# L5 PREP - Readings

## Creating Shared Value

Corporations are blamed for social issues; having been focused on short term profits. There is a presumed trade off between economic efficiency and social progress.

Current thinking: being socially progressive imposes costs (safety, hiring disabled, etc…)

Companies also benefits for externalities; external social costs (ex: pollution).

Solving social problems has been a government/NGO thing; corporate responsibility emerged as a required expense for image. Both sides see the other as antagonist.

Fair trade is more about re-distribution; whereas shared value approach would be to increase crop yields and productivity (make a larger pie, not cut it differently).

Public policies that undermine profitability in a global environment are ineffective.

Shared value principle: expand connection between profits and social progress.

Strategy theory: to be successful, a company must create a distinctive value proposition that meets the needs of a chosen set of customers.

Shared value should be at the core of a business.

There are three key ways that companies can create shared value opportunities:

* Reconceiving products and markets: Starting point of creating shared value: identify social needs/harm created by product.
* Redefining productivity in the value chain: Ex: more efficien routes = less shipping costs and less pollution. Most common areas:
  + Energy use and Logistics (reduces pollution)
  + Resource use (reduce landfills, resource depletions)
  + Procurement (buy locally to ensure higher quality and long term relation building)
  + Distribution (Wider distribution = more sales)
  + Employee Productivity (invest in health care increases productivity)
  + Location (Transform near crop = lower shipping costs)
* Enabling local cluster development: Cluster improves productivity; firm improves the environment/framework around the cluster => help build roads, infrastructure (power, roads), education to create pool of skilled labor. Need to identify gaps in logistics, suppliers, dist. Channels, training/education.

Regulation role:

* Set clear and measurable goals (set targets but let industry decide how to achieve them)
* Set prices for free ressources
* Set phases to achieve targets

## Rethinking Marketing

Historically: id market segments, target, set price promotions, plan communications, evaluate sales performance.

Companies market products instead of cultivating customers; should ID customer then define products.

Have Customer manager instead of product managers; shift from product transactions to relationships.

Hire Chief Customer Officer (CCO): design customer relationship strategy and customer facing functions. Remove obstacles to flow of customer information in the organization. Manages:

* Customer relationship managers per customer segments
* Market research
* R&D
* Customer service

Create a customer department and hire customer managers to identify customer’s product needs. Example, incentives to switch customers to more profitable brands.

Market research: form aggregated view to customer view; focus on data that can help improve CLV.

Integrate RnD with marketing to ensure products meet customer’s needs.

Shift focus:

* From product to customer profitability. Retail examples: Loss leaders are unprofitable products that strengthen customer relationships.
* From current sales to CLV
* From brand equity (the value of a brand) to customer equity (the sum of the lifetime values of their customers)
* From market share to Customer equity share (the value of a company’s customer base divided by the total value of the customers in the market)

# Chapter Summary

Customer Preceived Value (CPV): Difference between customer’s evaluation of all benefits and cost of an offering

Total Customer benefits include economical, functional, phychological benefits

Total Customer costs include evaluating, obtaining using and disposing of an offering

Customer Value Analysis:

1. Identify major attributes that customers like/value
2. Assess quantitative importance of various attributes
3. Assess competitor’s performance against various values
4. Examine how customers ina segment rate the company’s performance against a competitor
5. Monitor customer values over time

Loyalty: “Deeply held commitment to rebuy a preferred product/service in the future despite situational influences and marketing efforts baring potential to induce switching behaviors”

Value Proposition: Whole cluster of benefits the company promises to deliver (more than just core positioning offering)

Satisfaction: Person’s feelings of pleasure or disappointment that result from comparing a product’s perceived performance with his/her expectations.

Customer Lifetime Value (CLV): NPV of streams of profits expected over a customer’s lifetime purchases.

CRM: Process of carefully managing detailed information about individual customers and all customer touch points to maximize loyalty (touch point = any occasion on which a customer encounters the brand)

Permission marketing: only market after obtaining permission

4 step framework of one to one marketing:

1. Identify your prospects and customers
2. Differenciate customers in terms of their needs and value to the company
3. Interact with individual customers to improve knowledge about their individual needs and to build stronger relationships
4. Customize products, services and messages for each customer type

Reduce defection rate:

1. Define and measure retention rate
2. Distinguish the causes of customer attrition and identify those than can be managed better
3. Compare lost CLVs with cost of reducing defection

Marketing funnel

Target Market – Aware – Open to trial – Trialer – Recent user – Regular user – Most often used – Loyal

Calculate conversion rates and identify/address bottlenecks

Managing customer base:

* Reduce rate of defection
* Increase longevity of relationship
* Enhance growth potential of each customer
* Male low CLV more profitable or terminate them
* Focus disproportionate efforts on high profit customers

DW uses:

* Identify prospects
* Decide which customers should receive product offers
* Deepen customer loyalty
* Reactivate customer purchases
* Avoid serious customer mistakes

DW Downsides:

* Some situations are not conductive to databases (ex:once in a lifetime purchases)
* Large investment
* Difficult to distribute the information across the company
* Not all customers want a relationship with company
* Assumptions behing CRMs not always true

# Review Questions:

1. Customer satisfaction depends heavily on the expectations customers bring with them to the purchase experience. Why are customers’ expectations often difficult to uncover and define? How can marketers "manage" customers' expectations?

Perhaps customers don’t have a clear vision of what they want, or a hard time communicating it. Marketers can manage these by ensuring that they communicate a clear, unambiguous and uniform message.

1. What is CRM? What is CLV? how do the two relate?

Customer Relationship Management helps manage interations with customers and log data on their behaviors/contacts with the firm. This will help collect data to evaluate Customer LifeTime Values

1. What is the difference between customer loyalty and commitment?

Loyalty: “Deeply held commitment to rebuy a preferred product/service in the future despite situational influences and marketing efforts baring potential to induce switching behaviors”

Commitment:

“an implicit or explicit pledge of relational continuity between exchange partners. imply a willingness to make short-term sacrifices to realize long-term benefits”

1. Discuss the relationship between features and benefits. How do they relate to value? Wherein is the challenge in identifying which features/benefits to offer?

Feature: something the product does

Benefit: Something the customer gains from exploiting a feature

1. What is a value proposition? What role does it play?

Value Proposition: Whole cluster of benefits the company promises to deliver (more than just core positioning offering)