UNIT 16 MEASURING THE SUCCESS OF CVM -I

Structure

16.0 OBJECTIVES

After studying this unit, you will be able to:

- Explain the process of measuring the success of CVM
- Identify the challenges in measuring the success of CVM
- Identify the cost of measuring the success of CVM
- Discuss the advantages of measuring the success of CVM

16.1 INTRODUCTION

Measuring the success of the effort made in achieving a CVM score is a tool to understand the action vs the extra sales derived by making loyal customers in the journey of building a strong customer value management process. Measuring customer value management (CVM) success can be a challenge, but it is essential to ensure that a company delivers value to its customers. Companies make many attempts to achieve CVM scores. Ultimately, they must make happy with product quality, usage, lifetime value and is worthy enough to satisfy the customer's need for a decent life. Evolved companies or companies sensitive towards their customers are always proactively working hard to ensure that their customers remain intact with them and churning of customers be the lowest. Some customers leave the brand or product as they have their thought process even after the company provides the best product and services. This is a part of any company's journey. Companies keep working on innovative ways of measuring customer value management initiatives at their end.

16.2 CUSTOMER SATISFACTION INDEX

Customer index in customer value management is a metric used to calculate the value a customer brings to a business. This index helps businesses to prioritise their efforts and resources towards the most valuable customers. The index is typically calculated by combining factors such as customer lifetime value, engagement, happiness, and loyalty. By understanding the customer index, a business can allocate resources towards retaining high-value customers and attracting new customers likely to have a high customer index. This can lead to improved customer relationships and increased revenue for the business.

16.2.1 Different Types of Indexes to Measure the Success of CVM

a. **Lifetime Value (LTV) Index**: This index measures the net present value of all the purchases a customer is expected to make. It considers factors such as purchase frequency, average transaction value, and customer retention rate.

   Lifetime Value (LTV) or Customer Lifetime Value (CLV) is the gross profit a customer delivers to your business in their lifetime. It is the amount of revenue your business will make from a customer over its average lifetime as a customer.

   How do you calculate customer lifetime value (CLV)?

   CLTV = [Average Revenue Per User or Unit (ARPU) X Gross Margin] X Customer Lifetime

   Example:

   Your average customer pays your business Rs 50 per month (ARPU).

   - It costs your business Rs 10 to deliver your product to the customer. You may know this as the Cost of Goods Sold (COGS).
   - Your average customer lifetime is 18 months.

   Therefore, your business CLTV is Rs 720 or (Rs 50 APRU – Rs 10 service cost) X 18 customer lifetime.

b. **Customer Satisfaction Index (CSI):** This index measures a customer's overall level of satisfaction with a company's products or services. It can be based on surveys, feedback, or other customer engagement methods. In this, the customer is asked the question how satisfied are customer offerings/service levels/pricing/ product quality etc. Customers are supposed to answer on a rating system from 1 to 5, 1 – poor, 2 average, 3 good, 4 very good and 5 excellent. Customers answer the feedback from their experiences. Once it is done then on a scale.

   0-70 – below average satisfaction

   70-80- Average satisfaction

   80-100 above-average satisfaction

The primary difference between Customer Satisfaction (CSAT) and Net Promoter Score (NPS) is that CSAT is usually used to measure short-term customer loyalty. In contrast, NPS is used to evaluate long-term customer loyalty and happiness.

c. **Customer Engagement Index (CEI):** This index measures the level of interaction and involvement a customer has with a company. It can be based on the frequency of visits, email opens, or social media engagement.

The customer engagement score can be calculated using various methods, including surveys, feedback, or data analysis of customer behaviour, such as website visits, email opens, social media engagement, or purchase frequency. The score can be used to identify improvement opportunities, track progress over time, and benchmark against competitors. By regularly monitoring the customer engagement score, companies can gain valuable insights into their customers' preferences and behaviours and use that information to improve the customer experience and increase customer loyalty.

d. **Customer Loyalty Index (CLI)**: This index measures the likelihood that a customer will continue to do business with a company in the future. It can be based on customer retention rate, referrals, or advocacy.

e. **Customer Acquisition Cost Index (CAC):** This index measures the cost of acquiring new customers, including marketing and sales expenses. ROAS return to advertisement spend. Higher ROAS means marketing is delivering higher sales to the company.

f. **Net Promoter Score (NPS):** The acronym "NPS" stands for Net Promoter Score. It serves as a benchmark for customer satisfaction, indicating the likelihood of customers recommending your business to friends, family, and associates. NPS is a benchmark that companies use to measure, evaluate, and improve customer loyalty. NPS is different from other benchmarks, such as customer satisfaction or effort scores, in that it measures a customer's overall sentiment about a brand, versus their perception of a singular interaction or purchase if you're looking to take it one step further to find actionable insights to improve customer experience based on overall sentiment, Reputation Score.

