

# **MKTG 768:**

## **Managing the Value of Customer Relationships**

*Fall 2009: Monday/Wednesday 4:30-6:00 PM*

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### **Motivation**

Fifteen years ago, the expression “customer relationship management” (CRM) meant little to most managers. But since then, the “CRM revolution,” i.e., the move from focusing on the product to the individual customer as the marketing manager’s most critical unit of analysis, has swept through virtually every industry. Firms are increasingly using terms and measures such as *customer-focused management*, *customer lifetime value*, *customer equity*, *share of wallet* and *retention rate*, and are becoming highly invested in information systems intended to bring these concepts to life in order to generate greater long-term profitability from their customer base.

At the same time, however, many firms look negatively at CRM as a set of unfulfilled promises. They initially approached the implementation of a CRM system with high hopes that it would offer rapid, significant improvements to their operations and profitability, but have seen limited progress in this regard. So is CRM overhyped or is it just misunderstood? This course helps answer this critical question, giving students the tools they need in order to manage their customer interactions – and their own expectations – more effectively.

### **Course Overview**

As the concept of CRM becomes common parlance for every marketing executive, it is useful to take a step back to better understand the various different behaviors that underlie the development of successful CRM systems. These “behaviors” include customer-level decisions, firm actions, and the delicate but complex interplay between the two. Accordingly this course is comprised of four main modules. We start with the discussion of customer profitability – focusing on the concepts of “customer lifetime value” and “customer equity.” We will examine how to measure long-run customer profitability in both business-to-consumer and business-to-business environments, and the uses of these measures as major components assessing overall firm valuation. Second, we move to the value that the firm provides to its customers – better understanding the true nature of customer satisfaction and its non-trivial relationship with firm profitability. Third, we examine each of the three main components of the firm’s management of its customer base: customer acquisition, development, and retention – and the complex resource allocation task that must be balanced across them. Finally, we conclude with a discussion of various tactical and organizational aspects of customer relationship management.

In our journey, we will use a variety of teaching methods and examples from many different industries to learn how firms use CRM thinking and tools to build lasting competitive advantage.

In summary, this course is intended to give students:

- Familiarity with the notion of CRM and its various sub-components.
- An appreciation of how CRM should fit in with other ongoing firm activities in order to maximize its impact on the organization.
- State-of-the-art methods for calculating customer lifetime value and customer equity.
- An understanding of ways that firms can create and enhance these sources of value to the customer.
- Tools to help them best allocate their firms' efforts (and dollars) across the critical activities of customer acquisition, development, and retention.
- Ways to anticipate and avoid common mistakes made by firms as they attempt to create and implement CRM systems.

The course content will be rigorous but not excessively analytical, “real world” practical but with an eye towards relevant academic work, and narrowly focused on CRM-type issues but with broad coverage of industries/applications in which they arise.

## **Course Organization and Materials**

With two professors in the room for every class session, the course will be highly interactive; likewise, we expect that the students will be an active part of the conversation as well. We seek to bring in a variety of perspectives, opinions, and personal experiences to make sure that every angle on each topic is fully considered.

There will be no formal/traditional case discussions, but many actual cases will be used to convey key points and examples.

There is no formal textbook for the course, but many readings will be made available through the course webCafé site (<https://webcafe.wharton.upenn.edu/eRoom/mktg/768-fa09-1>). A list of relevant books (which can be borrowed from Professors Fader and Peres) can be found later in this syllabus, along with a list of selected CRM websites/blogs. In the spirit of the collaborative learning environment described above, we also encourage students to identify other relevant readings and resources.

## **Evaluation**

Class participation	20%
Four assignments	40%
Exam	40%

Details about the assignments and the exam will be provided in class.

All relevant University of Pennsylvania policies regarding academic integrity must be followed. Students may not submit work that has been prepared by (or in conjunction with) someone else, without explicit instructor permission. Any students who in any way misrepresent somebody else's work as their own will face severe disciplinary consequences.

