

Making Customer Relationship Management Work: The Measurement and Profitable Management of Customer Relationships

Customer relationship management (CRM) is perceived to be failing, and there is an urgent need for some practical ways to address this issue. The research presented in this article demonstrates that the implementation of CRM activities delivers greater profits. Using calculations of the lifetime value of customers in two longitudinal case studies, the research finds that customer management strategies change as more is discovered about the value of the customer. These changes lead to better firm performance. The contribution of this article is to show that CRM works and that a relatively straightforward analysis of the value of the customer can make a real difference.

Customer relationship management (CRM) is part of marketing's new dominant logic (Day 2004), but it is more likely to fail than to deliver any business results (Zablah, Bellenger, and Johnston 2004). Still worse, failed implementation may actually damage customer relationships (Rigby, Reichheld, and Schefter 2002). This research demonstrates that the implementation of CRM activities generates better firm performance when managers focus on maximizing the value of the customer (Gupta and Lehmann 2003; Gupta, Lehmann, and Stuart 2004; Reichheld 1996; Verhoef and Langerak 2002). Previous researchers have suggested that a better understanding of the value of the customer should lead to changes in the way these customers are managed (Mulhern 1999; Niraj, Gupta, and Narasimhan 2001; Reinartz, Thomas, and Kumar 2005). Through two case studies that develop detailed data about lifetime revenues and customer-specific costs, these predictions are borne out. Moreover, information about both revenues and costs enables the exploration of whether larger customers, on average, provide the firms studied with more value than smaller customers (Dowling 2002; Kalwani and Narayandas 1995).

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Research Methodology

This section describes the operationalization of the lifetime value of the customer. The method I chose was two collaborative longitudinal case studies, one to explore individual customers and the other to explore a customer base. Both case studies were with companies that had not previously calculated the value of their customers; thus, in both cases, managers were receiving new information.

Empirical Context

Although relatively few studies on the value of the customer are available (Reinartz and Kumar 2000), published studies are drawn disproportionately from the financial services industry (e.g., Carroll and Tadikonda 1997; Hartfeil 1996; Storbacka 1997), reflecting good availability of data about customer revenues and costs to serve. The financial services industry is a context that meets the requirements of the current study well (Blattberg, Getz, and Thomas 2001; Verhoef 2003), and restriction to a specific industry allows for greater comparability of the method and of the results.

For the purposes of this research, I selected two participating firms from the financial services industry on the basis of activity, size, availability of data, willingness to commit the necessary resources to the research, and lack of previous information about the value of their customers. The first case study was business-to-business at a European insurance company (hereinafter "the insurer"), and it involved the insurer's key account management (KAM) team, which managed insurance for the company's largest corporate clients. The second case study was business-to-consumer, and it examined unsecured lending to people by the personal loans division of a major U.K. bank (hereinafter "the bank"). At the insurer, data were collected on ten key accounts (the firm's largest customers). At the bank,

the sample consisted of all applications for a personal loan during a given period.

The research approach was collaborative and longitudinal, involving a series of individual interviews and group workshops with the two project teams (the KAM team at the insurer and the marketing department supported by the information technology department at the bank). In both projects, only customer-specific product and service costs were considered (Niraj, Gupta, and Narasimhan 2001); general overhead costs were disregarded in the interests of improving the achievability, costs, and speed of the research. Following Berger and Nasr's (1998) and Mulhern's (1999) approach, I confined the definition of lifetime value to the direct and potential profits from the relationship; other potential benefits, such as attracting other business (Reinartz and Kumar 2002; Wilson 1996) or learning potential (Stahl, Matzler, and Hinterhuber 2003; Wilson 1996), were excluded from the calculation of lifetime value. I also applied the conventional assumption that after customers are lost, they do not return (Rust, Lemon, and Zeithaml 2004), which is a reasonable assumption given the relatively lengthy contractual relationships under consideration.

The Lifetime Value of the Customer: Case Study 1

In line with the work of Mulhern (1999) and Jain and Singh (2002), I defined the value of the customer for any customer or customer segment, x , as the future lifetime stream of revenues from that customer or segment (CR) minus the future lifetime costs (CC) for a predicted relationship lifetime from time $t = 1$ to n such that

$$(1) \quad CLV_x = \sum_{t=1}^n \frac{(CR_t - CC_t)}{(1+i)^t},$$

where i is a discount rate and the function $1/(1+i)^t$ yields the net present value calculation.

