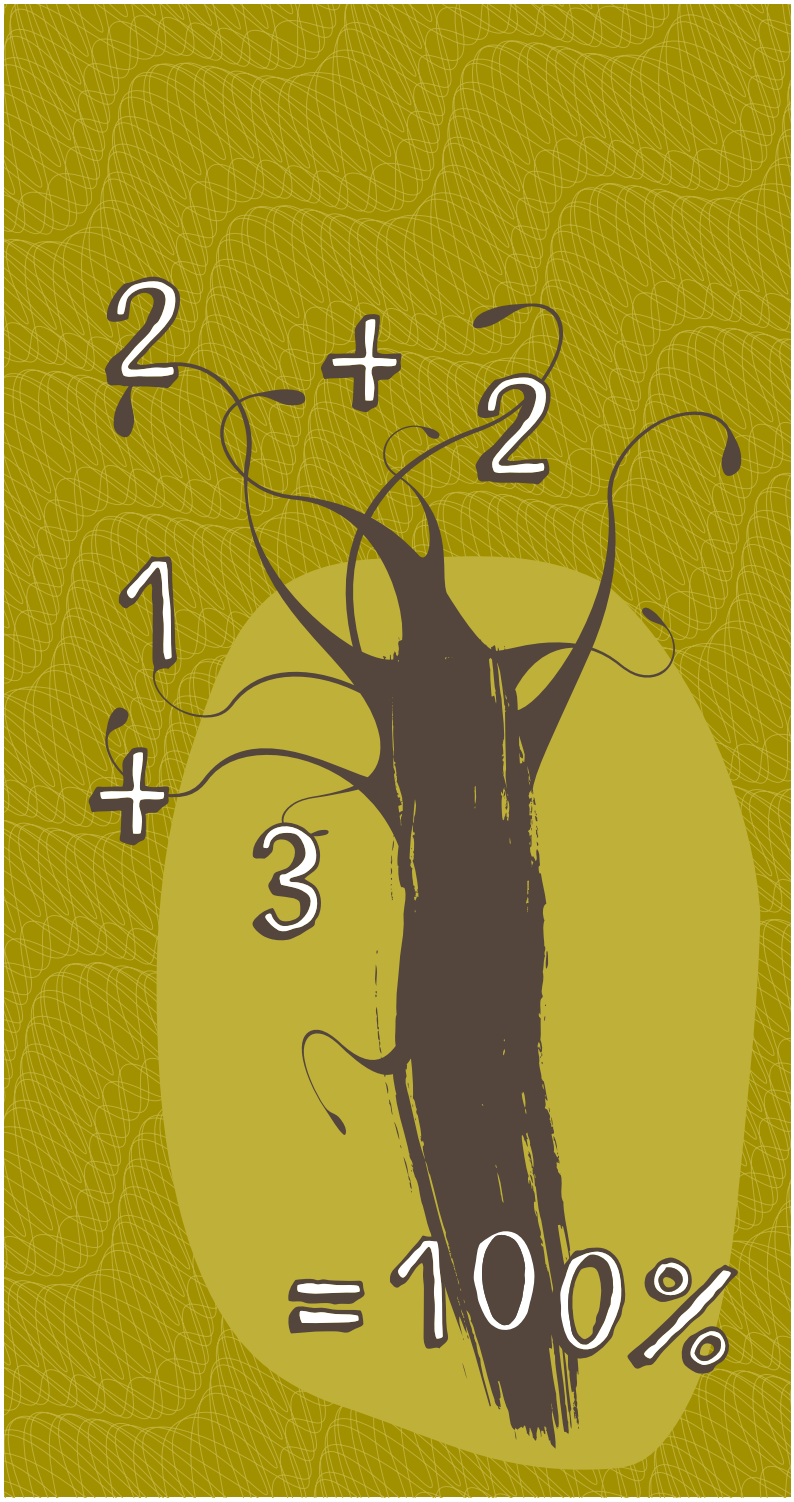
The story changed a bit, though, when the low benefit component was free. Participants preferred partitions in which shipping was free ($122.45 for the bumper and $0 for shipping, chosen by 66 % of participants) to partitions in which they paid more for shipping and less for the auto part ($52.50 for shipping and $69.95 for the bumper, chosen by 34 % of participants). However, the opposite was true for labor: in this case, participants preferred partitions in which they paid more for labor and less for the auto part ($52.50 for labor and $69.95 for the bumper, chosen by 57 % of participants) to partitions in which labor was free ($122.45 for the bumper and $0 for labor, chosen by 43 % of participants).

To explain this reversal, we examined participants' attitudes towards free shipping and free labor. Participants believed that it was significantly more common for suppliers to offer free shipping than to offer free labor in the marketplace. In fact, the more the participants believed it was uncommon for auto service shops to offer free labor, the more likely they were to choose the shop charging more for labor over the shop offering "free" labor. Thus, participants' beliefs about typical marketplace behavior seem to influence their reactions to partitioned prices.

What about customers' goals? Do goals influence customers' reactions to partitioned prices?

Earlier, we posed a question about a restaurant serving both pizza and wings. Will customers respond more favorably to a discount on wings or to the same sized discount on pizza? To find out, we asked 115 undergraduate business students to imagine that they were hungry, and that they would be stopping at a take-out restaurant on their way home from class to pick up some food. We told one third of our participants that they were hungry for pizza and one third that they were hungry for wings; the other third of the participants was simply asked to imagine that they were hungry. We predicted that customers would place greater value on pizza if they were hungry for pizza, but greater value on wings if they were hungry for wings.

Next, we presented participants with a choice between two specials that the restaurant was offering. Special A offered participants the opportunity to "Buy a large one-item pizza for $7.99 and get 20 wings for $3.99!" while Special B offered them an opportunity to "Buy 20 wings for $7.99 and get a large one-item pizza for



» When specific components are perceived to provide relatively high benefit, such as parts, customers may be more tolerant of price differences across competitive offers and willing to pay a higher price. In contrast, when components are low in perceived benefit, such as labor or shipping, they should be priced more competitively. «

$3.99!'' Consistent with our predictions, participants who imagined they were hungry for pizza perceived greater benefit in pizza, and systematically favored Special A, preferring to pay a lower price for the wings. In contrast, participants who imagined they were hungry for wings perceived greater benefit in wings and systematically favored Special B, preferring to pay a lower price for pizza. Those who were simply asked to imagine that they were hungry also perceived more benefit in pizza and favored Special A, suggesting that when thinking about the restaurant in the scenario, more people thought about pizza than wings. We also used this study to rule out several alternative explanations for our results. For example, although participants believed that the pizza and wings were of lower quality when they were priced at $3.99 than when they were priced at $7.99, these perceptions did not statistically explain their different preferences for the specials in the different goal conditions. Similarly, participants' beliefs about the fairness of the two specials and the prices they thought were reasonable to pay for a pizza or for wings were not related to their preferences for the two specials.

Summary and Managerial Implications

Unlike much of the previous research on price partitioning, which focuses on contrasting partitioned and non-partitioned pricing, the objective of our research was to examine whether different partitions of the same total price affect customer preferences. The basic premise of our framework is that partitioning clearly links each component to its respective price, encouraging customers to evaluate the perceived benefit of each component. Separate lines on an invoice listing the price of labor and the price of the part installed encourage customers to independently consider whether the benefit of the labor exceeds its listed price and whether the benefit of the part exceeds its listed price.

In a series of laboratory studies, we demonstrated that customers systematically prefer partitions allocating a larger proportion of the total price to components they perceive to provide high benefits relative to components they perceive to provide low benefits. For example, when evaluating competing estimates from auto repair shops, participants consistently preferred the partition in which they paid less for labor (and more for an auto part), regardless of whether labor was a larger or smaller proportion of the total price than the auto part. Thus, when an auto repair shop is deciding on its markups for labor and parts, our data suggests that customers will react more favorably to the total price when markups are larger for parts than for labor.

In addition to this key insight, our research provides two additional insights. First, preferences for partitions are influenced by the customer's prior experiences and the market environment. Although shipping and labor were both perceived to provide less benefit than auto parts, participants preferred partitions in which shipping was free but not partitions in which labor was free. Notably, participants believed that free shipping was more commonly offered in the marketplace than free labor, and participants' preferences for the partition in which labor was free were related to their beliefs about the prevalence of free labor in the marketplace.

Second, the perceived benefit of a component is not constant, but can be influenced by the customer's goals for the purchase. In the first two studies we reported here, labor was perceived to provide less benefit than the parts being installed. However, in one of our studies that we do not discuss in this paper, we demonstrate that the value of labor can be varied depending on its perceived importance. Participants who were told they were buying a handcrafted wood gift for a friend who valued fine craftsmanship liked partitions in which labor was a greater proportion of the total price than participants

who were not told their friend valued fine craftsmanship. Similarly, in our pizza and wings study, participants who were hungry for pizza preferred offers in which the price of pizza was a larger proportion of the total price, while participants who were hungry for wings preferred offers in which the price of wings were a larger proportion of the total price. These subtleties suggest that in order to develop effective price partitioning strategies, it is incumbent upon managers to understand the market environment and the goals of their customers.

Another implication of our results is that when specific components are perceived to provide relatively high benefit, such as parts, customers may be more tolerant of price differences across competitive offers and willing to pay a higher price. In contrast, when components are low in perceived benefit, such as labor or shipping, they should be priced more competitively. The inverse of this is also true: when using partitioned pricing, firms may be able to increase the attractiveness of their pricing by enhancing the benefits of a particular component or by emphasizing a particular goal, as in our pizza and wings study. For example, marketing communications designed to enhance the perceived benefits of fine craftsmanship may increase customers' willingness to pay for labor relative to other components. Similarly, advertisements designed to invoke a particular consumption goal (e.g., Are you hungry for pizza?) may be more successful when they promote offers discounting products other than the product that is part of the consumption goal (e.g., wings rather than pizza). •

KEYWORDS:

Pricing Systems, Price Partitioning, Price Perception, Price Sensitivity

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IMPLEMENTING PROFITABILITY THROUGH A CUSTOMER LIFETIME VALUE MANAGEMENT FRAMEWORK

V. Kumar, R. Venkatesan and B. Rajan

Global CRM software spending was $7.8 billion in 2007 and is projected to reach $8.9 billion in 2008. Further, CRM software sales will touch $13.3 billion by 2012. These software and processes have made it possible for companies to gather and analyze large amounts of data on their existing and prospective customers. This article shows how customer-level data can lead to increased customer profitability through (a) selection of the right customers by using the Customer Lifetime Value (CLV) metric, (b) the nurturing of those right customers and, (c) re-allocation of resources to the profitable customers. Due to this approach profitable management of individual customers is the basis for growth in firm profitability. A case study will show how IBM used CLV as an indicator of customer profitability and allocated marketing resources based on CLV.

Management Framework using the Customer Lifetime Value (CLV)

The selection of the right customers through the measurement of CLV, the realignment of marketing resources to the most valuable customers and the nurturing of the most profitable customers form the core of the management framework, as illustrated by the roadmap in Figure 1 (Refer to Figure 1, see next page).

As provided by Figure 1, the roadmap integrates all the three strategies and charts the course for companies to increase their profitability. While CLV is gaining popular acceptance as a metric in marketer's toolkit, the metric's judicious use depends largely on a manager's ability to identify and work with the desirable customers. The customer selection process helps managers in identifying the customers who are the most profitable. These are the most desirable customers to work with and this identification forms a critical step in the road to increased profitability. This step calls for calculating the individual CLV by predicting (a) future customer activity, (b) future marketing costs and (c) contribution margin from each customer. Once the "right" customers are identified, they need to be nurtured, defended and retained. This step is important because, it is very likely that the competition is also interested in a firm's most valuable customers. Therefore, by building a customer segmentation scheme based on the CLV scores, firms can select the right customers to nurture, defend and retain. Among the selected customers firms can then identify avenues for optimal resource allocation for each individual customer (and possibly across customers), so as to maximize CLV. The resource re-allocation is accomplished by considering each customer's responsiveness to marketing contacts and the unit cost of such contacts. The resource re-allocation strategy facilitates the incorporation of long-term customer profitability effects into firm-level managerial decision making.

Customer Selection

The first step in implementing a successful customer management framework is selecting the right customers. Why is customer selection an essential ingredient for profitable customer management? There are two important reasons for this. First, given the limited marketing resources available to the managers, a challenge of choice as to where and on who companies should spend the limited resources arises. Second, not all customers are equally profitable. As shall be established later, a greater part of profits is generated by a small percentage of customers. Therefore, it is crucial that only those customers who are highly profitable be targeted by the marketing managers.

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So how do we select the right customers? Traditionally, firms rank order customers based on their historical purchase activity and prioritize their resources based on this ranking. Some of the popular metrics are RFM (Recency, Frequency and Monetary value), SOW (Share-Of-Wallet), and PCV (Past Customer Value). While these metrics are adequate in predicting customer value based on historical purchase behavior, they perform poorly in predicting a customer's future activity and future profitability. Therefore, managers will have to use a forward-looking metric such as CLV to predict future customer profits. Further, the performance of the traditional metrics versus the CLV metric have always resulted in CLV offering higher levels of profitability. So CLV is a better indicator of future customer profitability.

Therefore, it is clear that in order to select the right customers, we need to determine the individual lifetime value of the customers. So how do we calculate CLV? This calculation involves predicting three parameters. They are: (a) future customer activity (frequency), (b) contribution margin from each customer (CM) and, (c) future marketing costs (MC).

The CLV components can be expressed through the following mathematical formula:

EQ. 1:

$$CLV_{it} = \sum_{t=1}^{T_i} \frac{CM_{i,t}}{(1+r)^{\,t/frequency_i}} - \sum_{l=1}^{n} \frac{\sum_m MC_{i,m,l}}{(1+r)^{l}}$$

Present Value of Gross Contribution — Present Value of Marketing Cost

where,

CLV	= Customer Lifetime Value
$CM_{i,t}$	= Contribution margin from customer i in purchase occasion t
$MC_{i,m,l}$	refers to Marketing cost, for customer i in communication channel m in time period l. where, $MC_{i,m,l} = c_{i,m,l}$ (unit marketing cost) * $x_{i,m,l}$ (number of contacts)
$frequency_i$	= 12/$expint_i$ (where, $expint_i$ = expected inter purchase time for customer i)
r	is the discount rate for money,
n	is the number of years to forecast, and
T_i	is number of purchases made by distributor i, until the end of the planning period

Predicting Future Customer Activity

This calls for predicting the frequency of a customer's purchases given their past purchases. This model is based on the assumption that customers are most likely to reduce their frequency of purchase or exhibit a period of long dormancy before terminating a relationship. Further, the decline in the frequency of purchase is either due to splitting of loyalty between companies or due to the customer ceasing to buy a particular product due to falling demand or outdated products. In one of the studies, the drivers of the purchase frequency for the customers of a B2B firm were identified as follows:

- Number of product purchase upgrades
- Cross-buying behavior of customers across product categories
- Ratio of number of customer-initiated contacts to total contacts
- Product return behavior
- Frequency of web-based contacts
- Frequency of customer contacts (in-person, direct mail and telephone) by the firm
- Average time between two customer contacts

Predicting Future Marketing Costs

There are two methods to forecast the future marketing cost (MC). The first method assumes that the past cost will continue in the future, given that there is not much change in marketing costs at the customer level over the years. The second method considers the future marketing cost as a function of customers' interpurchase times and purchase quantity. Therefore, by modeling these two parameters, managers can predict the future marketing cost to each customer. Such an advanced approach would yield a better customer selection process that would help managers identify their profitable customers more effectively.

Predicting Contribution Margin From Each Customer

The contribution margin from each customer depends on: (a) customer's contribution margin from the previous year, (b) total number of customer contacts across all channels and, (c) total quantity purchased across all product categories.

