

# **MKTG 775:**

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

*Spring 2017: Monday/Wednesday 9:00-10:30*

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### **Motivation**

Twenty-five 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. After introducing and motivating the fundamental distinction between product- and customer-centricity, we jump into a 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. Next, 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. Then 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, after some brief coverage of CRM systems and their providers, we will spend two weeks on an immersive new simulation, designed specifically for this course (<http://whr.tn/CCsim>), which will tie together all of the content covered throughout the whole semester.

In our journey, we will use a variety of examples from many different industries (balancing B2B vs. B2C, products vs. services, and well-established vs. emerging) to learn how firms can use

customer-centric thinking to build lasting competitive advantage. Likewise, the journey itself will be rigorous but not excessively analytical; “real world” practical but with an eye towards relevant academic work; and narrowly focused on customer centrality but with broad coverage of applications in which it can and should arise.

In summary, this course is intended to give students:

- Familiarity with the notion of customer centrality and its implications for marketing managers;
- An appreciation of how customer centrality 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 implement CRM systems.

## **Course Organization**

The course will be conducted in a highly collaborative manner. For most sessions, students will have access to a set of core materials (described below), and a self-selected group of 5-6 students will have complete control over most of the classroom time. The group will be expected to convey key concepts, highlight relevant academic research, share real-world examples, lead discussions, and/or other activities to help their classmates learn and appreciate the topic in the most effective manner. Presentations with a degree of interactivity are highly encouraged. (Of course, in advance of each session, the instructor and TA will share a wealth of materials and will be glad to meet with each group to help guide the development of their presentation.)

All students are expected to actively participate in the discussion by reading/viewing the core materials in advance, then asking thoughtful questions and sharing relevant real-world examples in the classroom (and after the session).

## **Course Materials**

Much of the focal content arises from an online program that is basically a highly compressed version of this course: <http://whr.tn/MVCR>. All of the videos (and other supporting materials) from that program will be made available to students right from the start of the semester. Students are expected to watch the videos for each session in advance (and are welcome to look ahead at future ones as well).

Various readings will be made available through Canvas and Study.net. Some will be recommended by the professor, but others will arise from the group presentations. In the spirit of collaborative learning, all students are strongly encouraged to identify other relevant readings – even for sessions that they are not in charge of.

There are three optional but highly 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)

## **Evaluation**

Class participation	15%
Group presentation	10%
First midterm exam	25%
Simulation performance	20%
Second midterm exam	30%

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**

### ***Module 0: Introduction to Customer Centricity***

Session 1 (Jan. 11): From Product-Centric to Customer-Centric Management  
Reading: F chapter 1; RZL chapter 2

Session 2 (Jan. 18): 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. 23): Customer Equity and Firm Valuation  
Reading: F chapter 3; GL chapter 4

Session 4 (Jan. 25): Customer Lifetime Value I: Conceptual Overview  
Reading: F chapter 4; RZL chapter 3; GL chapter 2 & appendix A

Session 5 (Jan. 30): Customer Lifetime Value II: Contractual Settings

Session 6 (Feb. 1): Customer Lifetime Value III: Noncontractual Settings

Session 7 (Feb. 6): Managing Customers According to Value  
Reading: RZL chapters 11-13

Session 8 (Feb. 8): Module 1 wrap-up

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

Session 9 (Feb. 13): Customer Value Drivers

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

Session 10 (Feb. 15): Customer Satisfaction

Session 11 (Feb. 20): Customer Delight and Sacrifice

Session 12 (Feb. 22): Customer Switching Costs

Session 13 (Feb. 27): Customer Loyalty

Session 14 (Mar. 1): Module 2 wrap-up

***Spring break: no sessions on Mar. 6, 8***

Session 15 (Mar 13): Review session

Session 16 (Mar. 15): First midterm exam

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

Session 17 (Mar. 20): Customer Acquisition I: Direct Acquisition

Session 18 (Mar. 22): Customer Acquisition II: Indirect Acquisition

Session 19 (Mar. 27): Customer Development

Session 20 (Mar. 29): Customer Retention I: Loyalty Programs

Session 21 (Apr. 3): Customer Retention II: Coping with Defection

Session 22 (Apr. 5): CRM Systems

Reading: F chapter 5

Session 23 (Apr. 10): Customer Centricity Simulation I: Introduction

See <http://whr.tn/CCsim> for a sneak preview

Session 24 (Apr. 12): Customer Centricity Simulation II

***No regular class – GSRs will be reserved***

Session 25 (Apr. 17): Customer Centricity Simulation III

***No regular class – GSRs will be reserved***

Session 26 (Apr. 19): Customer Centricity Simulation IV: Discussion/debrief

Session 27 (Apr. 24): Module 3 wrap-up

Session 28 (Apr. 26): Second midterm exam