The account managers made forecasts of lifetime duration based on previous experience with that customer and with other, similar customers. The mean forecast lifetime was 4 years. This forecast was triangulated by calculating the historic mean lifetime of a key account for the insurer, which was 4.75 years (standard deviation = 4.06).

Revenues vary from customer to customer depending on the number and mix of products purchased (Reinartz and Kumar 2002) and, over time, on the share of wallet (Verhoef 2003) and the way that share of wallet might migrate between competing providers (Coyles and Gokey 2002; Knox and Walker 2001). Thus, for time $t = 1$ to n and for products $q = 1$ to m , the lifetime revenues of customer x are CR_x , where

$$(2) \quad CR_x = \sum_{t=1}^n \sum_{q=1}^m V_{qt} P_{qt}$$

and V and P are the volume and prices of products (both ongoing and new).

In a series of workshops followed by individual calculation using a pro forma supplied by the researcher, account

managers forecasted customer revenues based on insurance products purchased and probable price. Multiple iterations and new data in the form of customers' contract renewal led to revenue forecasts the managers believed were realistic.

To arrive at the value of the customer, it is necessary to deduct costs (product costs and costs to serve) from the customer revenue stream (Berger and Nasr 1998). Product costs are determined by the volume of sales and the product mix.

The insurer's claims costs were treated as analogous to product costs and were calculated on the basis of historic percentage claims for that type of insurance across the entire customer portfolio multiplied by the value of each product purchased by that customer. Thus, the customer claims cost for customer x , which had bought m insurance products to the value of V over n time periods, was calculated as follows:

$$(3) \quad CCC_x = \sum_{t=1}^n \sum_{p=1}^m V_{pt} C_{pt},$$

where C is the predicted percentage of claims plus a small probability of some catastrophic future event if the account managers believed that the customer's industry or business was sufficiently risky to warrant this.

Other costs to serve are determined by customer behavior (Ryals 2002a, b). Even the most sophisticated approaches to customer lifetime value calculation have treated these costs as allocatable proportional to sales volume or value (e.g., Berger and Nasr 1998; Mulhern 1999). However, allocating costs in this way makes the assumption that all customers buying the same combination of goods and services cost the same to serve (Ryals 2002b), whereas some customers may be far more costly to serve than others (Bolen and Davis 1997; Cooper and Kaplan 1991; Niraj, Gupta, and Narasimhan 2001). Activity-based costing can be used to determine the appropriate allocation to customers of costs to serve (Cooper and Kaplan 1991). Customer-specific costs to serve (CSC) were calculated as a function of KAM time, administration and processing costs, and costs of risk evaluation. Thus, for time $t = 1$ to n , the customer-specific costs to serve for customer x were

$$(4) \quad CSC_x = \sum_{t=1}^n (KAM \text{ time}_t \times \text{cost}_t) + (\text{admin costs}_t \times \text{number of claims processed}_t) + (\text{cost of risk evaluation}_t \times \text{number of risk evaluations}_t).$$

To estimate the time spent on each customer, the key account managers began keeping diary-based activity logs that showed time out of the office with each customer, time in the office on each customer's business, and other uses of their time. From these activity logs and the use of the mean annual salaries for the three job grades in the team, the approximate activity-based costs of the client managing each key account could be projected. Customer-specific administrative and risk evaluation cost data were collected from the insurer's CRM systems.

The Lifetime Value of the Customer: Case Study 2

When the total value of a large customer base is to be considered, calculation of many individual customer lifetime values may become unwieldy. At the bank, a sample frame of all applications for an unsecured personal loan during a set three-month period ($N = 123,442$) yielded a sample size (n) of 62,851 customers, after unsuccessful and uncompleted applications were excluded. Of the sample, 1513 customers could not be allocated to a marketing segment, so the usable sample was 61,338 (49.7% of the sample frame and 97.6% of the completed loans in the period).

Blattberg, Getz, and Thomas (2001, p. 23) propose a detailed definition of the total lifetime value of the customer base, which includes acquisition cost and probability, retention cost and probability, add-on sales, cost of goods sold, and the number of segments. In practice, this definition needed to be modified in operationalization because customers take out only one personal loan at a time, so add-on sales were not relevant. Future potential sales were disregarded (Calciu and Salerno 2002; Rust, Lemon, and Zeit-haml 2004). This gave a modified definition of customer equity for each customer segment, CEseg (Blattberg, Getz, and Thomas [2004, p. 17] refer to these as "customer cells"):

$$(5) \quad CE(seg) = (Rseg) - [(ACseg) + (RCseg)],$$

where $Rseg$ is the lifetime revenue of the customer segment, $ACseg$ is the acquisition costs by channel of that segment, and $RCseg$ are the retention costs within that segment for each customer's lifetime.