Based on the inputs derived from these parameters, the lifetime values of individual customers can be calculated. In this framework, CLV is measured by predicting the three parameters over a reasonable period (usually three years). The time period is three years because over longer periods of time: (a) customer needs change, their position in the family cycle changes, and hence may have different requirements; and (b) product offerings change due to technological advancements and customer needs.

Nurture, Defend and Retain Profitable Customers

With customer selection strategy as the base, it is now possible for managers to nurture and grow their most valuable customers. By performing the CLV computation as described earlier, firms can find that not all customers are profitable customers. While one set of customers of the firm do not contribute to the overall profitability of the firm, and cost more to be retained, there is another set of customers who not only add value to firms by increasing the revenues but also by helping the firm attract other customers through positive word-of-mouth. Therefore, it becomes obvious that the former set of customers is not worth pursuing, and more importantly, the latter set of customers should be nurtured, defended and retained so that firms can maximize their profits. This process of nurturing and growing profitable customers consists of two steps: (a) track the distribution of the CLV score, and (b) assess the customer segmentation scheme based on their potential value.

As described in Figure 1, the process of identifying the most valuable customers calls for finding the CLV distribution score and analyzing the segmentation scheme. Specifically, customers have to be rank ordered into distinct customer segments (for instance, High, Medium & Low CLV segments) by calculating the individual CLV scores and then grouping them within each segment into profitability deciles. Each decile will represent the mean CLV score of 10 % of the customers in the segment. Therefore, such a decile chart would provide managers a sense of how customer profitability is distributed across customers within each of the three customer segments and thereby offer insights with respect to profitable customer management. Based on this segmentation scheme, managers can take informed decisions about their customer contact strategy (which customers to contact and which customers not to contact) and product message strategy for each customer.

Resource Re-allocation to Selected Customers

Apart from knowing who the profitable customers are and how to nurture them, marketing managers should also know when, what and how much resources to allocate in the communications channels so that they do not

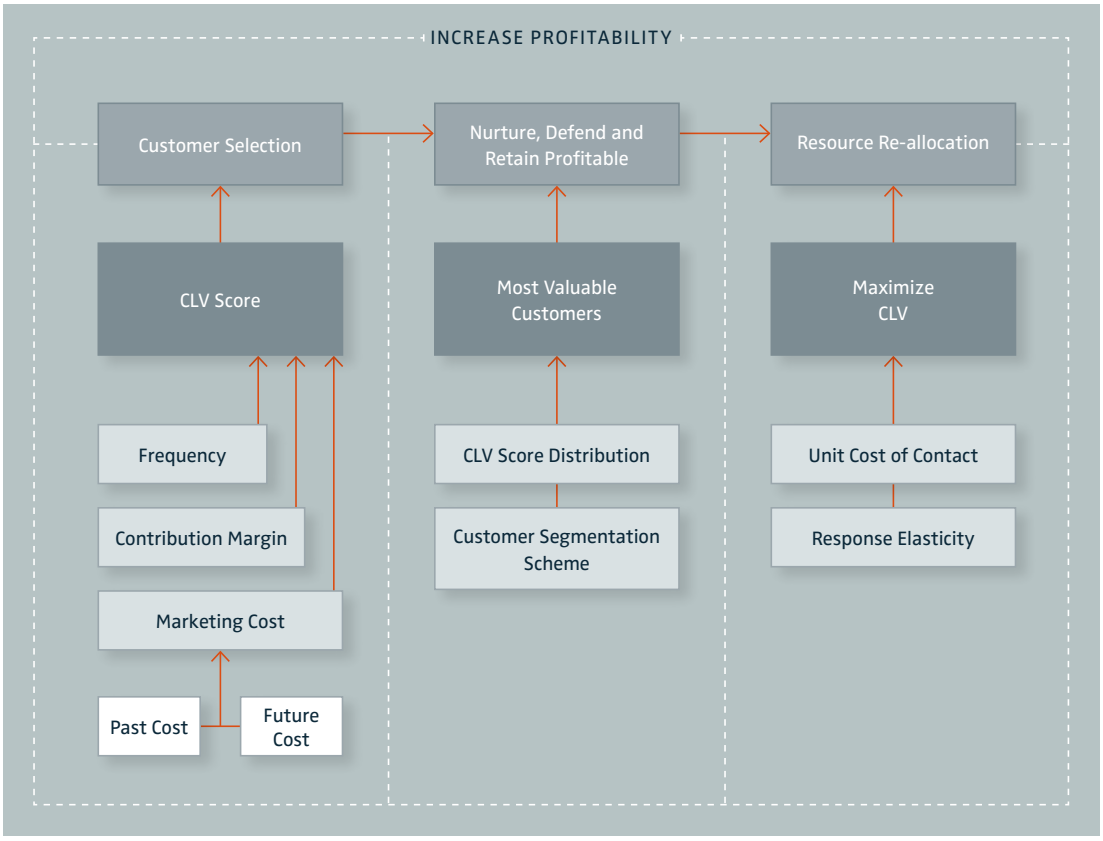


FIGURE 1:
Roadmap for Increasing Profitability

overspend or underspend on customers. This will help the firm to invest on the most profitable customers in the most effective way. In this last step of the customer management framework, we leverage the information obtained from the first two steps by re-allocating resources to the most profitable customers. Why should companies spend only on the most profitable customers? This is because, when companies spend their marketing resources on all their customers they either invest in customers who are easy to acquire but are not necessarily profitable or try to increase the retention rate of all their customers irrespective of their profitability. This results in a waste of limited marketing resources and a decrease in potential firm profitability. So how should the resources be re-allocated?

As illustrated in Figure 1, the re-allocation strategy involves two steps. First, managers have to identify the most profitable customers by calculating their lifetime values and those customers who are most responsive to marketing efforts. Second, managers have to ascertain the optimum mix of different channel contacts for each customer. This is a function of how responsive each customer is to each channel of communication (response elasticity), and the unit cost of each communication channel.

Why should managers find an optimum mix of different channels? This is because, when the factors are optimized, it generates a comprehensive resource re-allocation strategy that can be used to maximize CLV. The resource optimization need can be understood using the CLV equation explained earlier in the paper.

The original equation is as follows:

EQ. 2:

$$CLV_{it} = \sum_{t=1}^{T_i} \frac{CM_{i,t}}{(1+r)^{\,t/frequency_i}} - \sum_{l=1}^{n} \frac{\sum_m MC_{i,m,l}}{(1+r)^l}$$

The first half of the equation represents the contribution margin the customer is likely to give the firm in the future. This is dependent on the revenue generated and the margin per transaction. Further, revenue is a function of (a) past buying behavior, (b) the number of contacts made by the firm in contacting the customers, and (c) customer characteristics. The second half of the equation represents the marketing cost to the firm, where $MC_{i,m,l}$ is the product of unit marketing costs and the number of contacts. Therefore, it is evident that when the number of contacts is increased, the revenue is bound to increase. However, increasing number of contacts also increases the marketing cost to the firm. So the challenge for managers here is to find that optimum point that balances the number of contacts and marketing cost, at the same time maximizing CLV. In other words, if a firm wants to optimize its marketing contact strategy to maximize profits from each customer, it has to consider how many contact channels (m) it has and how many times it wants to contact each customer in each channel (xm). Managers can use methods such as genetic algorithms that can help them determine the optimal marketing contacts per channel per customer.

Our resource re-allocation strategy provides a comprehensive CLV-based framework to design an effective marketing strategy. This strategy suggests which customers to acquire and retain based on their predicted CLV. An optimal level of communication across the right mix of channels will ensure managers maximize profitability.

Therefore, measurement of customer profitability and a deep understanding of the link between firm actions and customer profitability are critical for ensuring the success of the above decisions.

Implementing the CLV-based Management Framework at IBM

We implemented our CLV-based management framework at IBM, a leading high-technology firm providing hardware, software and services to B2B customers. It intended to enhance their profitability by managing customer relationships profitably. Among a wide array of marketing factors determining the customer relationships, IBM aimed to customize the level of contacts to each customer which would ensure resource re-allocation to their most valuable customers, thereby driving up profitability. To identify their best customers, IBM had traditionally used Customer Spending Score (CSS). CSS was defined as the total revenue that can be expected from a customer in the next year. Based on this metric, IBM classified their customers into 10 deciles and targeted the top one or two deciles for targeting customers. However, IBM felt the need to move to a forward-looking metric such as CLV because CSS focused primarily on revenues (top line) and ignored the profitability (bottom line).

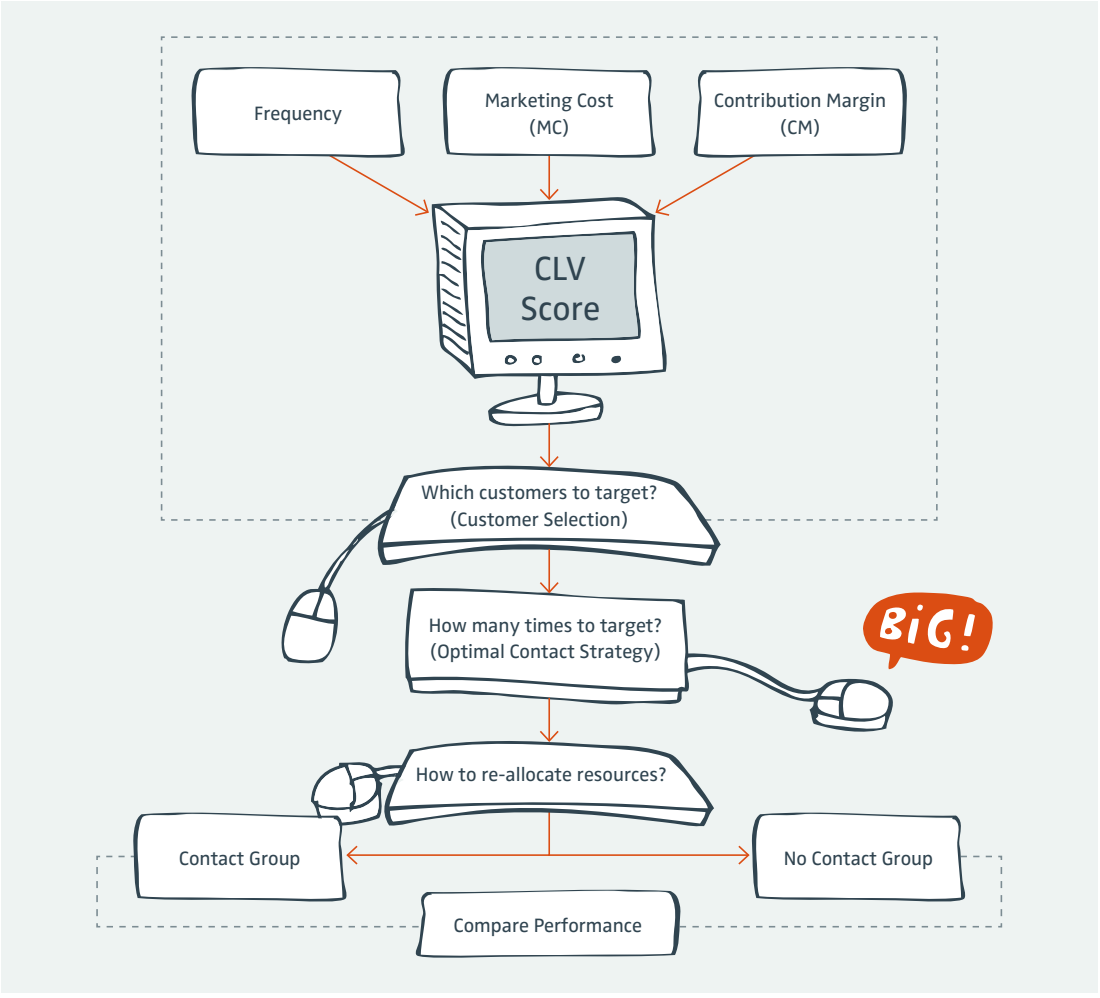


TABLE 1:
CLV-based Management Framework at IBM

Source:
Adapted from *Kumar, V., Rajkumar Venkatesan, Tim Bohling and Denise Beckmann (2008)*, "The Power of CLV: Managing Customer Lifetime Value at IBM", Marketing Science, 27(4), pp. 585 – 599.

IBM wanted to implement the CLV-based management framework which would improve their profitability. Specifically, IBM wanted to test if an increase in contacts to the right customers can create high value from low-value customers, given all other drivers are similar. To accomplish this, our CLV-based management framework was adopted to design customer management initiatives, as illustrated in Figure 2.

Which Customers to Target?

As shown in Figure 2, we computed the customer value with the use of the CLV metric. The always-a-share approach was adopted for measuring CLV because of its relevance to the non-contractual setting of IBM. The always-a-share approach assumes that customers never "quit" their relationship with the company. Rather they demonstrate only dormancy in their relationship with the firm. For instance, consider a case where a customer switches between Apple and Dell. In such a scenario, the customer continues to transact with both Dell and Apple. Hence, neither Dell nor Apple completely loses the customer but they lose / gain a share of the customer's purchase. This assumption allows for a customer to return to purchasing from a firm after a temporary dormancy and when the customer returns to the relationship they retain the memory about their prior relationship with the firm. In this approach the customers' transition probabilities associated with each firm is modeled, and not the time of defection.

In calculating the CLV, we accounted for the drivers of purchase propensity and contribution margin at IBM and categorized them as customer relationship characteristics and customer firmographics. The customer relationship characteristics include drivers such as past customer spending level, cross-buying behavior, purchase frequency, recency of purchase, and past purchase activity, and the marketing contacts by the firm. The customer firmographics include drivers such as sales of an establishment (a measure of the size of the establishment), an indicator for whether the establishment belonged to B2B or B2C industry category, and the installed level of PCs in the establishment (a measure of the level of demand for IT products in the establishment).

After the individual CLV scores were calculated, some key observations with respect to the drivers were made:

a) Customers who have spent more, have made a recent purchase and have purchased across a wider range of product categories are more likely to purchase in the current month.

b) Marketing contacts have a positive influence on customer purchase incidence, and for customers who have made a recent purchase; the influence of marketing contacts is enhanced.

c) Customers who have a greater cross-buying, and customers who have purchased frequently in the past provide a higher contribution margin.

d) While IBM allocates more marketing contacts for customers who have higher sales, the purchase incidence and contribution margin is lower for these customers. This is possible because customers who have higher sales in general split their purchases across several vendors.

e) Customers who have a large installed base of PCs have a higher purchase incidence and contribution margin and are contacted more by IBM.

After the CLV computation was performed, a comparison between the traditional customer selection metrics (such as RFM, PCV and CSS) and CLV was made. The traditional metrics and CLV were computed using the first 54 months of data and then rank-ordered. This was used to predict the next 18 months of purchase behavior for the four metrics. A comparative analysis of the customers in the top 15 percent of each metrics' list was made, as shown in Table 1 (Refer to Table 1).

This analysis clearly showed the power of CLV to identify the best customers for future targeting. While prior research in contractual settings had found that current profit is a good indicator of future profitability, this study indicated that for selecting high potential customers for future targeting in non-contractual settings, current profit performs poorly than estimates of future profitability.

How many times to target?

After we decided CLV to be the best indicator of future profitability, we then developed an optimum contact strategy for each customer using a genetic algorithm. The objective of the algorithm is to find the optimal level of marketing contacts for each customer that would maximize the sum of expected CLVs of all the customers. The output from the optimal resource allocation model produced input into the decision making process regarding the number of contacts in each channel for each customer in various customer segments. As mentioned earlier, the firm was using CSS as a key metric for targeting customers and allocating marketing resources. However, when the CLV metric was used the contact frequencies, as decided by the CSS metric, changed. Table 2 provides the optimization strategies for marketing contacts based on CLV and CSS.

