Journal of Business Ecosystems
Volume 4 • Issue 1

Management of Customer Lifetime Value in Organizations:
Strategies and Initiatives

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ABSTRACT

Companies should focus on customer lifetime value, its management, and on profitable customers for company growth. The objective of the study is to analyze customer lifetime value and to manage it effectively. The methodology adopted is a conceptual analysis of various aspects of customer lifetime value and its management. Companies should appreciate the importance of customer lifetime value and the connections among customer lifetime value, brand equity, and customer equity. They should develop and build customer lifetime value through various measures (viz., improvement in customer services, customer engagement, enhancing the growth potential of customers, management of unprofitable customers, rewarding profitable customers, and developing customer touch points). They should develop customer loyalty through trust and measure customer lifetime value. Academicians may suggest models that are effective in measuring customer lifetime value and identifying profitable customers. Managers may suggest effective strategies and initiatives for better management of customer lifetime value.

KEYWORDS

Brand Equity, Customer Engagement, Customer Equity, Customer Loyalty, Customer Services, Customer Touch Points, Profitable Customers

1. INTRODUCTION

It is imperative for companies to attract and to retain profitable customers (Mishoba, Banujan, Prasanth, & Kumara, 2022). Retaining profitable customers is one of the most important tasks of marketing. The well-known 80/20 rule suggests that the top 20 percent of the customers generate more than 80 percent of the profits for a company (Rogić, Kašćelan, Kašćelan, & Đurišić, 2022). In some exceptional cases, the most profitable 20 percent of customers (on a per capita basis) may account for more than 100 percent of the profits for a company (Cardos & Cardos, 2014). Research also suggests that the 10 to 20 percent of the customers who are the least profitable, can actually reduce profits (Burton & Holden, 2010). A company breaks even with the middle 60 to 70 percent

DOI: 10.4018/jbe.318471
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(Keiningham, Vavra, Aksoy, & Wallard, 2005). The discussions suggest that companies can actually increase its profits by *firing* its worst customers.

Companies should analyze their profitable customers and should try to create value for such customers. Companies should focus on how efficiently they are able to understand and to create value for their profitable customers. They should also aim to generate value in return from such customers and prospects available (Kumar, 2018). It is not always the company's largest customers who demand considerable service and deep discounts or who yield the most profit. The smallest customers pay full price and receive minimal service. However, companies incur costs in transacting with such customers. Consequently, these customers generate reduced profitability for companies (Choi, Ha, & Kim, 2022). Midsize customers who receive good service and pay nearly full price are often the most profitable (Rogers & Peppers, 2022).

The discussions suggest that companies should not focus on all their customers. They should conduct an in-depth analysis and identify those customers who are profitable and generate value for the companies in the long run. It is difficult to identify such customers. However, it is imperative for companies to identify and to focus on such customers. Although the topic is important, few studies focus on conducting an in-depth analysis of customers and on identifying the most profitable customers. The study aims to address this research gap.

The objective of the study is to identify profitable customers, to analyze the value received by companies from such customers, and to manage the value received over the lifetime of the customers.

The methodology adopted is a conceptual analysis of the various aspects of profitable customers, the value received from such customers, and the management of the value received over the lifetime of the customers. Research papers published in reputed academic journals on the topic are referred for conducting the analysis. Primary data is not collected and empirical analysis is not done.

The novelty and the contributions of the study lie in the fact that an in-depth conceptual analysis of the various aspects of customer lifetime value and its management is done. Academicians may study and analyze the various ways of measuring customer lifetime value and suggest the best measure which will allow companies to identify profitable customers and to focus on such customers. They may analyze the connections among customer lifetime value, brand equity, and customer equity and how customer lifetime value helps in improving brand equity and customer equity. Practicing managers may study and analyze the various strategies and initiatives which companies adopt to develop and to build customer lifetime value. Based on the analysis, they may suggest the best practices which companies may adopt to identify profitable customers and to improve customer lifetime value. Business ecosystems and business platform perspective of the issues are also discussed. All these will help companies to identify the most profitable customers, improve customer lifetime value of the profitable customers, and to achieve business excellence in the long run.

The study is structured as follows:

Section 2 discusses about customer lifetime value and its importance. Section 3 focuses on the connections among customer lifetime value, brand equity, and customer equity. Section 4 discusses about developing and building customer lifetime value with sub-sections 4.1, 4.2, 4.3, 4.5, and 4.6 highlighting on improvement in customer services, engagement of customers, enhancing the growth potential of individual customer, management of unprofitable customers, rewarding the most profitable customers, and developing customer touch points respectively. Section 5 discusses about creation of customer loyalty by building trust. Section 6 discusses about measurement of customer lifetime value. Section 7 discusses the salient points of the study with sub-sections 7.1 and 7.2 highlighting the theoretical implications and the managerial implications of the study respectively. Section 8 concludes the study with sub-sections 8.1 and 8.2 highlighting the limitations of the study and the avenues of future research respectively.

2. CUSTOMER LIFETIME VALUE AND ITS IMPORTANCE

Companies need to identify their most profitable customers, understand the value received from such customers, and to manage the value received over the lifetime of the customers (Reddy, Swain,

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