CUSTOMER LIFETIME VALUE AND CUSTOMER LOYALTY

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ABSTRACT

The goal of this paper is to highlight the value of the services and the customer lifetime value, focusing on the benefits of the customer lifetime value research study on determining some marketing strategies used in the services sector. This paper also presents a loyalty strategy using cards utilized by a cinema that applies a Customer Relationship Management program to determine the customer lifetime value in the three stages of the customer's lifecycle.

KEYWORDS: *customer loyalty, loyalty cards, customer lifetime value, the value of services, service performance*

INTRODUCTION

In the last years, the services sector has begun to occupy an increasingly important place in the economy, attracting the attention of many researchers. Thus it began appearing more and more interesting papers about the services sector and its importance in the economy.

Over the years, many researchers have formulated different definitions for the concept of services, including Philip Kotler (2003), some being very succinct, some very comprehensive. For example, one of the most comprehensive definition is given by Christian Grönroos (1983) who defined the service as a single or a group of activities that are more or less tangible, that occurs when a buyer and a vendor interact, while the simple definition of the service concept refers to the intangibility of an element that offers utility to the beneficiary (Ionescu, S., 2004). In most of the definitions, it is highlighted both the intangibility of the services and the relationship between the buyer and the supplier, which is often decisive in providing the service.

After 1990, researchers began to use the concept of value that can be presented through the re-engineering of the services. This implies focusing on identifying the key processes that are necessary for the provision of services, while all the other activities are carried out in order to satisfy the customer. In the service industry, there are quite a few industrialized services, which is why at first sight, this term of re-engineering may seem forced for the services industry.

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In the last years, re-engineering should be seen as a response to the accelerating changes in society that have an impact on the organization, meaning that the businesses change the way they operate in order to remain competitive. According to Michael Hammer (2001), customers and processes are the most important attributes of re-engineering, the client being one of the key elements of the business. Also, organizations have begun to turn to customers by establishing strategies for evaluating the quality of services, including customer satisfaction.

EXPERIMENTAL

Customer lifetime value

One of the concerns of the companies is represented by focusing on customers who have a higher rate of profitability, forgetting to have a long-term vision in which even the segments which have a lower profitability can generate, in time, large profits. So the majority of the companies wants to have as many satisfied customers as possible, also following the customer lifetime value.

According to Krstevski, and Mancheski (2016), the concept of customer lifetime value can be summed up to the present value of a customer, value that is based on the future cash flows attributed to the relationship.

Also, it is worth mentioning the lifecycle of a client in terms of profitability of a firm, an individual that goes from being a potential customer or suspect, to a cold customer, warm customer, occasional customer and then loyal customer (Claeyssen, Y. et al., 2009). The cold customer level can be achieved by identifying the potential client and bringing him about the company's products and services. The cold customer can become a warm customer if he is interested in the information that he is receiving and wants to purchase from that company. The objective of the organizations is to continue this growth of the customer and to make the transition from occasional customer to loyal customer, bringing long-term company profitability.

Thereby, firms have to deal with customer segmentation and treatment groups throughout the three main stages of their life cycle, namely: *to attract new customers, retain the existing customers and develop customer relationships.* Companies must determine those factors that contribute in order to increase profitability and discover how to apply it to all categories of customers to achieve maximum profitability.

According to Barlow, (Claeyssen, Y. et al., 2009) loyalty can be defined as a strategy which identifies, maintains and increases performance for the best clients, with the help of an added-value relation, that is also a long-term focused relationship.

Thus, even though the company can handle on the short term by attracting new customers, on the medium and long-term it must move toward customer loyalty.

Carmen Bălan (2007) also debates the subject of the substantiation of a marketing strategy based on customer's lifetime value measurement in an article published in the Marketing Online Magazine.

Customer loyalty strategies are aimed at two axes: an economic added value and an effective added value, which are used in order to persuade loyal customers to resist the offers proposed by its competitors. These axes are used by firms to both gratify the rational customer behavior side and emotional side, which determine the individual's attachment to these organizations.