As provided in Table 2, the optimal contact strategy for customers was divided into four buckets along the CSS and CLV metrics. We recommended that contact interval through direct mail/telesales/catalog/email to the High CLV – Low CSS customers be increased to 1.9 days from the existing 4.8 days. This would provide an increase in gross value of around 63 % from the current level. Similarly, an increase in the contact interval to the High CLV – High CSS customers and a decrease in the contact interval to the Low CLV – Low CSS customers was recommended, each generating an increased gross value. The biggest lift in gross value was realized with the Low CLV – High CSS customers, with a slight reduction from the current contact interval. The nearly 160 % increase in gross value showed that by optimally contacting the low value customers (as decided by the CLV metric), it is possible to derive high value from those customers.

How To Reallocate Resources?

To optimally re-allocate marketing resources, we conducted a field test. A sample of 35,131 customers were divided into two groups – 7,670 customers who have not been contacted at all (the Not Reached group), and 27,130 customers who were contacted previously (the Reached group). The Reached group comprised of customers who were contacted through salespersons, mails, telesales, email, etc. in year 2004 whereas, the Not Reached group comprised of customers were not contacted until 2004. In each group, the customers were further divided into deciles, and the mean CLV computed for each decile is provided in Table 3 (Refer to Table).

From the Table, it is evident that the customers belonging to the tenth decile of the Reached group are not profitable. We recommended that marketing resources be allocated based on this rank order (i.e., higher CLV candidate customers were first allocated resources) until all the resources that were available from Decile 10 of the Reached group was exhausted. Therefore, marketing resources from 2,713 low-CLV customers in Decile 10 of the Reached group was re-allocated to the high-CLV customers in the top three deciles of the Not Reached group (totaling up to 2,301). The level of resources allocated to each candidate customer was determined based on the optimum contact strategy described earlier.

TABLE 1
Customer Selection Metrics – A Comparison

Top % of Cohort		CLV	CSS	RFM	PCV
15	Average Revenue	30,427	21,789	22,622	23,542
	Gross Value	9,184	6,659	6,966	7,185
	Variable Costs	107	114	110	104
	Net Value	9,077	6,544	6,856	7,081

Source: Adapted from Kumar, V., Rajkumar Venkatesan, Tim Bohling, and Denise Beckmann (2008), "The Power of CLV: Managing Customer Lifetime Value at IBM", Marketing Science, 27(4), 585 – 599.
Notes: The reported values are in dollars (expressed as a multiple of the actual numbers) per customer and are cell mediens. The values reported here have been adjusted by a constant factor of the actual figures.

TABLE 2
Optimization Strategies

Customer Lifetime Value (CLV)	CUSTOMER SPENDING SCORE (CSS) – Low	CUSTOMER SPENDING SCORE (CSS) – High
High	Direct Mail / Telesales / Catalog / Email: *Current Interval is 4.8 days* *Optimum Interval is 1.9 days* Gross Value: *Current Value is $10,936* *Optimum Value is $17,809*	Direct Mail / Telesales / Catalog / Email: *Current Interval is 6.3 days* *Optimum Interval is 5.3 days* Gross Value: *Current Value is $53,488* *Optimum Value is $90,522*
Low	Direct Mail / Telesales / Catalog / Email: *Current Interval is 9.7 days* *Optimum Interval is 12.6 days* Gross Value: *Current Value is $743* *Optimum Value is $1,203*	Direct Mail / Telesales / Catalog / Email: *Current Interval is 8.4 days* *Optimum Interval is 8.3 days* Gross Value: *Current Value is $1,091* *Optimum Value is $2,835*

Source: Adapted from Kumar, V., Rajkumar Venkatesan, Tim Bohling, and Denise Beckmann (2008), "The Power of CLV: Managing Customer Lifetime Value at IBM", Marketing Science, 27(4), 585 – 599.
Notes: The values reported here have been adjusted by a constant factor of the actual figures.

TABLE 3
CLV-based Resource Re-allocation

Decile	Low Reached Until 2004	Reached by 2004	Customer Segment
1	$350,471	$2,124,483	Super High CLV
2	$993	$125,460	High CLV
3	$669	$43,681	Medium CLV
4	$638	$23,624	
5	$623	$17,449	
6	$611	$13,675	
7	$534	$10,513	
8	$444	$8,051	Low CLV
9	$369	$5,023	
10	$80	($35)	

Source: Adapted from Kumar, V., Rajkumar Venkatesan, Tim Bohling, and Denise Beckmann (2008), "The Power of CLV: Managing Customer Lifetime Value at IBM", Marketing Science, 27(4), 585 – 599.
Notes: The values reported here have been adjusted by a constant factor of the actual figures.

» Nearly 160 % increase in gross value showed that by optimally contacting the low value customers (as decided by the CLV metric), it is possible to derive high value from those customers. «

This process of resource re-allocation resulted in some customers in Deciles 1, and all the customers in Deciles 2 and 3 in the Not Reached group being allocated marketing resources for 2005.

As a result of an improved targeting strategy, the revenue of the Not Reached Group increased ten times in 2005 compared to revenues in 2004. The lift in revenues for the Not Reached until 2004 but Reached in 2005 group of customers was about $19.2 million. The incremental revenue due to resource re-allocation (after adjusting for the annual growth in customer revenue) among the Not Reached until 2004 but Reached in 2005 group of customers was about $19.1 million. This incremental value is derived from two sources – (a) $7.6 million (nearly 40 %) was obtained from the increase in purchase amount from customers who were active in 2004, and (b) $11.4 million (nearly 60 %) was obtained from the reactivated customers (about 273 customers) who were dormant in 2004. Therefore, the average increase in revenue from reactivating dormant customers was about $41,758, and the average increase in revenue from existing customers was about $4,160. The effectiveness of our model was reflected in the superior performance of the sales revenue metric. The improved profitability was made possible by the successful implementation of our CLV strategies.

IMPLEMENTING THE CLV-BASED MANAGEMENT FRAMEWORK AT A FASHION RETAILER

We have also implemented this management framework in a B2C setting for a fashion retailer. The retailer, which sells apparel, shoes and accessories for both men and women, has a chain of 30 stores across the USA with relatively larger concentration of stores on the east coast and west coast. Through this study we showed that the retailer's profitability is maximized through the use of the CLV metric. Specifically, we developed a model to compute the lifetime value at individual customer level and showed that this forward looking view of customer profitability is more efficient than other traditional metrics in designing and implementing CRM programs. Using this CLV score, we performed profitability analyses both at the customer level and at the store level.

Profitability Analysis at the Customer Level

At the individual customer-level, we predicted the purchase frequency, the contribution margin and the marketing cost to calculate the CLV score for each customer of the retailer, as expressed by Equation (1). The CLV scores were then used to rank-order all customers in descending order and aggregated into deciles. Based on the distribution of average CLV across deciles, we divided the customer base into 3 segments – High, Medium, and Low CLV segments. For instance, we observed that the top 20 % of customers accounted for 95 % of profits, and the retailer was actually losing money with 30 % of customers! Next, using the drivers of CLV we analyzed their impact on the high and low CLV segment of customers.

Finally, we also identified the impact of customer-specific variables such as demographics, lifestyle and shopping behavior on the High and Low CLV segments. We observed that these variables varied significantly between the two segments. This study showed that the most profitable customers, i.e. High CLV customers, were professionally employed and married women in the 30 – 49 age group. They had children and a high household income. Further, they were members of the store's loyalty program, lived closer to the store, and shopped through multiple channels. Whereas, the typical low CLV customer was a low income unmarried male customer in the 24 – 44 age group, primarily a single channel shopper, lived further away from the store, and did not own a home.

Profitability Analysis at the Store Level

At the store level, we observed that customer purchases varied significantly between the retailer's 30 stores. This enabled us to assign customer value weights to each store. We repeated this procedure to distribute customer value weights for all stores. The lifetime value of a store was then calculated as the weighted sum of the net present value of the lifetime value of customers that shopped from that store minus the net present value of the rent for the store. In our CLV computation methodology, we calculated the lifetime value at the lowest level (for each customer) and aggregated it as a weighted sum to arrive at the store value.

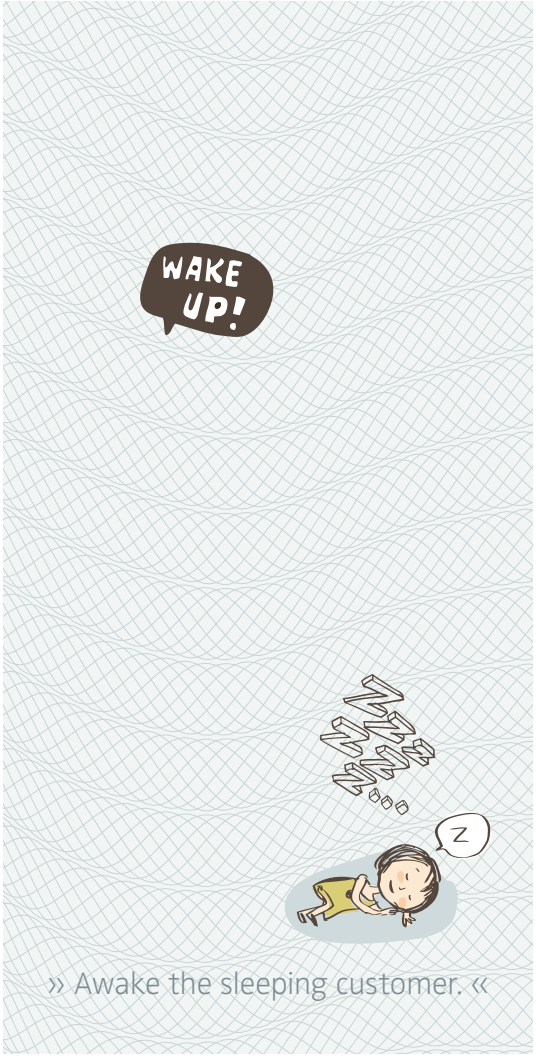
After computing the store's lifetime value, we assigned ranks to the stores based on past profitability (based on past revenues of the previous 3 years) and future profitability (based on net present value of customer profitability for the next 3 years). Each of the 30 stores was more or less of the same size and located in regions having similar demographics. Then, we computed the spearman's correlation coefficient between the store's past and future profitability ranks. While one would expect a high correlation between the two rankings, we observed that the rank-order of all 30 stores of the retailer based on the CLV differed significantly from the rank-order of the stores based on the historic store revenue and historic profits. Similarly, we observed a divergence when comparing the past and future revenue of a customer. The findings showed us that it is not prudent on the part of retailers to rely on historic performance of their stores. Instead, they need to be sensitive of their customer portfolio and the future value of that customer portfolio. Given the finding that the retailer was losing money on 30 % of their customers, a re-visit into the stores' customer acquisition and retention strategy was needed.

In order to retain profitable customers, we suggested that the store manager can look up the CLV score of its current customers and use that as a decision support tool to prioritize direct marketing initiatives such as promotions and special discounts. In order to acquire profitable customers, we suggested that the store manager can look at the profile of the customers in the prospect pool and prioritize customer acquisition resources in favor of customers whose profile is similar to a typical high CLV customer. For a relatively new customer (who does not have any transaction history), we suggested that the store manager can look at the customer's profile and estimate the future profitability and map it to the profile of a typical high CLV customer (or a typical low CLV customer). These strategies provided the store managers with decision choices on when and how to cultivate relationships with the customers in the future.

While the above results were particular to the fashion retailer, this study also provided us with two key generalized results for all retailers. First, the study identified the presence of low correlation between measures of loyalty used by the retailer in our study and future profitability of its customers. Second, the study helped us to recognize and emphasize drivers of CLV that are generic to any retailer, such as cross-buying, product returns, purchase of specific product category, multi-channel shopping behavior and relationship duration. Overall, the study highlighted the importance of CLV metric in retail setting and how it assists in ensuring a paradigm shift in doing business by migrating emphasis from managing customer relationships to managing customer value.

ORGANIZATIONAL CHALLENGES IN IMPLEMENTING THE CLV-BASED MANAGEMENT FRAMEWORK

The research results from IBM provide us with valuable insights on profitable customer management. However, companies have to incorporate certain managerial changes of operational and workforce elements to prepare themselves for implementing this management framework.



» Awake the sleeping customer. «

PRODUCT-CENTRIC APPROACH	CUSTOMER-CENTRIC APPROACH
Ideology is to sell products from a portfolio of products and business is based on transactions	Ideology is to serve a portfolio of customers, and business is based on relationships
How many customers can we sell this product to?	How many products can we sell to this customer?
Firm is internally focused on product development and market share	Firm is externally focused on customer relationships and cutomer profitability
Firm highlights on product features and advantages	Firm highlights on product benefits satisfying cutomer needs
Firm structured on profit centers and sales performance	Firm structured on customer segments and customer relationships
Firm performance measured by profitability per product and market share	Firm performance measured by customer satisifaction, CLV, customer equity

Source: Adapted from Kumar, V. (2008), Managing Customers for Profit Upper Saddle River, NJ: Wharton School Publishing.

FIGURE 3:
Product-Centric vs. Customer-Centric Approach

Changes in Operational Elements

This type of change encourages companies to revisit their business dimension and tailor its offerings that focus on the customers rather than products. The underlying philosophy of focusing on the products, or the product-centric approach, is to sell products to whoever is willing to buy. Such an organizational position aims to solve the needs and problems of customers the world over by developing appropriate product solutions. This type of approach aims to build on the product line of a company and develop a comprehensive portfolio of products. However, the pitfall of such an approach is that companies tend to ignore customer-specific needs that are crucial in determining their relationship with the firm. When the products so developed do not address the specific needs of the firm, customers are likely to defect to competition. Of course, it would not be prudent or viable for companies to continue producing products that satisfy every single need of the consumers. So what can companies do to remedy this issue?

The answer lies in the change from a product-centric approach to a customer-centric approach. Figure 3 illustrates how the customer-centric approach compares with the product-centric approach.

From Figure 3 it is clear that the customer-centric approach suggests firms to focus their strategy on serving customers rather than selling products. Several new firms have moved away from the product-centric approach and have gained huge profits by adopting a customer-centric approach. Wells Fargo, a leading financial institute has realigned its organizational structure by creating a two-tiered sales structure wherein a relationship manager manages externally-focused relations with the customers and a product manager who is internally focused and provides input for the product development and helps the relationship manager to sell the products more effectively. Similarly, while record labels such as EMI, BMG, and Sony opted to concentrate on their product offerings, Apple iTunes unleashed a new business model by focusing on customers.

So what does it take for firms to adopt a customer-centric approach? By focusing on Interaction Orientation, firms can successfully migrate from a product-centric to a customer-centric approach. When firms adopt Interaction Orientation, it results in customers being viewed both as a source of business and as a potential business resource for the firm. This helps a great deal in customer empowerment and in harnessing the network effects of customer-to-customer linkages. Specifically, by (a) making decisions on a per customer point of view, (b) providing rapid responses to customer needs, (c) creating a rich customer experience, (d) allowing customers to exchange information and reviews about product and experiences with other customers, and (e) encouraging customers to connect with the firm and design the nature of transactions, a firm can ensure that the focus is on customers and not the products.

Changes in Workforce Elements

Re-aligning operational or business elements to fit the customer-centric approach is only part of the solution. For a complete adoption of this approach, the workforce should also be tuned to this philosophy. To enable a complete transformation, some key initiatives on the human side of business have to be undertaken. They include: (a) creating awareness of the need for change through employee-targeted communication messages, (b) arousing employees' interest in participating and supporting the change by communicating the initiative's effectiveness and potential benefits, (c) establishing transparency in sharing information and insights about the change process, (d) facilitating stakeholders to implement the change on a daily basis, and (e) emphasizing to keep the change in place through constant change monitoring and evaluation.

When companies align themselves on these elements, the goal of profitable customer management now seems more attainable. Other factors that help in implementing effective CRM are: (a) understanding the data requirements and collecting customer-level data, (b) communicating the change process and CRM implementation to both internal and external users, (c) ensuring accountability in execution, and (d) creating metrics dashboards containing customer-focused metrics such as CLV and CSS.