The project began with an analysis of factors that drive customer revenues and costs. Lifetime revenue (loan interest) was a function of the size of the loan, additional revenues from arrears, and the interest rate. Because the bank typically considered customers in terms of size of the loan, two possible definitions of customer size were considered: the loan size and the lifetime revenue.

In this second project, a combination of simple activity-based and standard costs was again used. Acquisition costs were relatively straightforward to calculate. Certain cus-

tomers were acquired through certain channels, so the costs of that channel were allocated to the customers who came through it.

Retention costs were more complex. Certain administrative costs were standard and applied to all customers. However, other costs to serve in the customer relationships were largely driven by the customers' conduct of the loan—in other words, whether the customer had been in arrears or not. The lowest-cost customers were the customers who had never been in arrears. The highest-cost customers were those who had been in arrears for more than five months. Considerable complexity was involved in calculating the costs of arrears, which involved several different activities and teams.

Results

Case Study 1: The Value of the Customer at the Insurer

Table 1 shows the ten key customers for which full customer lifetime value data were developed, ranked by lifetime value. Although only ten customers, these customers had lifetime revenues of \$67.6 million and accounted for more than 10% of the annual revenue of this division of the insurer. The total value of this key account portfolio was \$24.8 billion. Although this is a small sample, two industries (chemicals customers H and C and business services customers K and F) appear twice. These customers have different lifetime values, suggesting that customer industry is not the chief determinant of the value of the customer.

The relationship among the lifetime revenues, costs, and value was explored using Pearson's r (Rupinski and Dunlap 1996). All results are significantly different from 0 ($p < .01$). Lifetime revenue was highly correlated with lifetime value ($r = .971$) such that larger customers had greater lifetime values. This was because larger customers did not have lower margins; instead, there was a positive correlation ($r = .735$) between the size of the customer (revenues) and lifetime margin. The average margins for the largest five cus-

TABLE 1
Insurer: Descriptive Statistics

Customer Identification	Industry	Lifetime Revenues (\$)	Lifetime Costs (\$)	Lifetime Value of the Customer (\$)	Customer Margin (%)
I	Engineering	9,513,759	1,413,972	8,099,788	85.1
H	Chemicals	21,424,471	15,841,876	5,582,595	26.1
K	Business services	10,253,598	6,470,062	3,783,536	36.9
B	Hotels and leisure	5,446,409	2,817,228	2,629,181	48.3
G	Distiller	6,396,738	4,519,102	1,877,635	29.4
E	Food manufacturer	5,341,670	3,949,170	1,392,500	26.1
J	Telecommunications	5,420,806	4,856,672	564,134	10.4
C	Chemicals	2,219,441	1,749,604	469,837	21.2
L	Charity	791,927	511,379	280,548	35.4
F	Business services	500,506	360,793	139,713	27.9
Total		67,309,325	42,489,858	24,819,467	

tomers were 45.1%, compared with 24.2% for the smallest five customers.

Changes in Customer Management Strategies at the Insurer

There were considerable changes to customer management strategies at the insurer as a result of the additional information about the value of the customer (see Table 2). The

analysis affected both customer acquisition and divestment. The team refused some proposed key accounts on the grounds that they did not meet the criteria for acceptance; these accounts were managed elsewhere. Customer acquisition became more targeted. Toward the end of the project, for example, the key account director declined an invitation to tender from one of the world's best-known corporations as a result of lifetime value considerations.