The economic value can refer to an activity, a product or a business. It may be worth the manufacturer or the customer value. There is a difference in how the customer and the manufacturer thinks about the value, this difference being presented in Figure 1 (Conti, T., 1992).

The customer lifetime value is the measure to which customers perceive that a product has a good satisfaction and is measured by money (the amount by money - VFM) or by the rate of the customer retention.

The value may be apparent or real (undistorted by inflation), residual value (which remains from a resource that is about to be exhausted) or marginal value (related to the intended utility of the existence or consumption of an additional unit of an entity).

Also, each activity adds value. Thus, the added value is that value that a company brings by processing a product or obtaining a service, calculated as a result of the difference between price and cost.

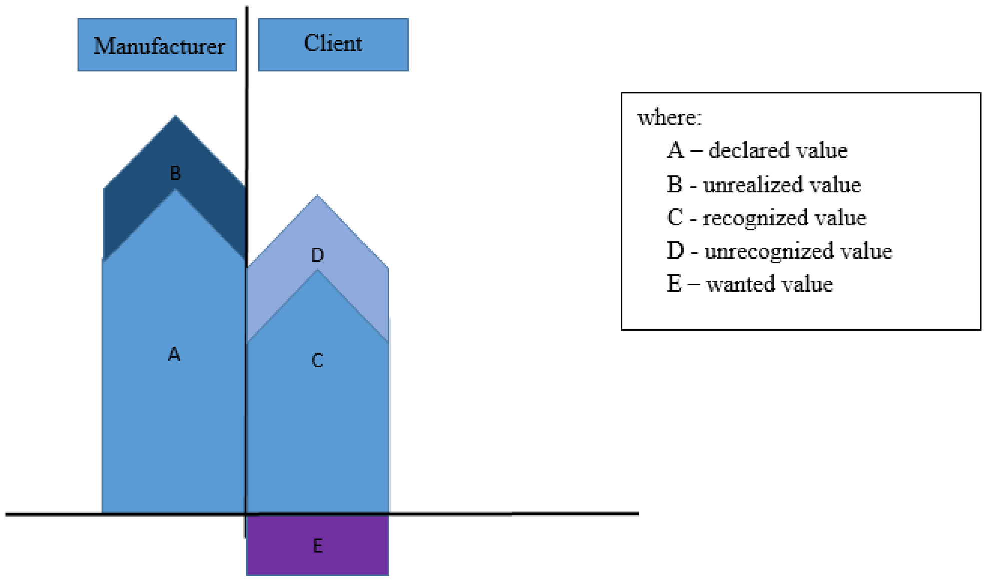

Figure 1. The meaning of value (T. Conti, 1992)

Creating value

Creating value and the growth of value require the development of links between strategies used by a company on its work (e.g. links between market entry strategy and promotion strategy)

Thus, the main links on strategies within a company are (Moss-Kanter, R., 2006):

- Strategic connections - the use of the management technology, the experience in a field, the value chain structure and value system structure;
- Competition connections between customers, distribution channels, and brand used;
- Technological connections of technologies serving, serving processes, research methods of new services, exchange of information (information technology);
- Operative connections about the extension services, and use capacity serving in excess, the purchase of materials (negotiating power), the use of personnel.

Particularities of services strategy

The environment influences services strategies through the demographic evolution of customers, social and economic factors, customer requirements and expectations, prices, existing legislation, technological developments, the performance of suppliers.

On the other hand, the internal factors of the organization providing services are represented by the quality of services perceived by customers, efficiency of sale, costs, satisfaction and security of both employees and customers, process management or even productivity targets.

After setting the vision and mission, companies must determine the main issues of a service. These issues have the following characteristics: they are important for the customer; they create high costs if the quality is poor; they appeared frequently; they have a substantial impact; they create significant delays.

The key issues on which more services depend on are (Braduțan, 2012):

- increasing the level of services (quality);
- increasing access to services for all customers;
- acting in a manner that ensures the safety of customers and operators;
- ensuring a minimum cost for the service operations;
- developing communication between customers, suppliers, legislators, and others;
- giving clear and complete explanations, ensuring a fair application of laws and regulations.