Conclusion

As shown in this article, IBM and an apparel retailer migrated from a customer spending metric to a CLV metric. In both the B2B and B2C worlds, this transformation involved following these three steps sequentially:

1. Rank-order existing customers based on CLV to select which customers to target.

2. Identify high-value customers by understanding the drivers of CLV.

3. Develop an optimum contact strategy for the highly valued customers, in terms of how to communicate and how often to communicate.

By selecting the right customers and by optimally re-allocating resources IBM was able to nurture both existing customers and re-activate dormant customers (with a slightly higher emphasis on re-activating dormant customers), and thereby improve their profitability. To the apparel retailer, the CLV framework offered important managerial implications on designing customer promotion programs, enabling multi-channel shopping, initiating direct marketing efforts, marketing resource allocation, up-selling and cross-selling efforts by the retailer, customer acquisition and retention strategies and managing store level marketing mix.

The evidence offered in this paper suggests that adopting a CLV based framework to manage customers can be a profitable strategy for businesses in both the B2B and the B2C world. The proposed methodology allows firms to devise customer centric strategies that harness the data available in CRM systems. •

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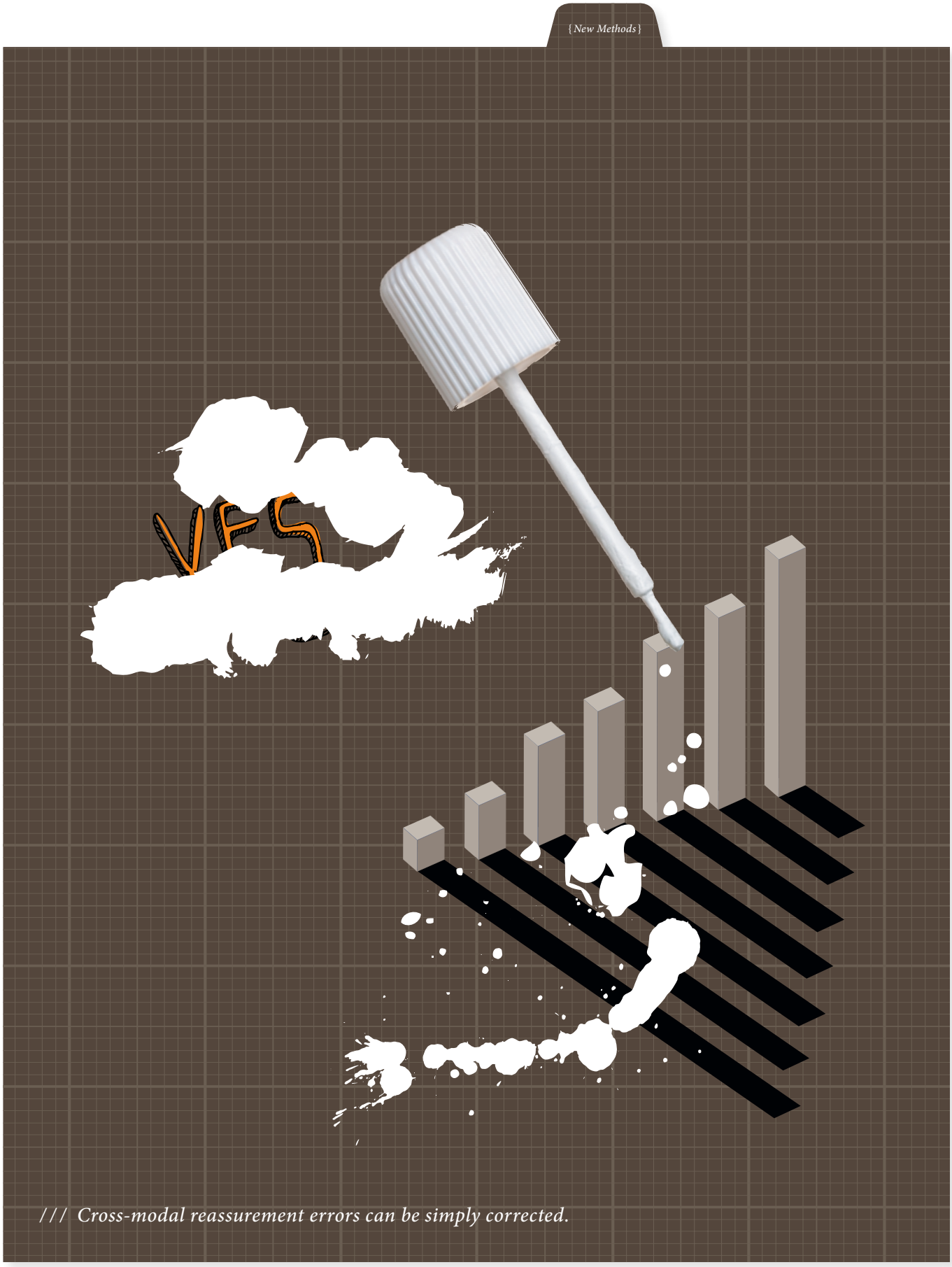
KEYWORDS:

Customer Relationship Management,
Customer Lifetime Value,
Return on Marketing Contacts



/// Cross-modal reassurement errors can be simply corrected.

RESPONSE STYLES AND HOW TO CORRECT THEM

Bert Weijters, Maggie Geuens and Niels Schillewaert

Cross-mode surveys are on the rise. Unfortunately, data obtained from different modes of data collection (e.g., telephone and online data) may not be comparable due to measurement bias, especially differences in acquiescence, disacquiescence, extreme and midpoint response styles. This article discusses a study that finds response style differences between data based on the same questionnaire, but obtained by different modes of data collection: paper-and-pencil questionnaires, telephone interviews, and online questionnaires. Similar problems may also occur in cross-national data. We propose a new method to measure response styles and correct for them: the representative indicators response style means and covariance structure (RIRSMACS) method.

Cross-mode Surveys: Efficiency vs. Validity

Market research in the past mainly relied on telephone interviews or mail questionnaires, but online surveys have been booming over the last fifteen years. In cross-mode surveys, researchers merge data obtained by means of different modes of data-collection, e.g., telephone, paper-and-pencil (P&P), and online. As they combine the efficiency offered by online surveys with good coverage of the total population of interest (including non-internet users), cross-mode surveys are on the rise.

Unfortunately, the same response to the same question may have a different meaning in a different mode. For example, when using seven-point rating scales, a six may be perceived as a more extreme response online than it is by telephone. Reasons include sensory differences (visual versus auditory presentation), differences in felt time pressure, etc.

To capture such differences in responding and to correct for the resulting bias, market researchers can use the newly developed RIRSMACS method. RIRSMACS stands for Representative Indicators Response Style Means And Covariance Structure. RIRSMACS is a method to include measures of response styles in your questionnaire and data analysis. Response styles are respondents' tendencies to select specific subsets of response options disproportionately in favor of the positive side (acquiescence response style, or ARS, showing a higher selection frequency of 5, 6 and 7 on a 7-point scale, for example), the negative side (disacquiescence response style, or DRS, showing a higher selection frequency of 1, 2 and 3 in case of a 7-point scale), the extremes (extreme response style, or ERS, as evidenced by more often selecting 1 or 7 when a 7-point scale is used), or the middle of the scale (midpoint response style, or MRS, meaning more often selecting 4 on a 7 point scale).

The key ingredient of the method is a random sample of marketing items that need to be included in the questionnaire to capture response styles in a reliable and valid manner. Based on these items, the RIRSMACS approach allows for the simultaneous measurement of multiple response styles. This is important because it is difficult to select only those response styles that will matter in advance. The method measures response styles in such a way that measurement error in the response style measures is corrected for (by using a Means And Covariance Structure rather than just using observed scores).

What's the problem? Response styles across modes of data collection

Data analysis methods are becoming more refined, and increasingly sophisticated methods and software packages are becoming available, such as Structural Equation Modeling (cf. the popular and user-friendly AMOS software, for example). Unfortunately, a discrepancy exists between our limited understanding of the response

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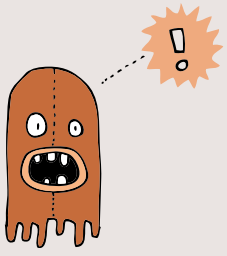
{*Exhibit 1*}

SIMULATION OF A REALISTIC CROSS-MODE SCENARIO

A simulation study demonstrated that the RIRSMACS approach is able to identify and correct response style bias in realistic situations where an uncorrected analysis would lead to erroneous conclusions.

The fictitious scenario of the simulation study was the following. A telecom provider has three segments in its database: (1) one segment consists of its telephone customers, (2) a second of its Internet services customers, (3) and the third of combined Internet and telephone customers. The company wants to upgrade the first two segments to combined users by offering a special package of services. An advertisement has been developed to present this package. The company is interested in measuring three focal variables: Attitude toward the Ad (Aad), Attitude toward the Brand (Ab), and Purchase Intention (Pi). It was assumed that these variables' averages are located below (Pi), around (Ab) and above (Aad) the neutral point (the four in a seven-point scale).

The simulation showed that in a realistic and relevant setting using an uncorrected model would lead to false conclusions on group differences. Specifically, the uncorrected model incorrectly suggested significantly higher Aad and Ab levels in the Telephone group. This response style artefact was resolved in the RIRSMACS corrected model. Without correction, a market study might have led to the decision that the Telephone segment would be more easily converted, and the online segment might be underserved as a consequence.



process and our advanced models to represent it. For instance, remarkably little is known on the impact of mode of data collection on response styles. This question is crucial as the choice of data collection mode(s) has significant budgetary implications. Market researchers need more information to make optimal decisions in this regard.

Let's take a closer look at some popular modes of data collection: self-administered paper and pencil (P&P) questionnaires, telephone interviews, and self-administered online questionnaires. The P&P mode differs from the telephone mode in several important aspects, including the absence/presence of an interviewer. The interviewer's presence may motivate respondents to provide an answer other than the midpoint because respondents feel that would not be satisfactory. The P&P questionnaires are self-administered and thus self-paced, but in the telephone mode, an interviewer is largely in control of the process. This can speed up the process to some extent, if only because silences on the phone are experienced as awkward. Time constraints typically lead respondents to respond in a more stylistic way (i.e., more driven by response styles than by content). In sum, there is reason to believe that response styles may be different for the telephone mode and the P&P mode.

The online mode resembles P&P in most respects, including visual perception of the questions, manual response to the questions, and self-administration. There seems to be less reason to expect response style differences between the P&P and the online modes. Note that in the current study we focus on cross-mode differences in response styles, but the correction method we propose can also be applied to cross-national datasets.

THE RIRSMACS METHOD

Challenges

Creating useful response style measures is quite challenging for several reasons. First, you need a complete profile of response styles – that is, ARS, DRS, ERS, and MRS. A reduced set may miss important sources of bias.

Second, each response style has to be measured by means of multiple indicators. This is necessary to be able to assess internal consistency (e.g., by means of the Cronbach's alpha coefficient for reliability) and cross-group equivalence. Also, it allows one to account for random

measurement error, as using response style measures containing measurement error for correction purposes would pass on the random error to the "corrected" measures (which would be rather ironic).

Third, response style measures should be based on a representative sample of heterogeneous items. It may be tempting to use convenience samples of items to measure response styles (i.e., use the items that happen to be in the questionnaire too). The use of a random sample of items is preferable because heterogeneity of the content of the items ensures that the observed response tendencies are not content specific (at which point the tendencies would no longer classify as response styles, as a matter of fact).

In summary, RIRSMACS uses representative samples of items to create multiple indicators of multiple response styles that can be modeled in a Means And Covariance Structure. Exhibit 1 discusses a simulation study that demonstrates how RIRSMACS outperforms alternative methods in correcting for cross-mode response style bias (Refer to Exhibit 1).

Response category	Strongly disagree 1	2	3	Neutral 4	5	6	Strongly agree 7
ARS weight	0	0	0	0	1	2	3
DRS weight	3	2	1	0	0	0	0
ERS weight	1	0	0	0	0	0	1
MRS weight	0	0	0	1	0	0	0

Note: To obtain the scores for a response style indicator, responses in a given item block are weighted as shown in the table and averaged across the items in a set. For five point formats, the weighting is similar (but for ARS and DRS no weight 3 is assigned, for ERS, the extremes are options 1 and 5, and for MRS the neutral point is 3).

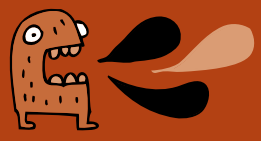


TABLE 1:
Response style indicator coding scheme

Steps to Follow

RIRSMACS consists of the following steps:

1. Collect data on response styles:
   a) Set up your cross-mode data collection in such a way that the questionnaires are identical across modes.
   b) Randomly sample marketing items from existing scales, using previous questionnaires and/or marketing item inventories. Include the items in your questionnaire in three random blocks, using the same response format as the items you want to correct for response style bias. On the basis of a sensitivity analysis, we suggest that a sample of 6 random items is the absolute minimal requirement to have a workable response style factor model, but a sample of 15 items is recommended. To minimize respondent burden, you can reduce the number of other items in the questionnaire (that measure the variables of interest for your study). It is becoming clear that using many items to measure one construct may induce artificial internal consistency (i.e., increase Cronbach's alpha) without necessarily adding much information. Therefore, it seems recommendable to reduce the number of items used to measure constructs and invest the freed questionnaire space in response style measurement. For example, in a study with five constructs, reducing the number of items per scale from six to three would already provide sufficient room for valid response style measurement.

2. Include response styles in your analyses
   a) Based on each item block, compute an indicator for ARS, DRS, ERS and MRS using the weights shown in Table 1 to obtain an averaged response style measure per item block and per response style (i.e., each item response is recoded according to the weights in the table and all weights are averaged across the items in one block). The result is 12 indicators, based on three item blocks times four response styles.
   b) Create response style factors using the MACS shown in Figure 1, Panel I. This model can be implemented in commonly used software packages for Structural Equation Modeling (e.g., AMOS, Mplus, LISREL, EQS...). Note the specific structure of residual correlations in the model. These correlations represent relations between response style indica-

tors that are based on the same item block: responses to a particular item block might still contain some content related information specific to the item block, but we are only interested in response style information here. The content based relations need to be controlled for as they do not represent stylistic responding, and they are treated as residual correlations here in the model.

c) Check for cross-mode response style mean differences. You can compare the factor means using the factor means' critical ratio tests in AMOS or the factor means' t-values in Mplus.

d) If you find significant response style differences across modes, include the response style factors as covariates in the model of interest as shown in Figure 1 (Panels I and II combined). Figure 1 shows the full RIRSMACS model, including Trust as a variable of interest that needs to be corrected for response styles. (Refer to Table 1 and Figure 1).