TABLE 2
Evidence of Customer Management Strategy Changes at the Insurer

Customer Management Strategy	Changes Observed at Insurer	Comments of the Account Managers	Impact
Selective customer acquisition	Some customers turned down	"We want to expand the number of key customers, but we want to do it intelligently."	Primarily affected the team leader and the director, who were able to accept/reject potential key accounts proposed by other business areas.
Selective customer retention	Depth of coverage increased	"Focus [for named customers] on retention and further penetration."	The impact was strong. Account managers noted that they were more focused. The team noted that customer retention had improved.
Resource allocation and service levels	Previously free services charged	"We ... now actually charge people for things, whereas before everything was just free." "I'm better at focusing.... I'm acting more like a true account manager." "I actually think about things first and whether it's worthwhile doing, how it benefits us, rather than just doing it to maintain a customer or keep a customer happy."	The impact was very strong. All key account managers indicated changes in their behaviors. Team leader commented, "I'm seeing some real behavioral changes in the people I work with. They are much more clear now in terms of what they're looking to achieve from the different customers, whereas before, it was very much an ad hoc approach."
Pricing	Relationship pricing introduced	"I'm far more aware of the profitability issue." "I think [he] has noticed a change in us.... He's noticed that we won't be pulled over the barrel in the same way we were."	The impact was considerable. These managers had considerable latitude about pricing; the previous approach was described as "back of a cigarette packet." Following the project, the team leader reported "a much greater awareness of the numbers."
Product strategy	Cross-selling and new product targeting	"We've widened the program.... Now we're pushing hard for new territories and looking for new product [sales]."	The impact was selective. Key account managers who could see potential in their accounts embraced this, but others did not.
Selective customer divestment	Customer moved to another team	"We've pushed back on some accounts that people have tried to hand off to us."	Primarily affected the team leader and the director, who were able to accept/reject potential key accounts proposed by other business areas.

Customer retention strategies also changed. Greater depth of coverage was provided for the most profitable accounts, with some account managers assigned to deputize and ensure continuity of service. Greater attention was given to the retention of highly profitable Customer I. A more senior account manager became involved in the management of several of the more valuable accounts.

As the key account managers learned more about the lifetime value of their major clients, they adjusted service levels accordingly. All the managers reported that they had become more cost conscious about the services they were providing, particularly to the less profitable customers; in some cases, they had begun to charge for services they previously provided for free.

The data on the lifetime value of the customer gave the insurer's key account managers a long-sought opportunity to change their pricing strategy. The team was interested in introducing relationship pricing based on a long-term relationship with the customer. Previously, they had found it difficult to make the business case for relationship pricing. However, using their forecasts of lifetime revenues and costs and matching these to actual outturns offered the key account managers a way to make the business case.

The analysis also affected product development and marketing. For example, Customer L was believed to have additional revenue potential. As a result of the analysis, the key account manager decided to change the approach to increase revenue from this key customer by extending the geographical coverage of the products currently offered and by offering new products. For Customers J and G, whose revenues were below average but whose costs were above average, the team tried to cross-sell additional products and services to increase revenues.

CRM and Firm Performance

The KAM team at the insurer was part of a larger department; thus, direct observation of changes in firm performance was not possible. Indirectly, however, the KAM team leader and a senior account manager indicated that there had been a performance improvement attributable to the new information about the value of the customer:

People thought that just putting up the price was sufficient to guarantee a profit.... It clearly isn't. We've discovered new ways of earning profits.... We are more focused on the profit and loss scenario.

It's verified the [customers] that are profitable.... It's enabled us to weed out those which are not worth spending time on.

These are positive indicators at a time when published figures show that the overall pretax margins of this insurer were declining.

Case Study 2: The Value of the Customer at the Bank

The bank's seven segments had different total loan values, total costs, and total value. However, the number of customers also varied by segment (see Table 3). To remove the size effects, mean values were used. As anticipated, the two customer size measures (loan value and revenue) were

strongly related ($r = .964, p < .01$). This was a nontrivial result because revenues were also affected by the conduct of the loan. Total customer value was related to loan size ($r = .914, p < .01$) and, even more strongly, to revenues ($r = .987, p < .01$), so larger customers on either measure created more value than smaller customers. The correlation between customer size and costs was positive but weak ($r = .195$), indicating that costs were not strongly related either to customer size or to total customer value ($r = .035$).

Changes in Customer Management Strategies at the Bank

At the bank, the analysis led to dramatic changes in its customer targeting and acquisition strategy (see Table 4). The bank stopped targeting a segment (Segment A) of younger, less well-off customers who it had previously regarded as attractive. The apparent attraction of this segment had been that these customers had high repurchase rates, taking out a series of small loans during the course of the relationship lifetime. However, the analysis demonstrated that this was unprofitable behavior from the bank's point of view. Loan prices were raised for these customers to encourage them to meet their borrowing needs through alternative sources of credit. The marketing managers also recommended changes in customer solicitation practices to avoid attracting unprofitable customers.

The marketing team managing the bank's Internet sales process designed a series of filters that could identify and reject unprofitable customers at an early stage in the application process, making customer acquisition much more efficient. Postfilter decline rates fell from 25% to 3%.