Through the analysis of the relationship between companies and their competitors, it can be said that elements such as the quality of the services, their range and also their prices can be considered the most important factors that could influence the customers' behavior. Also, their behavior could be influenced if different strategies were applied.

Lately, one of the most common strategies for companies in the service sector is the customer loyalty strategy. One of the main purposes of the implementation of loyalty programs is to prevent the migration of customers to competitors. Any company knows that taking care of this aspect, it actually contributes to changing their profitability.

In this regard, we must follow the evolution of the company's profitability in the medium and long-term by calculating customer loyalty stage in a succession of periods. This value can be obtained as the difference between revenues and costs of this phase, from which we deduct the nonpayment rate (Allard, C., 2003).

Case study- Customer lifetime value for a cinema

To determine the customer lifetime value in case of a cinema, that applies a Customer Relationship Management program and a loyalty strategy through the cards, we use a method proposed by C. Allard (2003) in his book *Management de la valeur client*.

In this regard, we chose to do a study on a cinema from Bucharest, aiming to attract 100.000 new customers among the youth, for a period of 1 year. We used estimated data which has a demonstrative role in supporting the importance of loyalty strategies using loyalty cards.

Next, it will be presented the method of determining the customer value for the cinema being pursued and its development in the three stages of the customer's lifecycle.

RESULTS

Step 1 - Attracting customers

The management of the cinema had decided to contact 100.000 young people per year, in order to inform them about the prices and the offers of the cinema. In this stage of attracting customers, they distributed flyers and magazines such as the magazine *Seven nights* in faculties and in some public places, the cost of these materials for a potential customer being 1,5 lei (0,33 euro). The simulation is made considering the movie ticket has a value of 18 lei (4 euro).

Table 1. Results obtained in Step 1 - attracting customers

Code	Description	Calculation Method	Value (lei)	Value (euro)
A	The number of potential customers	Variable	100.000	100.000
B	Cost per contact	Variable	1,5	0,33
C	Total cost	A*B	150.000	33.333,33
D	The percentage representing the number of people who were interested in the offer	Variable	0,8	0,8
E	The number of potential contracts	A*D	80.000	80.000
F	The percentage of signed contracts	Variable	0,9	0,9
G	The number of new customers	E*F	72.000	72.000
H	The global agreement rate	G/A	0,72	0,72
J	The cost of attracting a customer	B/H	2,083	0,46
K	The revenue generated by concluding a contract	Variable	18	4
L	The revenue generated in the attraction phase	G*K	1.296.000	288.000
M	Gross margin rate	Variable	0,5	0,5
N	Gross margin per customer	K*M	9	2

Code	Description	Calculation Method	Value (lei)	Value (euro)
P	Total gross margin	L*M	648.000	144.000
Q	Return On Investment	P/C	4,32	4,32
R	Customer's value	N-J	6,92	1,54
T	The customer lifetime value	P-C	498.000	110.666,66

Step 2 – Actions to improve customer loyalty

The management of the cinema is trying to attract customers by offering loyalty points and special prices on certain days and certain hours. The cinema suggests that for every 1 lei paid, the client should receive 1 point. Example: if you buy a ticket that costs 10 lei, you will get 10 points. To pay for a product/ ticket with fidelity points, after you give your loyalty card to the cashier, you must mention that you want to make the payment with loyalty points. The same rule applies in the case you want to buy something from the cinema bar. Also on Tuesday, the unique price for a film is 13 lei for loyalty card holders, the same offer being valid from Monday to Friday for digital movies, for movies that run until 17 o'clock.