» The same response to the same question may have a different meaning in a different mode. For example, when using seven-point rating scales, a six may be perceived as a more extreme response online than it is by telephone. «

EMPIRICAL STUDY

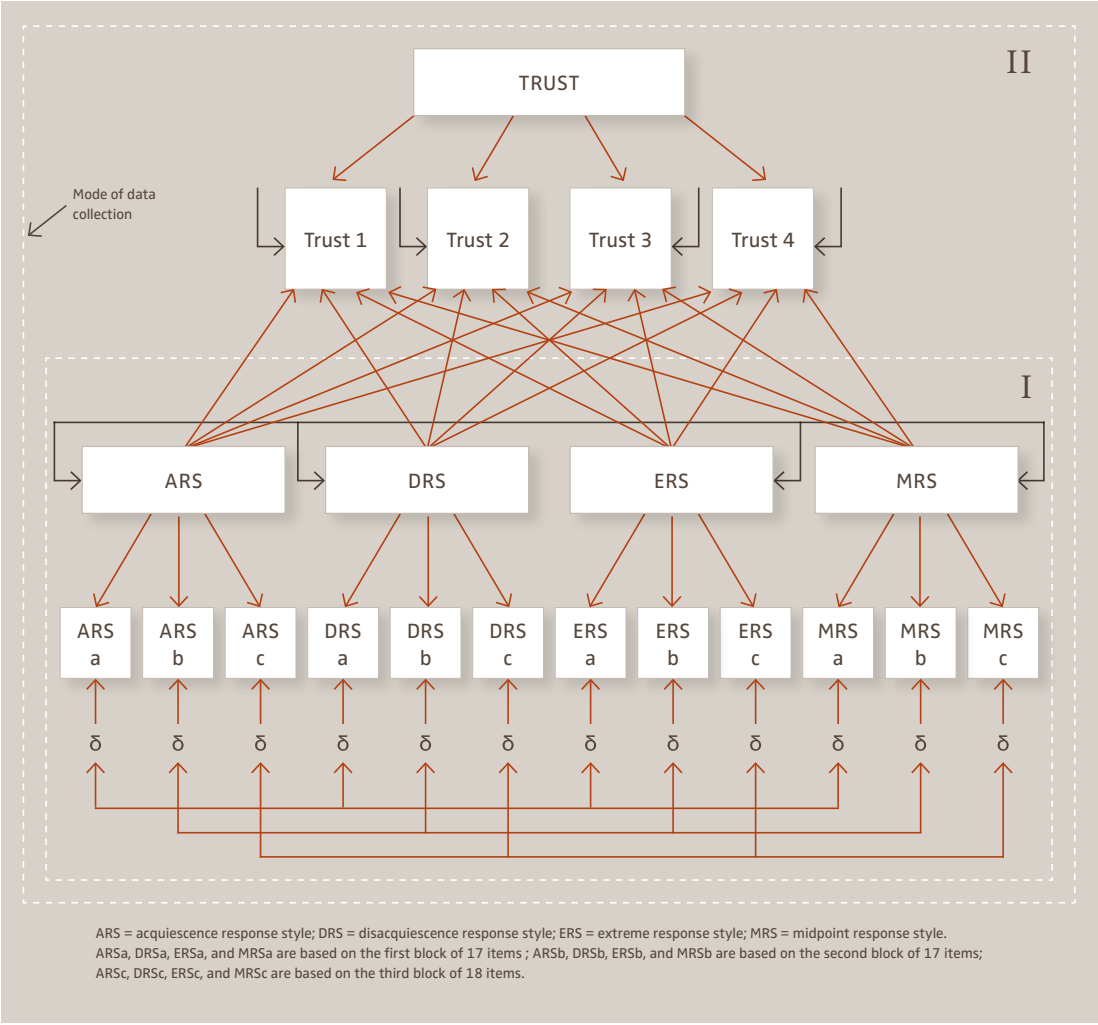
Sample and Questionnaire

To compare different modes of data collection, we administered exactly the same questionnaire via three different modes, using samples from the same geographic area: (1) a self-administered P&P questionnaire, which was recruited by means of a door-to-door random walk procedure (N = 501; response rate = 58.0 %), (2) telephone interviews with a sample taken from the general population (N = 496; response rate = 32.0 %); and (3) a self-administered online survey with a panel from an online market research company, which was recruited by means of a personalized e-mail (N = 535; response rate 48.2 %). It is important to note at this point that the three samples were balanced for age, gender and education level (by means of re-sampling). In other words, the P&P, telephone and online samples had the same profile for these three demographics to ensure that response style differences between the three modes could be attributed to the mode effect and not to demographic effects. (We decided to not use an alternative approach where the same respondents would answer the same questionnaire via different modes, as repeated administration of the same questionnaire would lead to reduced motivation and more fatigue). As a matter of fact, as response styles tend to differ across different socio-demographic segments, it is even useful to implement response style corrections in single-mode data.

The questionnaire consisted of 52 unrelated items from different scales (average inter-item correlation = 0.07), randomly sampled from a compilation of multi-item scales and measured on 7-point agreement rating scales. Note that we use more items than strictly necessary to measure response styles to optimize measurement quality. To assess the impact of response styles on a relevant marketing measure, we included a multi-item measure of trust in frontline employees (TRUST) in a clothing retail context.

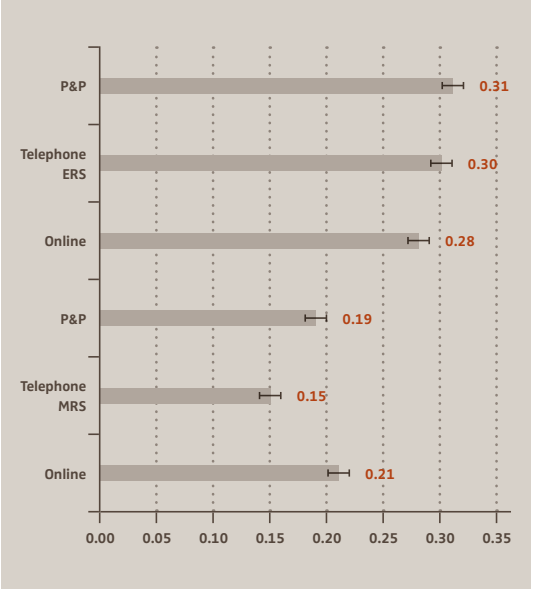
Main Findings: Cross-mode Response Style Differences

We computed response style indicators based on the random items and applied the model in Figure 1. After testing for measurement equivalence of the response style factors across the modes (i.e., the factor structure was the same), we could compare the latent response style means, as presented in Figure 2. For a good understanding of Figure 2, it is useful to keep in mind the way the response styles are measured. ARS indicates the extent to which respondents tend to lean towards the disagreement side of the rating scale, DRS the extent to which respondents tend to lean towards the negative categories of the rating scale. ARS and DRS are expressed in a scale that reflects the seven-point scale. And, although this may be counter-intuitive, ARS and DRS can occur simultaneously (i.e., in the same respondent), more specifically for respondents who tend to differentiate their responses by avoiding the midpoint. If one subtracts respondents' DRS score from the same respondents' ARS score, the result indicates the net bias away from the midpoint (4 on a seven-point scale). For example, a respondent with an ARS score of 1.5 and a DRS score of 0.5, will have an expected net bias of 1.5 - 0.5 = 1; in other words, this respondent is expected to give an average rating of 4 (i.e., the midpoint) + 1 (i.e., ARS-DRS) = 5 (on a seven-point scale), irrespective of content (Refer to Figure 2).



ARS = acquiescence response style; DRS = disacquiescence response style; ERS = extreme response style; MRS = midpoint response style.
ARSa, DRSa, ERSa, and MRSa are based on the first block of 17 items ; ARSb, DRSb, ERSb, and MRSb are based on the second block of 17 items;
ARSc, DRSc, ERSc, and MRSc are based on the third block of 18 items.

FIGURE 1:
RIRSMACS Model for Cross-Mode Response Style Comparison (I) and Correction (I + II)



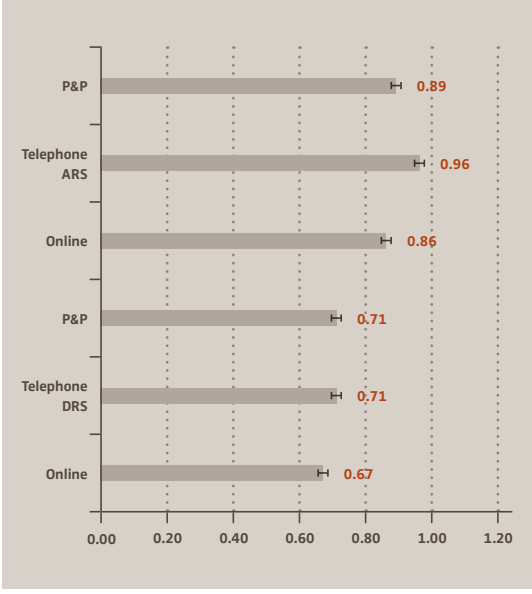


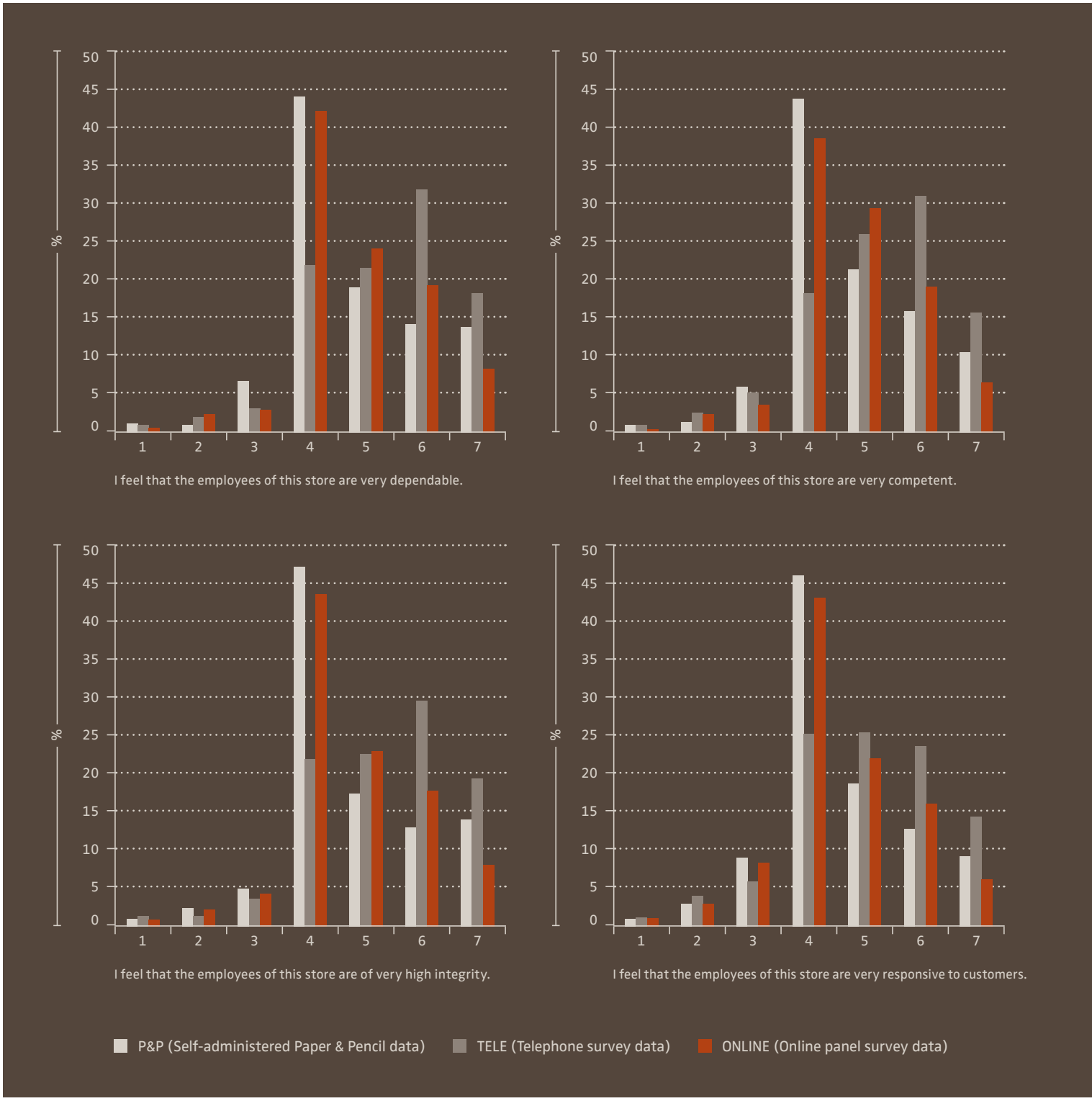
FIGURE 2:
Response style means across modes of data collection

The bars represent the response style means in the different modes and the error bars represent the standard errors of the means.

ARS = acquiescence response style
DRS = disacquiescence response style
ERS = extreme response style
MRS = midpoint response style
P&P = Self-administered Paper & Pencil data
TELE = Telephone survey data
Online = Online panel survey data

Figure 3:

CROSS-MODE FREQUENCY DISTRIBUTIONS (RESPONSE PERCENTAGES) OF TRUST ITEMS



MRS is lower while ARS is higher in the Telephone data. In the telephone group, the probability of respondents choosing the neutral point of a scale (MRS) is markedly smaller than in the other modes. The responses are shifted to the positive side, as reflected by the slightly higher ARS level. Respondents may feel pressure to provide an opinionated response, leading to lower MRS. In addition, the presence of an interviewer might increase the perceived time pressure, thus increasing ARS.

The online data have lower DRS and ERS. The whole response style profile of the online group suggests a moderate way of responding, with the highest MRS and the lowest ARS, DRS, and ERS. Note that the net effect of ARS and DRS leads to a nearly identical expected score for the online and P&P groups. Conversely, in terms of spread, the expected response distribution for the online group has less heavy tails (as shown by the lower ERS value).

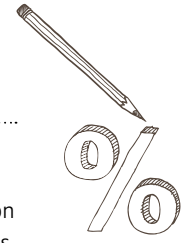
The telephone MRS score of 0.15 indicates that in the telephone mode, on average, 15 % of respondents will select the middle response option in response to a random item, as opposed to 19 % and 21 % in the P&P and online groups, respectively. In other words, approximately one-fourth of the midpoint responders in the P&P or online groups might have chosen a different (probably more favorable) option in the telephone mode.

Effect on a Marketing Measure: Trust

In the current data set, apart from being included in the same questionnaire, the TRUST items were entirely unrelated to the response style measures; the content of the items did not overlap with any of the items in the response style indicators, and we did not use the items themselves to compute the response style indicators. As a result, any relationship between the observed response style levels and the four items can only be attributed to shared response style bias.

The bar charts of the TRUST items in Figure 3 visualize how response style differences among modes may bias cross-mode comparisons of observed scores. As one would expect based on the response style differences shown in Figure 2, the telephone group shows substantially lower frequencies of the middle response and slightly higher frequencies of favorable responses. If the response style data had not provided clear information on the cross-mode differences in response distributions, the observed scores could easily be ascribed to real content-related differences, and post hoc explanations could probably be provided for the observations.

» RIRSMACS uses representative samples of items to create multiple indicators of multiple response styles that can be modeled in a Means And Covariance Structure. «



RIRSMACS to the Rescue

When applying the RIRSMACS model (see Figure 1), the artificial mean differences (in particular, a significantly higher mean in the telephone data) for the TRUST variable disappear. In particular, in the uncorrected model the factor means for Trust are 4.76, 5.31, and 4.78 for the P&P, Telephone and Online samples. In the corrected model, the factor means are corrected downwardly, resulting in estimates of 3.30, 3.60, and 3.34 for the P&P, Telephone and Online samples. Compared to the P&P mean, the Telephone sample scores significantly higher on Trust in the uncorrected model ($t = 6.85$, $p < 0.001$), but not in the corrected model (1.284; $p > 0.10$).

Bias due to response styles tends to be especially strong and misleading in data collection modes in which the factor structures seem to be highly reliable (largely because of the bias), as was the case in the telephone group. Thus, measures of internal consistency (like Cronbach's alpha) are not sufficient indication of data quality and might even be counterproductive as a criterion to evaluate modes.

The results of the response style mean comparison are important and show that telephone interview data should be handled with caution, in that they may show bias compared with other data. Telephone survey participants tend to use rating scale options away from the midpoint

» The results of the response style mean comparison are important and show that telephone interview data should be handled with caution, in that they may show bias compared with other data. Telephone survey participants tend to use rating scale options away from the midpoint (mostly positively biased). «

(mostly positively biased). For the online data, we found slightly lower levels of DRS and ERS, which indicates a more moderate way of responding to items.

