Chapter X

Measuring Return on Relationships with Customers

INTRODUCTION

Effective development of customer products and/or services requires valid and up-to-date CK in order to target the right customer with the right offering at the right time and through the right channel. Increasing value-adding content of customer offerings is hoped to be reflected on major gains in cost, time, and quality of products and/or services. Doing good things for customers is doing good things good for business. This chapter addresses customer value reciprocity for business represented by durable and profitable customer relationship.

CONCEPTUAL FOUNDATIONS

The buyer-seller relationship has been likened to a marriage since it decreases uncertainty, allows a sharing of tasks, and provides and intimacy. However, like a marriage, it also increases personal responsibilities, requires care and nurturance and can end with a costly dissolution. To a larger (B2B) and smaller (B2C) degree, these same costs and benefits often apply, for example, the revenue-sharing alliance pioneered by Amazon.com where a seller pays a commission to an Internet partner on the basis of click-throughs, sales leads, or actual sales that originate from the partner’s site. These alliances require both parties to agree to investments of time
and resources, such as technical capabilities, reporting system, and marketing (Mohammed et al., 2003). This section discusses the concept of customer ‘relationship’ and customer life cycle (CLC).

**Customer Relationship**

A relationship is a bond or connection between a firm and its customers. It may be strong, weak or nonexistent. It can be intellectual, emotional or both. Relationship can be intellectual, emotional or both. Intellectual: ‘I know I cannot get a better deal elsewhere’. Emotional: ‘I feel good when I am wearing my Nikes’ (Mohammed et al., 2003).

Two categories of relationships are observed: type and involvement. Relationship exists along a continuum of types ranging from communal to exchange based. A purely communal relationship is altruistic in that each person is focused on meeting the needs and wants of the other(s) in the relationship, e.g. parent and child. In contrast, an exchange relationship is based on the giving of one thing in return for another, e.g. buyer-seller relationships (Mills et al., 1994).

Relationship involvement is defined as the degree to which a relationship is relevant to the consumer, viz. the extent to which it relates to consumers’ values, interests, or needs. Involvement is a function not only of product characteristics, but also of the purchase situation and the consumer’s personal needs.

**Customer Life Cycle**

CLC is a term used to describe the progression of steps a customer goes through when considering, purchasing, using, and maintaining loyalty to a product or service. Sterne and Cutler (2000) have developed a matrix that breaks the customer life cycle into five distinct steps: reach, acquisition, conversion, retention, and loyalty. This means getting a potential customer’s attention, teaching them what you have to offer, turning them into a paying customer, and then keeping them as a loyal customer whose satisfaction with the product or service urges other customers to join the cycle. The customer life cycle is often depicted by an ellipse, representing the fact that customer retention truly is a cycle and the goal of effective CRM is to get the customer to move through the cycle repeatedly (Sterne and Cutler, 2000).

By examining customer relationships via the CLC model, companies can determine when opportunities (or threats) exist for improved or new knowledge-based exchanges that will also affect which specific customer products/services and/or processes should be developed. According to Knox et al., (2003) CLC include suspects, prospects, customers, and advocates. The CLC passes through the following three major stages: acquisition, retention, and expansion/winback (Zikmund et al., 2003).
Related Content

Customer Service in Electronic Commerce Applications
[www.igi-global.com/chapter/customer-service-electronic-commerce-applications/23753?camid=4v1a](www.igi-global.com/chapter/customer-service-electronic-commerce-applications/23753?camid=4v1a)

The Effect of Information and Communication Technology on Customer Relationship Management: Jordan Public Shareholding Companies
[www.igi-global.com/article/effect-information-communication-technology-customer/60150?camid=4v1a](www.igi-global.com/article/effect-information-communication-technology-customer/60150?camid=4v1a)

Media Richness Theory and the Intention to Use Online Stores
[www.igi-global.com/article/media-richness-theory-intention-use/45730?camid=4v1a](www.igi-global.com/article/media-richness-theory-intention-use/45730?camid=4v1a)
Customer Management Practices: Multiple Case Studies in Stock Broking Services
www.igi-global.com/article/customer-management-practices/132510?camid=4v1a