Table 2. Results obtained in Step 2 - actions to improve customer loyalty

Code	Description	Calculation Method	Value (lei)	Value (euro)
A	The monthly revenue brought by a customer	Variable	26	5,78
B	The monthly rate of losing customers	Variable	0,1	0,1
C	Gross margin	Variable	0,5	0,5
D	The retention cost of a customer	Variable	3	0,67
E	The nonpayment rate	Variable	0	0
F	The number of customers at the start of the loyalty phase	Variable	72.000	72.000
G	The number of lost customers	F*B	7.200	7.200
H	The number of customers at the end of the phase	F-G	64.800	64.800
J	Total revenues	H*A	1.684.800	374.400
K	Gross margin	J*C	842.400	187.200
L	Customers retention cost	F*D	216.000	48.000
M	The cost of the nonpayment rate	J*E	0	0
N	The customer lifetime value in the loyalty phase	K-L-M	626.400	139.200

Step 3 - Developing relationships with loyal customers

Table 3. Results obtained in Step 3- developing relationships with loyal customers

Code	Description	Calculation Method	Value (lei)	Value (euro)
A	The number of loyal customers	Variable	64.800	64.800
B	The percentage of customers exposed to new deals	Variable	0,95	0,95
C	The number of customers exposed to new offers	AxB	61.560	61.560
D	The acceptance rate of new offers	Variable	0,9	0,9
E	The number of signed contracts	CxD	55.404	55.404
F	The revenue generated by new offers	Variable	15	3,33
G	Total revenues generated	ExF	831.060	184.680
H	Gross margin rate of an offer	Variable	0,5	0,5
J	Gross margin generated by new offers	GxH	415.530	92.340
K	Cost per customer and new offer	Variable	6	1,33
L	The cost of the new offers	CxK	369.360	82.080
M	Nonpayment rate	Variable	0	0
N	The cost of the nonpayment rate	GxM	0	0
P	The customer lifetime value	J-L-N	46.170	10.260

In the third stage of the customer's lifecycle, the cinema proposes to customers to purchase products from the bar as a standard menu of 15 lei. The percentage of customers exposed to this offer is 95%, the acceptance rate is 90%, whereas nearly all young people who come to the cinema buy juice and popcorn.

DISCUSSION

As we can see in Table 1, corresponding to the attraction phase, knowing that the gross rate agreed is 80%, and the net rate agreed is 90% at the end of this simulation using a Management Customer Relationship, we obtained a customer lifetime value of 498.000 lei (about 110.667 euro).

In the loyalty phase, as we can see in Table 2, taking into consideration the presented data, for a monthly income of 26 lei (assuming that the client comes twice a month to the cinema taking benefit of promotional offers), with a 10% rate of loss of customers and 0% rate non-payment of payment, the cinema using the Management Customer Relationship program generates a customer lifetime value at the stage of loyalty of 626.400 lei (139.200 euro), suggesting an increase of 25% compared to revenue during attracting new customers phase. This result helps us demonstrate that it is more advantageous for a company in terms of costs and revenues to make existing customers loyal to the cinema and to pay more attention to them, not only to capture new customers.

Table 3, corresponding to the phase of developing relationships with loyal customers, shows us that at this stage of the customer lifecycle, the customer lifetime value is 46.170 lei (10.260 euro), much lower than other values previously determined, but not negligible.

CONCLUSIONS

When it comes to the services sector, determining the customer lifetime value is very important because it helps to establish certain characteristics of the service. This research helps us put in balance the costs that a particular service involves and the benefits they derived from studies of the customer lifetime value.

Through the analysis of other research papers from the services sector, the authors observed that loyalty strategies have a very important role for companies, the easiest way to achieve loyalty being loyalty cards.

Using loyalty card brings benefits to consumers who enjoy special promotions, discounts or gifts, but also among companies that use these loyalty strategies. Thus, according to this case study represented by a cinema, a loyalty strategy based on loyalty cards is essential to the firm, which not only helps build customer loyalty and increases market share but also increases sales volume and profit, both on the medium and long-term.

The values obtained in this paper after studying the usage of a loyalty strategy highlight the importance of implementing such a strategy in the service sector. The final results demonstrated that in customer loyalty phase, the value of customers was increased by 25,78% than that obtained in the attraction phase.

In this case, by using loyalty strategies such as loyalty cards, the customers' satisfaction will raise, because they are treated differently, they receive personalized offers which make them feel important.

In conclusion, if we increase customer lifetime value by maximizing customer satisfaction then we can say that we contribute directly to increase the firm profitability.

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