Finally, the current study shows that cross-mode data may be incomparable without corrective measures. The RIRSMACS approach is the appropriate corrective tool.

RECOMMENDATIONS: WHEN TO DO A RIRSMACS STUDY?

For every study that uses cross-mode data, it is necessary to provide evidence that the modes under comparison are similar in terms of response styles. Given the generalizability of the response style measures in RIRSMACS (the items are a random sample representative of a broader population of questionnaire items), such evidence can be based on available studies that compare the same modes using comparable samples of items and respondents.

A dedicated RIRSMACS study is required under the following conditions: First, in situations in which the cross-mode approach is more cost effective (even after including a RIRSMACS study) and is the best guarantee for good population coverage. This may have different reasons. Cross-sectionally, different segments of consumers may be accessible only by means of different modes. For example, a multichannel retailer may want to compare satisfaction and trust between its online customers (using an online questionnaire) and its telephone customers (using telephone interviews). Longitudinally, the cost of different modes of data collection may change to an extent that makes it almost unavoidable to switch modes. For example, a large-scale survey in Western Europe using telephone interviews may be faced with increasing cost and decreasing success of telephone surveying, whereas the Internet is approaching full coverage and is becoming increasingly efficient for surveys.

A second condition is that the modes of data collection should be sufficiently dissimilar to warrant concern about bias due to response styles. For example, this may be the case when telephone and online data are combined.

Third, the questionnaire of interest should not already contain a large enough pool of highly dissimilar items. Such diversity in content is typically lacking in consumer surveys (e.g., in satisfaction surveys) in that variables are usually included in the same questionnaire because they presumably have some relationship.

Finally, a condition for a dedicated study is that no RIRSMACS study is available that assesses the same modes for the same segments in the same language and culture. For the situations that meet these criteria, a RIRSMACS study is required. If no evidence is provided that different modes are similar in terms of response styles, data analysis across modes is non-informative. The reason is that the same response may not have the same meaning in different modes.

In terms of data-analysis (costs), the additional demands of applying the RIRSMACS method is relatively limited on the condition that the analyst uses Structural Equation Modeling already. If this is the case, data preparation takes an extra hour for creating response style measures. SPSS syntax is provided in appendix to this end. For the actual data-analysis, it is likely that approximately half a working day or 4 working hours of a Structural Equation Modeling trained analyst are required for implementation of the response style correction to a single market study using cross-mode data containing several multi-item scales. The benefit is that cross-mode data become interpretable without continuously needing to worry about the possibility of cross-mode response style bias. •

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KEYWORDS:

Cross-mode Surveys, Response Styles, Online Research, RIRSMACS

APPENDIX: SPSS SYNTAX TO COMPUTE RESPONSE STYLE INDICATORS

This is SPSS syntax to compute three indicators (labeled a, b, c) for ARS, DRS, ERS and MRS based on 15 random items (labeled item 1 through item 15).

```
*As a first step, compute auxiliary variables indicating
*the frequency of using category 1 'strongly disagree', 2 'disagree', etc.
COUNT one_a = item1 TO item5 (1).
COUNT one_b = item6 TO item10 (1).
COUNT one_c = item11 TO item15 (1).
COUNT two_a = item1 TO item5 (2).
COUNT two_b = item6 TO item10 (2).
COUNT two_c = item11 TO item15 (2).
COUNT three_a = item1 TO item5 (3).
COUNT three_b = item6 TO item10 (3).
COUNT three_c = item11 TO item15 (3).
COUNT four_a = item1 TO item5 (4).
COUNT four_b = item6 TO item10 (4).
COUNT four_c = item11 TO item15 (4).
COUNT five_a = item1 TO item5 (5).
COUNT five_b = item6 TO item10 (5).
COUNT five_c = item11 TO item15 (5).
COUNT six_a = item1 TO item5 (6).
COUNT six_b = item6 TO item10 (6).
COUNT six_c = item11 TO item15 (6).
COUNT seven_a = item1 TO item5 (7).
COUNT seven_b = item6 TO item10 (7).
COUNT seven_c = item11 TO item15 (7).
*Next, use these auxiliary variables to compute response style indices.
*ARS.
COMPU ars_a = (3*seven_a + 2*six_a + five_a)/15.
COMPU ars_b = (3*seven_b + 2*six_b + five_b)/15.
COMPU ars_c = (3*seven_c + 2*six_c + five_c)/15.
EXE.
*DRS.
COMPU drs_a = (3*one_a+ 2*two_a + three_a)/15.
COMPU drs_b = (3*one_b + 2*two_b + three_b)/15.
COMPU drs_c = (3*one_c + 2*two_c + three_c)/15.
EXE.
*ERS.
COMPU ers_a = (one_a + seven_a)/15.
COMPU ers_b = (one_b + seven_b)/15.
COMPU ers_c = (one_c + seven_c)/15.
EXE.
*MRS.
COMPU mrs_a=four_a/15.
COMPU mrs_b=four_b/15.
COMPU mrs_c=four_c/15.
EXE.
```

{ *Prof. Dr. Klaus L. Wübbenhorst* }

THE INTERVIEWER

This interview was conducted in Nuremberg on August 13, 2009 by the Editor-in-Chief, *Professor Hermann Diller*

Prof. Dr. Klaus L. Wübbenhorst, born in 1956 in Linnich, Germany, has been Chief Executive Officer (CEO) of GfK SE since 1999. He is responsible for the company's strategy, internal audit, method and production development, corporate communications and IT services.

In 1992, Wübbenhorst joined GfK SE as a Member of the Management Board and since 1998 he has been its spokesman.

From 1991 to 1992, he was a Member of the Management Board of KBA-Planeta AG in Radebeul near Dresden, Germany.

Between 1984 and 1991, Wübbenhorst was an employee of Bertelsmann AG, Gütersloh, Germany. His last position was as CEO of Druck- und Verlagsanstalt Wiener Verlag Ges.mbH Nfg. KG, Himberg near Vienna, Austria.

In 1981, Wübbenhorst graduated in Business Administration from the University/Gesamthochschule Essen, Germany, and in 1984, he received his doctorate from the Technische Hochschule Darmstadt, Germany.

In 2005, Wübbenhorst was awarded the title of Honorary Professor by the Friedrich-Alexander University Erlangen-Nuremberg, Germany.

In addition to being CEO of GfK, Prof. Dr. Klaus L. Wübbenhorst has been President of the Chamber of Industry and Commerce for Middle Franconia in Nuremberg, Germany, since 2005. From 2002 to 2005, he was Chairperson of AMD, the Working Committee for Germany's Market and Social Research Institutes, Membership Corporation (a registered association). •

MIR TALKS TO PROF. DR. KLAUS L. WÜBBENHORST, CEO, GFK SE

Interviewed by Hermann Diller

For some years now, institutional market research has faced numerous and often serious challenges, which are becoming even more demanding in the present economic recession. In September 2009, MIR talked to the Chairman of the Board of GfK SE, the world´s fourth largest market research institute (see box left side).

MIR: *Herr Wübbenhorst, is the global recession relevant in general to market research, especially for GfK SE, or is market research not really affected?*

WÜBBENHORST: For a long time last year, I was personally convinced that both GfK and the market research industry in general would remain relatively unaffected by the global recession. This is because the issues dealt with in market research continue to be relevant. They identify consumer behavior and the developing trends to which market research is subject, for example, outsourcing by our customers, globalization and digitization. Looking back has also shown that the market research sector continued to grow during previous recessions – the last one was in 2000 and 2001 – although today, we have to admit that market research is suffering from the effects more than before.

If you want to know the reason for this then, in my opinion, it is because globalization of the economy has continued, and networking between individual countries has also clearly increased. The 2000/2001 crisis triggered by the bursting of the internet bubble was primarily a stock market hype, which consequently had the effect of curbing general expectations. In addition, although at that time, the economy was not in any danger at a global level, there was a tendency of some local fire sources of alarming proportions to flare up. This is different today, as not only Germany and Europe, but also America and Asia are affected, although Asia does seem to be making a faster recovery from the crisis.

Let us take GfK's automotive market research by way of example, where the effect of the real economy on market research immediately becomes crystal clear. In this sector, we are the global market leaders, and well positioned at that. However, the automotive industry is currently fighting for its life. Production has been stopped for weeks, even months in some cases....

MIR: *... and when they carry on manufacturing, they haven't got the money to spend on market research. It's the same old story of saving money wherever immediate advantage in liquidity can be achieved.*

WÜBBENHORST: Frankly, yes and no. For the time being, anyway. Some car manufacturers are fighting, or have really had to fight for their very survival. Even the production lines have been at a standstill and, of course, money is being saved everywhere. Immediate liquidity benefits can be achieved by cutting the advertising budget, such as not spending money on prime-time TV commercials. If you don't invest in advertising, then you don´t need to analyze the effectiveness of your advertising and of course, this impacts directly on our own order books. The motor manufacturers have increased their research and development activities, and this has had a somewhat compensatory effect. For example, there is higher demand for car clinics, but at very competitive terms.

MIR: *Quite apart from the economic crisis, which are the most difficult challenges currently confronting the market research industry? Are there disparities between large and small companies? Under these circumstances, does the smaller or the larger company's competitive edge become keener or blunter?*

WÜBBENHORST: In market research, globalization and consolidation will increase in line with customer demand for global offers. In

particular, broadly based firms operating internationally have the best pre-requisites for constant growth. There will also be room enough in the future for special or niche market suppliers, but they will operate more and more under the auspices of larger organizations. Markets are becoming increasingly discriminating and at the same time demanding more differentiating instruments. A good example of this is the "digital convergence" issue, where different markets and product or commodity groups knit together. In order to depict buying processes exactly, more complex instruments are required that guarantee global and standard research methods.

MIR: *Is this a case of economies of scale or size, or can smaller institutes afford this as well?*

WÜBBENHORST: It depends on what kind of basic research is carried out. Smaller institutes can certainly afford to test new survey instruments, such as diploma theses, for example. Clearly, there are evident economies of scale and size when considering cost-intensive, high-tech procedures like brain scans, or in the development of software for automatic identification of facial expressions. Smaller institutes are hardly in a position to afford such high and also long-term investments, bearing in mind that these projects sometimes last up to three years.

MIR: *Is the decline in the willingness to invest in traditional market research a signal for radical structural change to the effect that more will be invested in future prospects, than in retrospective market reviews?*

WÜBBENHORST: In terms of the future of market research, I tend towards optimism. There are two reasons for this. Firstly, because my glass is always half full, not half empty and secondly, because I am also convinced there are enough hard facts that speak positively for a favorable future for our sector. The trends I have mentioned are globalization, consumer diversity, which is no longer easy to predict, fierce competition among our customers for Share of Mind and Share of Wallet, and further outsourcing of market research. All these are trends that will continue to be valid. In this respect, in principle, I predict a sound future for market research.

» In market research, globalization and consolidation will increase in line with customer demand for global offers... Markets are becoming increasingly discriminating and also demanding more differentiating instruments. «

At the same time, we must ask ourselves the question of whether tomorrow's market research is any different from that of yesterday and today. In terms of content, I would tend to say no. Market research is aimed at examining why customers buy or do not buy a particular product or service and advertising is effective or not. These topics have always formed the core of market research and they always will. Our founders already called it "drawing on the consumer's vocal chords like a bow on a string". What will certainly change is the question of how I acquire this information. If we delve into GfK's 75 year history, we discover that 75 years ago, we had a widespread network of correspondents going from door to door who, with qualitative interviews, raised questions such as, "Which silk stockings do women prefer to buy?" Topics like this keep our textile industry market research busy even today and are likely to continue doing so. However, the ways of carrying out such research and implementing decisions based on it have already changed and will continue on a path of radical change.

MIR: *Today, for instance, we are faced with more and more individual customer data, a significant change for both collecting statistics and their evaluation. It is important to know why advertising was effective or not with a given person or group, for example. Market researchers are also caught up in a new competitive relationship with online platforms and information providers offering similar services. These services can observe directly what customers buy if they are steered by banners to particular websites. Does this aspect represent a real threat to classic market research?*

WÜBBENHORST: I do not wish to become embroiled in discussing whether there is a non-classical form of market research alongside the classic form. There are opportunities and risks for us here. Observation of banners and clicking onto platforms provides a great deal of individual information, but do we really get to know the user in this way? Professor Diller, if you buy something five times on eBay for your grand-daughter, then eBay might easily conclude that perhaps the person using your computer is a 15 year old girl or boy and not, in fact, a university professor! Consequently, this is open to serious misinterpretation and leads to another issue: data protection. Legislative initiatives intended for the legitimate protection of personal privacy may simply prohibit particular ways of extracting and processing personal data. When the German Data Protection Act was amended here in Germany in 2009, we had to make a considerable effort to ensure that certain activities for obtaining data remained allowed. An example would be phone calls for the purposes of market research without the previous written consent of the individual concerned.

Here I can see a distinct danger of our branch being excluded from using this data for market research purposes with a single stroke of the legal pen, because market research and direct marketing are simply lumped together. On the other hand, we have to consider the issue of how to use the diverse "touch points" belonging to the digital age. However, I also believe that we should continue to make anonymous structural statements.

MIR: *What are the consequences of the new tighter data protection laws for market research? Is Germany leading the way here? How can GfK steel itself against this?*

WÜBBENHORST: The German Bundestag (Federal Parliament) passed the amendment to the Data Protection Act on July 3, 2009. Among other aspects, the law provides a legal standard for allowing anonymous activities for market research and opinion poll purposes in practice and is enshrined in the relevant amendment to the German Data Protection Act (BDSG). A new paragraph, §30a "Businesslike Data Collection and Storing for Market Research and Opinion Polls Purposes" has been added to the BDSG, where their basic legitimacy is stated. The explicit legal ruling permitting market research and opinion polls in the BDSG is, among other aspects, the result of the industry's professional associations' interest groups and GfK's lobbying. We succeeded in creating understanding from political decision-makers for the working methods and objectives of market research and opinion polls, their basic difference from advertising and address trading, while stressing the indispensable role of our branch in supplying representative and high quality information for politics, industry and commerce.

Safeguarding the anonymity of the survey subjects without exception, and strict separation from activities outside market research are an intrinsic part of the basic principles of the professional ethics of market research, opinion polls and social research. These professional rules of conduct have now been granted a legitimate status by the BDSG by this newly created authorization of facts for market research and opinion polls. Their general acceptance and the potential for enforcement have been improved even further by this. The legal regulation for authorization in the BDSG of market research and opinion polls will strengthen both the profession's self and co-regulation as well as consumer protection.

MIR: *Herr Wübbenhorst, let's talk about the competition in the marketing research industry again. The development of the marketing information providers mentioned earlier in this interview ties in conveniently with many firms´ attempts to measure their marketing performance more exactly. This can be measured much more precisely if you have individual data. Whatever advertising efforts have led to however many potential buyers, customers and loyalty buying are now recorded in coded form. People in business practice are enthusiastic about the relevant dashboards and scorecards. Classic market research is not able to compete with this, as it cannot close the gap to sales, or rather customer success.*

WÜBBENHORST: Here we touch on a very sensitive and interesting topic, namely data combination. The advertising industry only regards high television ratings as a real hit, when the product in question is in demand. The customer would like to see this return on investment. Years ago, the customer's cooperation was necessary. For example, at GfK, we tried to measure household TV consumption and shopping behavior simultaneously, but we only succeeded in overdoing it in many households. Active measurement procedures are certainly limited, especially when they require the consumer's cooperation. However in this age of digitization, there are now new possibilities and opportunities for applying passive measuring processes. For example, the consumer only needs to agree to the installation of certain software on his PC – any other cooperation is no longer necessary. With this approach, the classic-style GfK market researcher goes down well with customers. Here is an original example from the integrated, cross-media advertising campaign sector: nobody disputes the effect cross-media campaigns have on public perceptions. However, up to now, the synergetic effects could not be verified by actual buying behavior and with that – the sale. GfK, Google and Coca-Cola were the first to analyze these effects and the interaction of all components. The results show that cross-media campaigns have a far greater effect than those restricted to only one medium. Using the internet has a direct effect on an individual's decision to buy. The starting point of the study was a Coca-Cola campaign that included television, cinema and radio commercials, posters and printed adverts as well as internet banners, video ads and advertising on Google. The new GfK Web Efficiency Panel has a record of how these messages were received and the consumers´ actual buying behavior.

