

# **MKTG 775:**

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

*Spring 2015: Monday/Wednesday 9:00-10:30*

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### **Motivation**

Twenty years ago, the expression “customer relationship management” (CRM) meant little to most managers. But since then, the “CRM revolution,” i.e., the shift from focusing on the product towards focusing on the individual customer as the marketing manager’s most critical unit of analysis, has swept through virtually every industry. Firms are increasingly focused on concepts such as *customer centricity*, *customer lifetime value*, *customer equity*, *share of wallet*, and *customer retention*, 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 are now looking 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**

Although this course is motivated by the growth in (and frustration with) CRM systems, it is not about such systems, per se. Instead, we take a step back to better understand the various different behaviors that underlie and arise from customer-centric thinking. These behaviors include customer-level decisions, firm actions, and the delicate but complex interplay between the two. Accordingly, this course is comprised of three 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 different business settings, and the uses of these measures as major components in assessing overall firm valuation. Second, we move to the value that the firm provides to its customers – better understanding of 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. We conclude with coverage of various tactical and organizational aspects of customer relationship management, including some brief coverage of CRM systems and their providers.

In our journey, we will use a variety of examples from many different industries to learn how firms use customer-centric thinking to build lasting competitive advantage.

In summary, this course is intended to give students:

- Familiarity with the notion of customer centricity and its implications for marketing managers;
- An appreciation of how customer centricity 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; and
- 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**

There are three optional but recommended books for the course:

Fader (2012), *Customer Centricity: Focus on the Right Customers for Strategic Advantage*, Wharton Digital Press. (F)

Gupta and Lehmann (2005), *Managing Customers as Investments*, Wharton School Publishing. (GL)

Rust, Zeithaml, and Lemon (2000), *Driving Customer Equity*, The Free Press. (RZL)

Many other readings will be made available through the course webCafé site and Study.net. Few of these readings will be required in advance, but students will be strongly encouraged to read them carefully after each session. Furthermore, in the spirit of collaborative learning, I also encourage students to identify other relevant readings and bring them to my attention.

## **Evaluation**

Class participation	10%
Midterm exam	35%
Resource allocation assignment	15%
Final exam	40%

Details about the assignment and the exams 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.

## **Tentative Course Schedule**

Session 1 (Jan. 14): From Product-Centric to Customer-Centric Management

Reading: F chapter 1; RZL chapter 2

Session 2 (Jan. 21): The Opportunities and Challenges of Customer Centricity

Reading: F chapter 2; GL chapter 3 (p. 41-52) & chapter 6; RZL chapters 2, 15

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

Session 3 (Jan. 26): Customer Equity and Firm Valuation

Reading: F chapter 3; GL chapter 4

Session 4 (Jan. 28): Customer Lifetime Value I: Conceptual Overview

Reading: F chapter 4; RZL chapter 3; GL chapter 2 & appendix A

Session 5 (Feb. 2): Customer Lifetime Value II: Contractual Settings

Session 6 (Feb. 4): Customer Lifetime Value III: Noncontractual Settings

Session 7 (Feb. 9): Managing Customers According to Value

Reading: RZL chapters 11-13

Session 8 (Feb. 11): Guest speaker (TBA)

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

Session 9 (Feb. 16): Customer Value Drivers

Reading: GL chapter 5 (p. 109-121); RZL chapters 4-8

Session 10 (Feb. 18): Customer Satisfaction

Session 11 (Feb. 23): Customer Delight and Sacrifice

Session 12 (Feb. 25): Customer Switching Costs

Session 13 (Mar. 2): Customer Loyalty

Session 14 (Mar. 4): Guest speaker (TBA)

*Spring break: no sessions on Mar. 9, 11*

Session 15 (Mar 16): Review session

Session 16 (Mar. 18): Midterm exam

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

Session 17 (Mar. 23): Customer Acquisition I: Direct Acquisition

Session 18 (Mar. 25): Customer Acquisition II: Indirect Acquisition

Session 19 (Mar. 30): Customer Development

Session 20 (Apr. 1): Customer Retention I: Loyalty Programs

Session 21 (Apr. 6): Guest speaker (TBA)

Session 22 (Apr. 8): Customer Retention II: Coping with Defection

Session 23 (Apr. 13): Acquisition-Retention Optimization I

Session 24 (Apr. 15): Acquisition-Retention Optimization II

Session 25 (Apr. 20): CRM Systems

Reading: F chapter 5

Session 26 (Apr. 22): Guest speaker (TBA)

Session 27 (Apr. 27): Course summary/wrap-up

Session 28 (Apr. 29): Exam