How to Calculate NPS Score?

Survey companies approach customers and ask them a question, "On a scale of 0 to 10, how likely are you to recommend us to a friend?"

Scores ranging from 0 to 6 fall under the category of Detractors.

- Scores of 7 or 8 are classified as Passives.
- Scores of 9 or 10 are categorised as Promoters.
- Exclude the Passives from consideration, then calculate the Net

Promoter Score by subtracting the percentage of Detractor responses from the percentage of Promoter responses. This score has a range from -100 to 100. By integrating these metrics, businesses can comprehensively understand customer satisfaction and utilise data-driven strategies to enhance customer relationships and drive revenue growth.

16.2.2 Different Metrics to Gauge the CVM.

1. **Customer Satisfaction Index:** This can be measured through surveys, customer feedback, and Net Promoter Score (NPS) to gauge how customers feel about the company and its products or services.

2. **Customer Loyalty Understanding**: Measuring customer loyalty can help determine how likely customers are to continue to buy from the company regularly. This can be assessed through customer retention rates and repeat business from loyal customers.

3. **Customer Lifetime Value**: This metric calculates the total value a customer will generate over the entire relationship with the company. A high customer lifetime value indicates that the company is delivering value to its customers.

4. **Revenue or Top Line Growth**: Increased revenue or top line of the company can be a sign that the company is delivering value to all its customers and that its customer value management efforts are paying off in the form of higher sales

5. **Customer Acquisition Costs**: A decrease in customer acquisition costs can signify that the company is delivering more value to its customers, leading to increased customer loyalty and word-of-mouth referrals. they keep offering higher loyalty base of customers always leads to increased savings on customer acquisition costs, with the one-time spent customer becoming loyal and they keep buying regularly subject to effective customer value management offered by the company.

6. **Market Share:** Measuring the company's market share can help determine whether its customer value management efforts are allowing it to gain a competitive advantage and win more customers. Companies can look at addressable market share and clearly understand fully the market share. This is an effective tool that differentiates the company from its competitors in the market.

These are just a few metrics that can be used to measure customer value management success. The specific metrics used will depend on the company's goals and the nature of its business. It is important to regularly review and analyse these metrics to ensure that the company delivers value to its customers and make necessary adjustments to improve customer value management efforts.

16.3 CHALLENGES IN MEASURING THE CUSTOMER VALUE MANAGEMENT SUCCESS

Measuring the success of customer value management seems to be easy, but it is not. It poses many challenges; therefore, detail knowing about these challenges in detail is important.

16.3.1 Factors Influencing the Measurement of Success of CVM

a. **Data Unavailability Issues**: Customer value management relies on detailed customer data analysis, but data availability and accuracy can be an issue. Companies may struggle to access or collect the necessary data, sometimes incomplete or obsolete. Taking out inferences sometimes makes it extremely difficult to build any conclusive statement.

b. **Multiple Customer Metrics**: Customer value management revolves around using multiple customer metrics, such as customer lifetime value, customer engagement, customer satisfaction, and customer loyalty. Deciding which metrics to use and how to combine them can be challenging.

c. **Subjectivity in Data Interpretation:** Some metrics, such as customer satisfaction, can be subjective, as they are based on individual perceptions and experiences. This can make it challenging to obtain accurate and consistent data.

d. **Dynamic Nature of Customer Value**: Customer value can change over time due to various factors such as changes in customer behaviour, market conditions, or company performance, and changes in customer experiences. Keeping up with these changes and continuously measuring customer value can be challenging. But these challenges put the company on its toes to find out the relevant inferences.

e. **Integration with Business Processes**: Customer value management requires a cross-functional approach involving different departments such as marketing, sales, and customer service. Integrating customer value management into existing business processes can be difficult and require significant changes to processes and systems.

Despite these challenges, measuring the success of customer value management is important, as it allows companies to assess improvement their efforts' impact, identify improvement areas, and make data-driven decisions to drive business success. By addressing these challenges and continuously monitoring and adjusting their approach, companies effectively manage customer value and achieve long-term success.

16.3.2 Ways to Overcome the Challenges of Measuring the Success of CVM.

Customer Value Management (CVM) is a strategic focus on the relationship with customers, which maximises customer loyalty and relationships. Please find below the ways through which the challenges can be reduced to a great extent.

a. Data Planning, Integration, and Presentation

Method: Invest heavily regularly in data integration tools and software platforms that allow companies to collect and consolidate customer data from various sources.