This is special, because 15,000 people and their households' total internet use, all their purchases for everyday necessities as well as their use of classic media such as TV, Radio and printed material were integrated, collected in a single source and then analyzed.

» Knowledge of the market mixed with knowledge of the methods used is our recipe for success. «

MIR: *That is valid for all the older, classic market research customers, that is the consumer goods companies, but it doesn't necessarily apply to the service providers, who are certainly determining the economy more and more as well as generating more sales. Service providers rely on CRM systems as they have close contact with their customers and can keep track of how intensely a customer reacts, for example, how often they use the telephone or stay in a hotel.*

WÜBBENHORST: Yes, that is an advantage if you are only concerned with the model world of an isolated hotel chain operating on its own. As market researchers, we can add our knowledge of the entire market to this, as Added Value, so to speak. Staying with the hotel example, we don't only know hotel chain A, but we also know B, C and D. Our advantage is piecing together this information for a single customer into an overall picture. We have just bought a tourism panel in England in the retail and technology industry. Our aim is to integrate it into our own tourism panels in Germany, France and Russia, which are operating excellently, to form a comprehensive system for the whole of Europe. As a neutral authority, we aim to offer the overall picture, and not just a focus to our customers.

MIR: *Taking this into account, let us now turn to GfK´s "Business Vision" or "Fact-Based Consultancy" – your mission statement, as it were. This states you offer not only detailed information, but also insights that go much deeper. This fits in well with your claim of adhering to traditional average views, because averages or segments are relevant for such insights.*

WÜBBENHORST: Market research, as we understand it, does not mean simply laying down an external hard disk with data on the table in front of the customers, but also supplying them with an interpretation of these facts. We call this "Fact-Based Consultancy". However, we do differ from classic consulting firms in as far as data collection forms the basis of our procedure. We then combine this basis of data with profound know-how in the relevant market segment. For instance, if we discuss our insights with customers from the consumer electronics sector, then the person who deals with the customer is an expert who really knows the market well. This person is a dialogue partner at eye level with the customer. In our view, this orientation towards market segments is very important, and is clearly evident in our organizational structure. I firmly believe if we speak the language of the product and our customer accepts that, then we have created an essential milestone for the success of institutional market research. If you are not prepared to accept your customer advisor's competence, then you will not make any headway. If you welcome their competence right from the start, then you have a bonus, namely, trust. Knowledge of the market mixed with knowledge of the methods used is our recipe for success.

MIR: *What role do branding and PR play today for market research institutes? What are the dominant dimensions for positioning yourself?*

WÜBBENHORST: It is important for market research institutes to be noticed and experienced in their own right, just like every other company. Competition today demands that your company is visible for all to see, your trademark is your own and you have your own style. This is, of course, the main task for PR.

Branding or being recognized as a brand is also fundamentally important for market research institutes. Our customers must be able to grasp our values and our program that GfK stands for as a brand, and this has to be achieved by our performance, irrespective of which business unit it comes from. It is also important that not only visibility itself counts, but also the clear positioning of GfK as a brand representing relevant and attractive content, and this is much more decisive. Our brand has to be kept up-to-date with these relevant values and elements for our clients. Only then can branding exceed a simple marking function and develop to the full, desired effect.

Naturally, we have to ensure that this claim is consistently upheld in all possible situations where customers come in contact with the GfK brand. All our activities must resolutely support and add to this positioning in both form and content.

If we consider dominant positioning dimensions, several important issues characterizing this become very clear indeed. Quality comes first and foremost for GfK as one of the primary classifications of a given brand. The quality of our performance must be excellent in itself. Beyond this, we naturally like to see consulting competence coming to

the fore and this is exactly what we sell our customers. Finally, innovation is a cornerstone of our positioning. Innovations are the driving force for growth and successful business. International presence and our independent status are the fundamental characteristics of our positioning. PR and integrated communication methods are crucial: they give us a profile and set us apart from our competitors.

MIR: *Quality normally demands constant product innovation from suppliers. Is this the same for institutional market research? What does GfK have to show for itself with respect to this over the last few years?*

WÜBBENHORST: The continuous development of innovative methods and instruments is an elementary component of our business. Here is an example. Neuromarketing, or neuro-market research is a very topical issue and GfK has carried out a basic research project on methods and product development in cooperation with the chair for neuropsychology at the University of Zurich. They examined whether magnetic resonance imaging (MRI) could be used for validating market research tools. Female students particularly keen on chocolate were questioned in the traditional way and were examined in parallel in an MRI scanner. The result was very clear. The intensity of brain activation correlated with the measurements of the traditional instruments. It was the first time we were able to prove that our way of inquiring about brand preference correlates with the brain's cognitive and emotional processes, and was consequently extremely valid.

MIR: *Where, how and what do you learn from science?*

WÜBBENHORST: First, where? We also try to extend ourselves here. GfK´s employee structure is very interdisciplinary. Ideas for new topics can come from any corner of the company. We welcome anything new and do not solely restrict ourselves to economics. A great deal of exciting new developments come from psychology like recording emotions, or from sociology with agent-based models and from engineering science, such as recognition of emotions by visual analysis of facial expressions.

Second, how? By cooperation. From supervising diploma theses to dissertations and certain co-operative projects to founding a chair for marketing intelligence at the University of Erlangen-Nuremberg.

Third, what? This cooperation includes the most varied topics, content, questions and methods which are all concerned with data collection, evaluation and statistical modelling. The most important factor is constant, critical and scientific thinking. An important pre-requisite for new processes is that they prove to be valid after strict examination. Empirical, experimental examination is the common language for the different scientific disciplines. This is where we get ideas for new instruments.

MIR: *In this context, what importance does close networking with the sciences have for market research institutes?*

WÜBBENHORST: There are several advantages here. For one, new developments can be identified quickly, for example, nowadays cameras are more able to recognize visual attraction with the help of sophisticated software. The Fraunhofer Institute for Integrated Circuits in Erlangen already has a system that easily recognizes faces and even smiles. We are looking into this technical development at the moment. We would like to find out if it could be used for recognizing different facial expressions that mirror themselves in our faces when looking at advertising. We are currently examining this with the help of the Fraunhofer Institute as well as the internationally most renowned emotions researcher, Professor Scherer from the University of Geneva. If this project proves to be successful, then we have a completely new kind of system for assessing advertising at our disposal. Such a project would have been unthinkable without networking with the sciences.

The other aspect is that with the help of science, new methods can be verified first without a conclusion in basic research projects, before we use them in customer-specific projects. This is very important for quality assurance and here, a good example is GfK's EMO Sensor, which we have developed in cooperation with the Institute for Consumer and Behavior Research at the University of Saarland. This instrument measures a wide range of emotions that consumers feel when confronted with a brand while watching an advertising film, for example. GfK 22 established different emotions in comprehensive basic studies which are significant for consumer behavior. Following this, the GfK EMO Sensor was tested in a large-scale international research project on the effectiveness of advertising. The results of this study show the influence emotions have on consumer behavior – yet again proof of the validity of our survey instruments.

MIR: *Critical reviews of new trends in methods based on scientific comparison Studies and documented in marketing literature are also possible.*

» Innovations are the driving force for growth and successful business. International presence and our independent status are the fundamental characteristics of our positioning. «

WÜBBENHORST: It is not enough for GfK, for a process to simply appear new and innovative. It must be a valid tool, superior to traditional instruments after examinations which fulfil scientific standards. For example, the HILCA (Hierarchical Individualized Limit Conjoint Analysis) was developed in cooperation with the University of Hohenheim and won the BVM prize for innovation in 2008. A successful methods test was subsequently carried out, which shows that the HILCA is far superior to other commercial Choice Based Conjoints (CBC) in the relevant area of application. A CBC is where the content of the survey questions depends on the previous questions.

MIR: *This is a question on market research services. To what extent does GfK go in for customer management? Do you prioritize valuable customers and if so, how? How strongly committed are you to relationship marketing or are you more a supplier of large amounts of standard solutions. Is your organization and are your processes geared towards the customer?*

WÜBBENHORST: GfK is becoming much better known internationally and is constantly consolidating its position amongst the market leaders. As a result of this, market share has become a strategically important goal. This is where Global Key Account Management plays a very important role. The majority of our customers are in the process of consolidating their business and are concentrating on only a few service providers. Generally speaking, customers want to make use of insights gathered from much wider markets. A great number of changes in products and brands, as well as in our own research techniques can be found in many different markets and sectors. We track down such knowledge and experts from local companies and invite them to sit round the table with us to discuss and exchange mindsets, and this nourishes the dialog between our customers and ourselves.

Global Key Account managers can take on strategically important consulting roles for their customers by thinking and dealing proactively, predicting trends and influencing decisions. This is where we can offer our customers added value. Our knowledge becomes a basic element in their thinking. The Global Key Account Management Program concept was introduced to enable experts to concentrate on only a few customers, usually just one or two.

MIR: *What is the future for the globalization of market research? How are the regional shares of sales and profit shifting? Will new competition come from outside Europe and the USA?*

WÜBBENHORST: International market research projects are increasing in number in the course of globalization. Key customers operating worldwide need comparable data in order to develop their range of offers and their marketing planning, if it is to be successful in more than one market. Market research has to face this demand and position itself globally as well. This is already a tradition at GfK. We celebrate our 75th anniversary in Germany this year, and we have been cultivating our international network since the 1960s. Today, GfK has 150 branches operating actively in 100 countries in every continent of the world. We generate roughly a quarter of our sales in Germany, our home market, but more than 80% of our 10,000 employees work abroad. Our development in various regions naturally depends on the respective economic development there. North America and Europe are by far the most lucrative regions with the most sales from market research services, but the highest growth rates are currently being recorded in Latin America and Asia. China is the best example of how much potential there is in these markets. Even in the present crisis, China's economy is still growing. The new middle class there is the hope of companies from every corner of the globe, from car manufacturers to cosmetics producers. Huge markets are emerging there.

MIR: *What is your position on the recently failed attempt to merge with TNS and become the world's second largest market research institute?*

WÜBBENHORST: A year ago, we tried to merge with the British market research enterprise TNS, at first as a merger, and then as a takeover. This way, the GfK/TNS Group would have become the number two in the world's market research industry. We would have needed to take on a high level of debt to finance the takeover and in the face of the current economic crisis, we probably couldn't have achieved our aims. The merger did not succeed for various reasons, and in retrospect, this was very fortunate for us. In the future, we aim to grow organically by making profitable acquisitions, especially in growth regions like Central and Eastern Europe, Asia, the Pacific and Latin America. These regions still offer high growth potential for market research, even in these times of crisis. Our plan and strategic goal is to become one of the three largest market research enterprises worldwide. I am confident we will achieve this.

MIR: *May I wish you and your company every success for the future and thank you very much indeed for the interview.* •

{Deutsche Zusammenfassung}

FÜHRT HÖHERE KUNDENZUFRIEDENHEIT ZU HÖHEREN FIRMENWERTEN?

Aksoy Lerzan, Bruce Cooil, Christopher Groening, Timothy L. Keiningham und Atakan Yalcin

Wenn es um die finanzielle Beurteilung der Attraktivität von Aktiengesellschaften geht, spielen intangible Vermögensgegenstände meistens keine Rolle. Andererseits ist aus der Marketingforschung gut bekannt, dass der langfristige finanzielle Erfolg eines Unternehmens durch die Steigerung der Kundenzufriedenheit deutlich erhöht werden kann. Vor diesem Hintergrund überprüfen die Autoren den Zusammenhang zwischen den Zufriedenheitsratings einzelner Firmen im Amerikanischen Kundenzufriedenheitsbarometer (ACSI) und der Aktienkursentwicklung dieser Unternehmen. Beide Datenreihen werden für den Zeitraum 12/1996 bis 8/2006 in Beziehung gesetzt, indem vier Unternehmensgruppen unterschieden werden, je nachdem, ob das Zufriedenheitsniveau für die Unternehmen im Branchenvergleich über- oder unterdurchschnittlich ausfällt und ob es gelang, den Zufriedenheitsindex zu verbessern oder nicht (vgl. Abb. 1).

Indexiert man die Aktienkursentwicklung zum Start des Betrachtungszeitraums auf 100 $, so erreichen die Firmen im ersten Quadranten (überdurchschnittliche Kundenzufriedenheit und Zuwachs der Kundenzufriedenheit) mit 312 $ die deutlich beste Performance, insbesondere gegenüber den Firmen mit unterdurchschnittlicher Kundenzufriedenheit und einem Rückgang der Kundenzufriedenheit, die nur knapp 98 $ erreichen. Der Durchschnitt liegt bei ca. 205 $ (vgl. Abb. 2).

Das Ergebnis hält auch dem Einwand stand, dass Aktienkurse nicht nur das Erfolgspotenzial, sondern auch das Risiko einer Investition in Aktien dieses Unternehmens berücksichtigen. Dazu testen die Autoren mehrere Risikomodelle aus der Portfolioanalyse, welche den Zusammenhang zwischen ungewöhnlichen Ausschlägen bei den Gewinnen und dem marktbedingten Risiko überprüfen. In allen Fällen wird der Basisbefund eines starken positiven Effekts hoher und steigender Kundenzufriedenheit auf die Aktienkursentwicklung bestätigt. Wer in das High-Performer-Portfolio investiert, erhält auch nach Berücksichtigung des Risikos eine monatliche Zusatzrendite von 0,78 %.

Die Ergebnisse bestärken also die Kundenzufriedenheitsstrategie auch aus finanzwirtschaftlicher Perspektive und aus Sicht von Finanzinvestoren. Darüber hinaus machen sie deutlich, dass die im Marketing erzeugten intangiblen Vermögenswerte bei intelligenter Vorgehensweise auch messbar werden. Dies ist nicht nur für die Marketingentscheidungen hilfreich, sondern insbesondere für das Standing des Marketings im Unternehmen. Gleichzeitig macht der Beitrag deutlich was „Marketing Metrics" bezwecken und wie man sie bewerkstelligen kann. •

Den ausführlichen Artikel in englischer Sprache finden Sie in diesem Magazin auf Seite …

… 8.

Schlüsselbegriffe:
Kundenzufriedenheit, Firmenwert, Marketing Metrics

{Deutsche Zusammenfassung}

WIE MAN KUNDEN AUF DIE EINFÜHRUNG INNOVATIVER PRODUKTE UND DIENSTE VORBEREITET

Raquel Castaño, Mita Sujan, Manish Kacker und Harish Sujan

Die Ausgestaltung der Kommunikationsstrategie ist für viele neue Produkte mit hohem Innovationsgrad eine kritische Entscheidung. Viele Unternehmen greifen dabei auch aus wettbewerbsstrategischen Gründen auf Vorankündigungen zurück, die z. T. weit vor dem Einführungszeitpunkt verbreitet werden. Dabei muss man allerdings berücksichtigen, dass die inhaltliche Argumentation je nach Entfernung zum Einführungszeitpunkt unterschiedlich ausfallen muss, weil die potenziellen Käufer im Zeitverlauf gedanklich unterschiedlich an Innovationen herangehen.

Dieses Verhalten untersuchten die Autoren des Beitrags in insgesamt drei experimentellen Studien näher, wobei es zum einen um die Einführung eines neuen webbasierten Service für Studierende und zum anderen um eine automatische Fahrkontrolle in Pkws ging.