Customer retention was targeted at more profitable customers through the development of new products aimed at larger and more profitable customers. The bank also offered additional incentives and relationship pricing offers that were designed to attract and retain more profitable customers and discourage less profitable customers, while taking into account customers' other product purchases with the bank.

There was also a product change: As a result of the analysis of the value of the customer, the bank introduced a new policy to increase the minimum loan size from \$750 to \$2,250 to discourage smaller and less profitable customers and increase average revenues. Because of the contractual nature of the bank's products, no customers could be divested; thus, the bank focused its efforts on preventing the acquisition of less valuable customers.

CRM and Firm Performance

The impact on overall customer equity was startling. The department achieved profits 270% ahead of target for the year (Ryals 2002b) during a period when the bank's overall profits fell by 1.4% and return on shareholders' funds also declined.

Summary

The research demonstrates that CRM delivers better firm performance through the measurement and management of customer relationships. Detailed revenue and cost data that were specific to the individual customers or the customer

TABLE 3
Bank: Descriptive Statistics

Market Segment Identification	N	Loan Value		Revenue		Costs		Lifetime Value of the Segment	
		Total Loan Value (\$)	Average Loan Value (\$)	Total Revenue (\$)	Average Revenue (\$)	Total Costs (\$)	Average Costs (\$)	Lifetime Value (\$)	Average Customer Value (\$)
A	11,230	50,765,111.73	4,520.49	4,894,695.87	435.86	2,347,617.46	209.05	2,547,078.42	226.81
B	9474	59,870,729.02	6,319.48	6,548,639.07	691.22	2,011,488.37	212.32	4,537,150.70	478.91
C	12,793	78,271,523.31	6,118.31	8,299,792.54	648.78	2,609,919.23	204.01	5,689,873.31	444.76
D	12,838	82,238,738.74	6,405.88	9,043,955.33	704.47	2,469,154.75	192.33	6,574,800.58	512.14
E	10,527	66,372,550.59	6,304.98	7,528,144.93	715.13	2,025,295.87	192.39	5,502,849.06	522.74
F	2914	17,735,901.14	6,086.45	1,987,886.82	682.18	517,484.16	177.59	1,470,402.66	504.60
G	1562	6,300,762.78	4,033.78	739,918.02	473.70	249,458.75	159.70	490,459.26	313.99
Total	61,338	361,555,317.31	5,894.48	39,043,032.58	636.52	12,230,418.59	199.39	26,812,613.98	437.13

TABLE 4
Evidence of Customer Management Strategy Changes at the Bank

Customer Management Strategy	Changes Observed at Bank (by Segment)							Comments of the Managers	Impact
	A	B	C	D	E	F	G		
Selective customer acquisition	No longer targeted	Selective	Selective	Strong focus; multichannel	Strong focus; multichannel	Some focus	Minimal marketing	"Previously, not targeted at all really. Volume was more important."	The impact was strong. There was a change from untargeted mailshots.
Selective customer retention	—	Retain and upsell	Retain and upsell	Retain	Retention incentives	Moderate retention	Very targeted	"As a result of the project, we have developed a retention strategy based on profitability."	The impact was strong. The team was astonished by the strong link between customer size and profitability.
Resource allocation and service levels	No solicitation	—	—	Flexible	High	Flexible	—	"Our collections strategies ... don't take sufficient account of the ... wider customer relationship."	The impact was moderate. There was some recognition that certain customers were not appropriately handled.

TABLE 4
Continued

Customer Management Strategy	Changes Observed at Bank (by Segment)							Comments of the Managers	Impact
	A	B	C	D	E	F	G		
Pricing	Prices raised	Raise prices; price incentives	Flexible pricing	Flexible/small price incentives	Price to retain	Price for market share maximization	Raise/maintain prices	Prices for more attractive customers were reduced. Charging higher prices increased risk: "The low-risk customers aren't going to come to you."	The impact was strong. Pricing strategies of all segments were reviewed and revised.
Product strategy	—	Upsell	Upsell	—	—	—	—	"We are increasing the minimum loan amounts ... from \$750 to about \$2,250."	There was some impact. There was an increased loan size and concern about usage of loans (related to risk)
Selective customer divestment	—	—	—	—	—	—	—	Not observed	Not observed

segments of the companies studied caused these firms to alter their CRM strategies.