Plan to overcome: Regular auditing of data, cleaning the customer data and filling up all relevant information needed to understand can be done regularly so that the right interpretation is derived from the data. Data quality in data collection and security is also a key point for the companies.

b. Customer Segmentation

Method: Machine learning Algorithms and Advanced analytics tools can be used to segment the customer data on frequency of purchase, buying behaviour, preferences in buying and demographics of the customers.

Plan to Overcome: Continuously work with analytical tools, keep understanding the real meaning of the data from a usage standpoint, and keep improving on it.

c. Personalization

Method: Implement personalisation engines and recommendation systems to deliver tailored experiences and offers to individual customers.

Plan to Overcome: Collect and analyse customer data to understand their preferences and behaviours. Use A/B testing to optimise personalization strategies.

d. Customer Engagement Strategies for Marketing

Method: Develop multi-channel marketing strategies to engage customers through various touchpoints, including email, social media, mobile apps, and in-store interactions.

Plan to Overcome: Regularly monitor and analyse customer engagement metrics datapoints to identify the most effective marketing channels and marketing communication messages. Adjust and improve the strategies for the company accordingly.

e. Monitoring Churn, Prediction and Prevention

Method: Use predictive analytics modelling to identify customers at risk of churning.

Way to Overcome: Build an offer to such customers to woo them to remain with the company for

f. **Customer Lifetime Value (CLV) Calculation**

Method: Adoption of CLV models to estimate the long-term value of each customer. It is an excellent tool to understand the data points and plan effectively.

Plan to Overcome: Use factors such as acquisition cost, retention cost, and referral value in your CLV calculations to make them more accurate.

g. **Resource Allocation**

Method: Allocation of marketing budget and customer support should be based on customer segmentation; we should consider the value of customers in each segment.

Plan to Overcome: Review of resources allocated to decision-making and correct the decision-making process based on customer behaviour and value.

h. **Cross-selling and Upselling**

Method: Identify cross-selling and upselling opportunities through data analysis and customer segmentation.

Plan to Overcome: Train sales and customer service teams to recognise and act on these opportunities. Implement targeted marketing campaigns to promote relevant products or services.

I. **Feedback Collection**

Method: Companies can collect customer feedback through surveys, reviews, and other channels. Review matters the most on the company's overall performance to its customers.

Plan to Overcome: Analyse customer feedback data to identify improvement areas and take action to address customer concerns and suggestions. Also, train the team accordingly.

j. **Continuous Improvement**

Method: Establish a culture of continuous improvement by regularly reviewing CVM strategies and results.

Plan to Overcome: Department collaborations and sharing insights help the team on CVM strategies alignment of customer behaviour, need and market dynamics.

Curtailing challenges in Customer Value Management requires a multi-fold push on technology, data analysis, customer-centric strategies, and a commitment to ongoing improvement.

16.4 COST OF MEASURING THE SUCCESS OF CVM

The cost of measuring the success of customer value management is dependent on several factors, such as company size, the complexity of the metrics and data analysis, and the resources or team required to collect and process the data. The costs associated with measuring customer value management success include:

a. **Technology Interventions**: Implementing a customer value management system can require the use of technology intervention, such as customer relationship management (CRM) software, data analytics platforms, or customer engagement and feedback tools. These can be expensive to purchase and implement and may require ongoing maintenance and support. Not many companies can afford a complete system to gauge customer satisfaction index.

b. **Data Collection and Processing**: Collecting and processing the data needed for customer value management can be time-consuming and resource-intensive. It may require hiring additional staff or using external consultants, which can add to the cost.

c. **Employee Training**: Training employees on using customer value management metrics and tools can be expensive, especially if the company has a large workforce.

d. **Internal Company Processes**: Integrating customer value management into existing business processes may require internal processes and systems changes, which can be expensive to implement and maintain. It requires detailed revision or changes in existing processes and rigorous training on the same team.

e. **Ongoing Monitoring and Adjustment**: Measuring the success of customer value management is an ongoing process that requires regular monitoring and adjustment. This can be resource-intensive and add to the cost of implementation.

While the cost of measuring the success of customer value management can be significant, it is important to consider the long-term benefits that can result from improved customer relationships and increased revenue. Companies that invest in customer value management can achieve a higher return on investment and a competitive advantage in the market.