Konsumenten sind häufig anfangs von Innovationen stark begeistert, werden aber zunehmend skeptischer, je näher der mögliche Kaufzeitpunkt rückt, also das Produkt tatsächlich eingeführt wird. Dann treten immer mehr die Risiken bezüglich der voraussichtlichen Kosten und anderer Nutzungsumstände ins Bewusstsein und bringen die Präferenz für das neue Produkt ins Wanken. Dies erklärt auch, warum frühe Pretests von neuen Produkten oft zu positiv ausfallen.

Es lassen sich dabei folgende Risikoarten für echt neue Produkte oder Services unterscheiden:

a) *Leistungsunsicherheit* – was wird der Nutzen der Innovation sein? Was bringt es mir persönlich?

b) *Soziale Unsicherheit* – wie werden andere auf die Innovation reagieren? Wie werden mich meine Freunde und Bekannten beurteilen, wenn ich das Produkt kaufe?

c) *Unsicherheit über die Wechselkosten* – welche Probleme wird der Wechsel zum neuen Produkt mit sich bringen? Werde ich den Umgang damit rasch erlernen?

d) *Affektive Unsicherheit* – wie stark ist die emotionale Verbundenheit zum alten Produkt? Was sind meine Gefühle, wenn ich es aufgebe?

Die Experimente zeigen, dass die Art der Unsicherheit mit dem Fortschreiten des Kaufprozesses wechselt. Liegt die Kaufentscheidung noch in weiterer Ferne, sind die Konsumenten vor allem mit den leistungsbezogenen und sozialen Risiken beschäftigt. Schreitet der Adoptionsprozess voran, treten dagegen die Wechselkosten und die affektive Unsicherheit immer mehr in den Vordergrund.

Folgerichtig wird in einem weiteren Experiment belegt, dass frühe Vorankündigungen für neue Produkte besser die Nutzenargumente für die Innovation in den Mittelpunkt stellen sollten, während späte Vorankündigungen besser die vorteilhafte Art der (bequemen, einfachen, komfortablen etc.) Nutzung visualisieren. Eine solche Synchronisation der Kommunikationsstrategie mit dem Zeitabstand zum Launch erhöht die Adoptionsraten der potenziellen Kunden und die Kundenzufriedenheit nach der Adoption signifikant und steigert damit auch insgesamt den Innovationserfolg. Wie eine dritte Studie deutlich macht, wirken diese Kommunikationseffekte umso stärker, je höher der Innovationsgrad des neuen Produktes ausfällt. •

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Schlüsselbegriffe:
Innovationsmanagement, Neuproduktankündigungen, Roll-out, Kommunikationsstrategie, Construal Theory

{Deutsche Zusammenfassung}

WENN 2+2 NICHT DAS GLEICHE IST WIE 1+3: WIE REAGIEREN KONSUMENTEN AUF PREISAUFTEILUNGEN?

Rebecca W. Hamilton und Joydeep Srivastava

In mehreren Laborexperimenten, die den Einkauf von Standard-Autoreparaturen, von Kühlschränken mit Zusatzfunktionen wie Eiszubereitung oder Geräuschdämmung, von Autoteilen mit und ohne Frachtkosten, von Laptops mit unterschiedlichen Ausstattungsmerkmalen sowie Kombinationsangebote in Restaurants (Pizza und Wings) simulieren, überprüfen die Autoren, wie sich die Präferenz von Konsumenten verändert, wenn sich zwar die Anteile der Preiskomponenten am Gesamtpreis verändern, nicht aber der Gesamtpreis selbst.

Diese Fragestellung gewinnt angesichts immer differenzierterer Preissysteme und zunehmenden Preiswettbewerbs zwischen verschiedenen Absatzkanälen (mit unterschiedlichen Transaktionskosten) in der Praxis zunehmend an Bedeutung. Beispielsweise werben Internetanbieter häufig mit ihren Produktpreisen und verstecken die z. T. erheblichen Versandkosten in Sondervereinbarungen. Ähnliches gilt für Fluglinien, Reiseveranstalter oder Autowerkstätten, wo Arbeits- und Materialkosten meist getrennt voneinander ausgewiesen werden. Traditionelle Anbieter geraten hier mit Komplettpreisen ins Hintertreffen und reagieren deshalb ihrerseits häufiger mit der Aufteilung ihrer Preise in mehrere Preiskomponenten. Sie benötigen dafür ein Handlungsprinzip, nach dem sie die Höhe der Preisaufteilung zwischen den Komponenten bei konstantem Gesamtpreis vornehmen können. Bei welcher Preiskomponente sind die Reaktionen der Kunden sensitiver? Wann ist eine „Mischkalkulation" zwischen den Preiskomponenten preisoptisch optimal?

Die Autoren argumentieren, dass die Preisaufteilung die Konsumenten dazu veranlasst, die Teilpreise mit dem zugehörigen Nutzen der Leistungskomponenten zu vergleichen. Tragen dabei diese Komponenten unterschiedlich zum Gesamtnutzen des Angebots bei, verändert sich die Präferenz mit unterschiedlichen Preisanteilen, obwohl der Gesamtpreis konstant bleibt. Sie verhalten sich gegenüber höheren Preisen bei nutzenärmeren Komponenten preissensitiver als bei nutzenreicheren. Bei Autoreparaturen gewichten z. B. viele Kunden die Arbeitskosten nutzenärmer als die Teilekosten, sodass höhere Aufschläge auf die Teilepreise zur besseren Preisoptik führen als höhere Arbeitskosten. Dies gilt generell, d. h. unabhängig von der Höhe des Gesamtpreises.

Ursache dafür ist auch die Wahrnehmung des komponentenspezifischen Preiswettbewerbs. Glauben Konsumente z. B. daran, dass Frachtleistungen z. T auch ohne Entgelt angeboten werden, andere Komponenten (z. B. Arbeitskosten) aber nicht, richtet sich die Preisaufmerksamkeit mehr auf die Frachtzuschläge als auf die Arbeitskosten. Die Präferenz der Kunden kann durch entsprechende Vorgaben an die Probanden (z. B. Kauf eines kunsthandwerklich besonders gut gelungenen Geschenks) in gewisser Weise gelenkt werden. Dies eröffnet den Anbietern die Chance, die jeweils für sie günstigsten Leistungskomponenten werblich herauszustellen und dafür eine höhere Preisbereitschaft zu erzeugen. Komponenten mit geringem Nutzen für die Kunden, wie Versandkosten, sollten dagegen eher preisaggressiv kalkuliert werden. Der daraus entstehende Preis-Leistungs-Vorteil überkompensiert einen leichten Preis-Leistungs-Nachteil bei anderen, höherpreisigen Komponenten, etwa den Produktpreisen selbst. •

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Schlüsselbegriffe:
Preissysteme, Preisaufteilung, Zusatzkosten, Komplettpreise, Preiswahrnehmung, Preissensitivität

{Deutsche Zusammenfassung}

VERBESSERUNGEN DER PROFITABILITÄT DURCH EINSATZ EINES KUNDENLEBENSZYKLUSKONZEPTS

V. Kumar, R. Venkatesan und B. Rajan

Der Artikel stellt ein Konzept zum Einsatz zukunftsorientierter Kundenlebenszykluswerte (CLV, Customer Lifetime Value) anstelle herkömmlicher Kundenscorings vor und belegt am Beispiel des Einsatzes bei IBM sowie eines US-Bekleidungsfilialisten die Überlegenheit dieses Systems gegenüber den herkömmlichen, vergangenheitsorientierten Ansätzen, etwa der ABC-Analyse.

Das System baut auf einem dynamischen Kundenwertmodell auf, in dem die mit jedem Kunden in der Planperiode erzielbaren Deckungsbeiträge pro Kauf und die in verschiedenen Kommunikationskanälen anfallenden Marketingkosten abdiskontiert berechnet werden (Gleichung 1).

$$CLV_{it} = \underbrace{\sum_{t=1}^{T_i} \frac{CM_{i,t}}{(1+r)^{\,t/\text{frequency}_i}}}_{\text{Abgezinste Bruttomarge}} - \underbrace{\sum_{l=1}^{n} \frac{\sum_m MC_{i,m,l}}{(1+r)^l}}_{\text{Abgezinste Marketingkosten}}$$

mit

CLV	= individueller Kundenlebenszykluswert
$CM_{i,t}$	= Deckungsbeitrag des Kunden i beim Kaufakt t
$MC_{i,m,l}$	= Marketingkosten für Kunde i im Kommunikationskanal m in Zeitperiode l., wobei, $MC_{i,m,l} = c_{i,m,l}$ (Einheitskostensatz) * $x_{i,m,l}$ (Anzahl der Kontakte)
frequency_i	= 12/expint_i (wobei expint_i = erwarteter Zeitraum zwischen zwei Käufen für Kunde i)
r	= Zinssatz zur Diskontierung
n	= Anzahl Jahre für Prognose
T_i	= Anzahl der Einkäufe im Outlet i bis zum Ende der Planungsperiode

Dabei werden die vergangene Kaufhäufigkeit und deren Treiber (z. B. Steigerung der Kaufakte, Cross-Buying, Anteil der vom Kunden selbst initiierten Kontakte etc.) zur Prognose zukünftiger Einkäufe herangezogen. Für die Bezifferung der künftigen Marketingkosten wird ein Optimierungsmodell verwendet, das die optimale Kundenansprache in Abhängigkeit von der Kaufhäufigkeit des Kunden und den Zeiträumen zwischen den Käufen bestimmt. Die künftigen Deckungsbeiträge beruhen auf den bisherigen Artikelmargen, den berechneten Kontaktkosten und der prognostizierten Menge gekaufter Artikel. Damit wird die Elastizität der Anzahl der kanalspezifischen Kundenansprachen berücksichtigt, was im Ergebnis zu deutlichen Resultatverbesserungen führt.

Das Ranking aller Kunden nach ihrem CLV in zehn Gruppen vom ergiebigsten zum unergiebigsten Segment und zusätzlich in aktive und inaktive Kunden (vgl. Tab. 2 im Text) lässt eine Umschichtung und Optimierung der Kundenansprache zu, die im Falle von IBM zu einer Umsatzsteigerung von 19,1 Mio. $ führte. Dabei werden nicht nur die wertvolleren aktiven Kunden noch intensiver kontaktiert, sondern auch „schlafende" statt relativ unrentable aktive Kunden bearbeitet (vgl. Tab. 3 im Text).

Ein Vergleich der Kundenscores auf Basis von Vergangenheitsdaten und denen des CLV-Modells zeigt im Falle des Bekleidungsfilialisten keine hohen Werte, was den Informationswert des zukunftsorientierten CLV-Modells unterstreicht. Wertvoll für die Ableitung konkreter Maßnahmen zur (Wieder-)Gewinnung der Kunden sind vor allem die Einflussanalysen des CLV, die das Profil des wertvollsten Kundentyps deutlich zu machen vermögen.

Die Anwendung des Modells trägt zur Überwindung eines einseitig produktzentrierten Marketingansatzes zugunsten eines stärker kundenorientierten Ansatzes bei (vgl. Abb. 3 im Text). Sie läuft in den in Abb. 1 dargestellten drei Stufen ab, nämlich erstens die Berechnung der kundenindividuellen CLV-Werte, zweitens die Segmentierung der Kunden nach Profitabilität und drittens die Reallokation der Marketingaufwendungen nach Kunden und Kontaktkanälen. •

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Schlüsselbegriffe:
Customer Relationship Management, Customer Lifetime Value, Return on Marketing Contacts

{*Deutsche Zusammenfassung*}

DIE KORREKTUR UNTERSCHIEDLICHER BEANTWORTUNGSSTILE BEI CROSS-MODALEN UMFRAGEN

Bert Weijters, Maggie Geuens und Niels Schillewaert

Cross-modale Umfragen, bei denen unterschiedliche Medien zur Datenerhebung für gleiche Erhebungsgegenstände, z. B. Kundenzufriedenheit, benutzt werden, gewinnen an Bedeutung, weil immer seltener alle Zielpersonen nur über ein Medium erreichbar sind und weil für eine effiziente Marktforschung alle Datenquellen auszuschöpfen sind. Leider sind solche Daten aber nicht voll vergleichbar, weil die verschiedenen Medien (z. B. Telefon bzw. Internet) unterschiedliche Antwortstile provozieren. Medienspezifische Messfehler entstehen insbesondere aufgrund unterschiedlich starker Tendenzen zur Befürwortung bzw. Ablehnung bestimmter Aussagen auf vorgegebenen Ratingskalen sowie aufgrund unterschiedlicher Tendenzen zu mittleren bzw. extremen Ratings. Analoge Effekte lassen sich auch bei Cross-Country-Erhebungen beobachten.

Die Autoren stellen nach Klärung und Präzisierung der einschlägigen Messfehler ein neues Verfahren der Fehlerkorrektur vor (RIRSMACS: Representative Indicators Response Style Means And Covariance Structure method). RIRSMACS nutzt repräsentative Samples von Frageitems, um multiple Indikatoren für unterschiedliche Beantwortungsstile zu kreieren, die nach dem Muster von Mittelwert- und Kovarianzstrukturanalysen modelliert werden können (vgl. Abb. 1 im Text). In mehreren Arbeitsschritten werden Korrekturfaktoren ermittelt, welche den medienspezifischen Response-Style-Bias von Zufallseinflüssen zu trennen und voll vergleichbare Datensätze zu erstellen erlauben.

Das Verfahren wird am Beispiel einer identischen Messung des Vertrauens im Zuge schriftlicher, telefonischer und Onlinebefragungen demonstriert und getestet. Zunächst verdeutlichen die Messergebnisse, dass crossmodale Messfehler tatsächlich auftreten (vgl. Tab. 2). So zeigt der MRS-Score von 0,15 bei Telefonbefragungen, dass hierbei 15 % der Befragten die mittlere Antwortmöglichkeiten zufällig ausgewählter Items wählen, im Vergleich zu 19 bzw. 21 % bei schriftlichen bzw. Onlinebefragungen. Teilnehmer von Telefonbefragungen tendieren also weniger zu mittleren Beurteilungen und favorisieren meist eher positive Ratings.

Durch die Anwendung des RIRSMACS-Modells können solche Effekte ausgeschaltet und eine validere Datenbasis geschaffen werden. •

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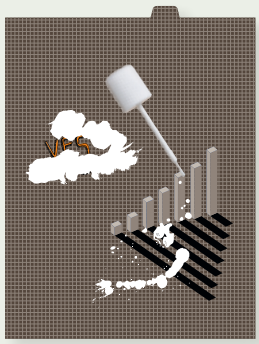

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Schlüsselbegriffe:
Cross-modale Umfragen, Beantwortungsstile, Onlineumfragen, RIRSMACS

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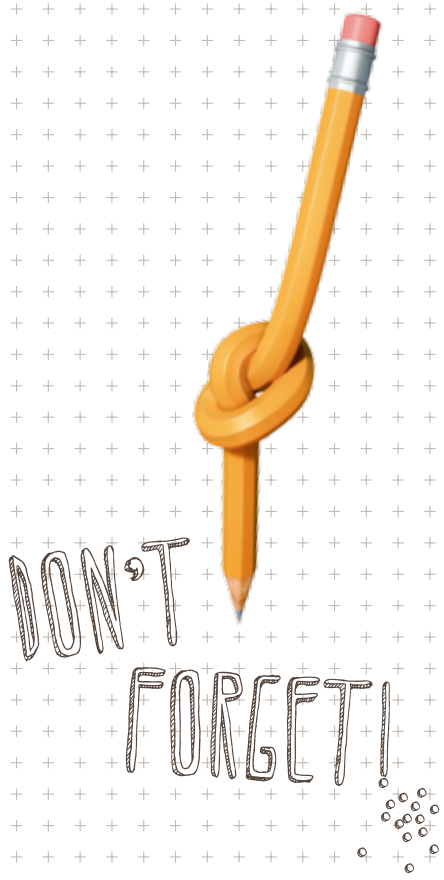

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