In both cases, larger customers created more total value, and the value of the customer was closely associated with lifetime revenues. The main difference between the results in these two cases is the impact of costs. This probably reflects the power that large customers can wield (Kalwani and Narayandas 1995), resulting in greater costs for larger customers. Despite this, the larger customers created more value overall. In the portfolio of much larger customers at the bank, with a greater degree of standardized service, larger customers did not command higher service levels.

In both cases, the correlations between customer revenues and value are strikingly high, suggesting that the value of a customer is largely determined by how much revenue it generates. However, alternative explanations need to be considered. The results may be company specific, perhaps related to the economies of scale of relationships with larger customers in companies with high fixed costs. They might be industry specific to financial services; different results might be found for physical products. In addition, the stage of industry cycle might be important; for reasons connected to risk exposure, larger customers might be less attractive in a downturn. Further research is necessary to explore these issues.

Conclusions

This final section examines the implications of the research for managers, its generalization and limitations, and the implications for further research. This research has taken a different approach from previous research into the value of customers. Rather than observing that customers differ in their value and discussing how different customer management strategies had contributed to this situation or taking a normative stance, the current research indicates that the value of the customer and customer management strategies are interlinked and that a straightforward analysis of the value of the customer leads to a change in customer management strategies.

As Gupta and Lehmann (2003) and Reinartz and Kumar (2003) suggest, both offensive marketing (customer acquisition) and defensive marketing (customer retention) were affected. The research also indicates that by using relatively unsophisticated analysis, firms can make a difference to their CRM performance. The research suggests that the important issue is not customer loyalty or customer retention per se but profitable customer retention and profitable customer portfolio management. As such, CRM is unlikely to succeed unless marketing managers give proper consideration to these issues.

Managerial Implications

This research has demonstrated a straightforward analysis of the lifetime value of the customer that does not require massive amounts of calculating power, thus adding to the work of Gupta and Lehmann (2003). The findings have implications for both customer acquisition and retention, and they add to the growing body of study into the manage-

ment of customer portfolios (e.g., Reinartz and Kumar 2003). Managers should try to acquire customers that have the greatest potential (Blattberg, Getz, and Thomas 2001; Thomas, Reinartz, and Kumar 2004), as long as the costs of acquiring such customers do not outweigh the benefits (Blattberg, Getz, and Thomas 2001; Gupta and Lehmann 2003). This research suggests that managers should prioritize the acquisition and retention of larger customers.

Generalization and Limitations of the Research

In this article, I demonstrated the calculation of the lifetime value of the customer in two financial services contexts and found that customer management strategies and firm performance changed as a result. The limitations of the research suggest some areas that require further exploration.

A possible criticism of the current research could be that it considered only two case studies, both in the financial services industry and both based on contractual relationships. The high observed correlations between customer revenues and lifetime value may be idiosyncratic for the industry. For example, in the insurance industry, examination of a European peer group of ten competitors revealed a correlation of .867 between company sales and pretax incomes and of .624 between sales and operating margins. In banking, for a peer group of six banks, the correlation between operating income and net income was .733. Moreover, the dynamics in noncontractual relationships may be different (Reinartz and Kumar 2003), perhaps leading to different management responses. Further research across different industries might use regression analysis to explore the possible impact of other variables and to rule out alternative explanations for the findings.

A further limitation of the current research is the exclusion of future potential sales. A better understanding of future potential might alter some of the conclusions about the lifetime value of the customer and, thus, customer management strategies. More generally, calculating the value of customers from a single point in time may undervalue the impact of life-cycle effects, particularly in financial services in which customer profitability is known to have low persistency (Campbell and Frei 2004). A promising approach to this issue is through structural equation modeling (Du 2004).

The possibility that the value of the customer might change over the relationship lifetime may in turn mean that customer management strategies could change over the relationship life cycle. For example, the strategy of customer divestment, which was not found at the bank and was found at the insurer only by internal divestment, might be considered a last resort only after other attempts at managing the customer profitably had been exhausted. Thus, some strategies may have temporal priority over others. A longitudinal study might be used to investigate this.

In summary, there is increasing urgency for marketing managers to understand how their actions affect the long-term profitability of their customers. The impact of changing customer management strategies on the value of customers should be studied over time (Rust, Lemon, and Zeithaml 2004), and further research of the interrelationship

among customer management decisions, the value of the customer, and firm performance is necessary. Because information about the value of customers led to changes in customer management strategies, the existing linear con-

ceptualization of CRM cannot be correct. This research suggests a simple but powerful approach to making CRM successful through the measurement and profitable management of customer relationships.

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