Example:

Let us take the example of telecom companies. In earlier days, they had made a large customer service department where they used to treat customers in the same process. All customers were handled together, whether prepaid or postpaid, or landline customers. The volume always used to be very high, and the cost of providing customer service was very high. With the addition of services like data and DTH the volume was again expected to go up. Exact way cost of calls and data dropping in the country. All the telecom companies now have an application where payments, renewal and checking bills are made for all the products, which are easy for the customers. Customers can give their complaint, get quickly the complaint number quickly and then the concerned department acts on it and solves the problem. Now, with the help of technology, companies have very smartly reduced their cost of customer value management, and customers are equally happy. Companies now smartly selling also and providing many attractive offers, which was very costly to the companies earlier. Most of the good companies have adopted the model well in the country.

Check Your Progress. A

1 Which customer value management metric is effectively explained?

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2 Why is cost a hindrance in customer value management success?

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3 Define customer survey benefits.

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4 What are the challenges in building robust customer value management?

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16.5 ADVANTAGES OF CUSTOMER VALUE MANAGEMENT SUCCESS

The success of customer value management can provide many advantages to a company, including:

a. **Growth in Customer Retention**: Customer expectations and understanding build customer loyalty. Here, the company does a lot of right actions by understanding the needs and preferences of customers and correcting their customer satisfaction level, which helps in building growth in customer loyalty.

b. **Enhanced Customer Experience**: Prioritises critical. The company prioritizes the most critical touch points, which can trigger a positive customer value management process. This leads to enhanced customer experience and customer loyalty, thus overall improvement in customer value management.

c. **Focused-Marketing Efforts**: Through analysing customer data and behaviour, companies can gain deeper insights into their target audience. By doing so, they can customise their marketing strategies to effectively reach the appropriate customers with tailored messages at optimal times. This approach enhances marketing efficiency and effectiveness, ultimately driving up revenue.

d. **Increased Customer Lifetime Value**: Companies can increase their customers' lifetime value through in-house efforts, customer satisfaction, and effective loyalty management. This can result in a higher return on investment and improved financial performance.

e. **Competitive Advantage**: Businesses that prioritize investment in customer value management stand to gain a competitive edge in the market. By focusing on delivering superior customer experiences and cultivating robust customer relationships, they can foster greater brand loyalty and expand their market presence, ultimately leading to a larger share of the market.

f. **Data-Driven Decision Making**: By regularly monitoring and analysing customer value metrics, companies can make data-driven decisions that are informed by customer feedback and behaviour. This can lead to improved business performance and a more customer-centric approach.

Overall, the success of customer value management can bring significant advantages to a company, including increased sales revenue, improved or enhanced customer relationships, and a solid competitive advantage in the market.

Check Your Progress B

1 What is the customer's lifetime value?

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2 Can CRM technology enhance customer value management?

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3 Define competitive advantage in customer value management.

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4 Why must data be read in customer value management enhancement plans?

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16.6 LET US SUM UP

Key Learnings:

Customer Satisfaction Index and CVM Metrics

1. CVM Definition: Customer Value Management (CVM) is a strategic approach aiming to deliver superior customer service by prioritizing high-value customers and personalizing services.

2. CVM Implementation: Requires investments in technology, data analysis, and personnel to provide customized services, aiming for improved customer relationships and increased revenue.

3. Customer Satisfaction Index (CSI): A metric combining factors like customer lifetime value, engagement, happiness, and loyalty to calculate customer value.

4. Types of Indexes:

   - Lifetime Value (LTV) Index: Measures the net present value of a customer's future purchases.

   - CSI: Measures overall customer satisfaction.

   - Customer Engagement Index (CEI): Measures the level of interaction a customer has with a company.

   - Customer Loyalty Index (CLI): Measures the likelihood of future business with a customer.

- Customer Acquisition Cost Index (CAC): Measures the cost of acquiring new customers.
- Net Promoter Score (NPS): Measures customer likelihood to recommend.

5. Metrics for CVM Success

6. Challenges in Measuring CVM Success

   - Overcoming challenges requires a multi-fold approach involving technology, data analysis, customer-centric strategies, and continuous improvement.

7. Cost of Measuring CVM Success

   - Considerations: While costs can be significant, long-term benefits include improved customer relationships and increased revenue, providing a competitive advantage.

16.7 KEYWORDS

Growth Stage: New product is being accepted in the market

Customer Retention: Maintaining the existing customers in the business.

Customer Relationship: Keeping the Customers happy and satisfied to have them in the business for a long time

Customer Value Management: It is a very powerful tool to make the company truly customer oriented and bring success to the company/ business.

Customer Defined Value: Value of the product and services perceived by the customers.

16.8 TERMINAL QUESTIONS

1. What are the key parameters to identify a customer's loyalty?
2. Why do companies fail in managing customer value management systems?
3. How do you manage customer demand while managing customer value management?
4. How can employee success measurement be managed in the customer value management process?
5. Define the role of CRM in customer value management.

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