## CRM Reference Books

- Blattberg, Robert, Gary Getz, and Jacquelyn Thomas (2001), *Customer Equity: Building and Managing Relationships as Valuable Assets*, Harvard Business Press.
- Buttle, Francis (2008), *Customer Relationship Management: Concepts and Technologies* (Second Edition), Butterworth-Heinemann.
- Denove, Chris and James Power (2007), *Satisfaction: How Every Great Company Listens to the Voice of the Customer*, Portfolio Trade.
- Dyche, Jill (2001), *The CRM Handbook: A Business Guide to Customer Relationship Management*, Addison-Wesley.
- Gupta, Sunil and Donald Lehmann (2005), *Managing Customers as Investments: The Strategic Value of Customers in the Long Run*, Wharton School Publishing.
- Humby, Clive, Terry Hunt, and Tim Phillips (2008), *Scoring Points: How Tesco Continues to Win Customer Loyalty*, Kogan Page.
- Keiningham, Timothy and Terry Vavra (2001), *The Customer Delight Principle: Exceeding Customers' Expectations for Bottom-Line Success*, McGraw-Hill.
- Keiningham, Timothy, Terry Vavra, Lerzan Aksoy, and Henri Wallard (2005), *Loyalty Myths: Hyped Strategies That Will Put You Out of Business and Proven Tactics That Really Work*, Wiley.
- Kumar, V. and Werner Reinartz (2005), *Customer Relationship Management: A Databased Approach*, Wiley.
- Kumar, V. (2008), *Managing Customers for Profit: Strategies to Increase Profits and Build Loyalty*, Wharton School Publishing.
- Peppers, Don and Martha Rogers (2001), *One to One B2B*, Doubleday.
- Peppers, Don and Martha Rogers (2004). *Managing Customer Relationships: A Strategic Framework*, Wiley.
- Peppers, Don and Martha Rogers (2005), *Return on Customer: Creating Maximum Value from Your Scarcest Resource*, Broadway Business.
- Reichheld, Fredrick (1996). *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*, Harvard Business Press.
- Rust, Roland, Katherine Lemon and Das Narayandas (2004), *Customer Equity Management*, Prentice Hall.
- Rust, Ronald, Valarie Zeithaml and Katherine Lemon (2000). *Driving Customer Equity*, The Free Press.

## CRM Websites/Blogs

<http://www.destinationcrm.com/>

<http://crm.blogs.com/>

<http://www.crm-daily.com/>

<http://www.1to1media.com/>

<http://www.crm-guru.com/>

## **Tentative Course Schedule**

### ***Module 0: Introductory Issues***

Session 1 (Sept. 9): Introduction to CRM

Session 2 (Sept. 14): From Product-Centric to Customer-Centric Management

### ***Module 1: Value to the Firm***

Session 3 (Sept. 16): Customer Equity and Firm Valuation

Session 4 (Sept. 21): Customer Lifetime Value I: Conceptual Overview

Session 5 (Sept. 23): Customer Lifetime Value II: Contractual Settings

~~Sept. 28:~~ *[Class cancelled due to Jewish holiday]*

Session 6 (Sept. 30): Customer Lifetime Value III: Noncontractual Settings  
Assignment #1 due

Session 7 (Oct. 5): Managing Customers According to Value

### ***Module 2: Value to the Customer***

Session 8 (Oct. 7): Customer Value

Session 9 (Oct. 12): Customer Satisfaction

Session 10 (Oct. 14): Customer Delight and Sacrifice

*[Oct. 19, 21: No class]*

Session 11 (Oct. 26): Customer Switching Costs

Session 12 (Oct. 28): Customer Loyalty

### ***Module 3: Firm Strategy***

Session 13 (Nov. 2): Customer Acquisition I: Direct Acquisition by the Firm  
Assignment #2 due

Session 14 (Nov. 4): Customer Acquisition II: Indirect Acquisition via Customer Interactions

Session 15 (Nov. 9): Customer Development

Session 16 (Nov. 11): Customer Retention I: Loyalty Programs

Session 17 (Nov. 16): Customer Retention II: Coping with Defection  
Assignment #3 due

Session 18 (Nov. 18): Acquisition-Retention Optimization

### ***Module 4: CRM Implementation***

Session 19 (Nov. 23): Service Management

Session 20 (Nov. 25): B2B Issues

Session 21 (Nov. 30): CRM Systems

Session 22 (Dec. 2): Ethical Issues

Session 23 (Dec. 7): Course summary/wrap-up  
Assignment #4 due

Session 24 (Dec. 9): Exam