CUSTOMER EQUITY

Building and Managing Relationships as Valuable Assets

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The Web site for this book is at: http://www.customerequity.com.

MAIN IDEA

The equity created by customer relationships are any organization's most important financial asset – and like any other asset they should be measured and managed effectively so as to maximize their growth.

Specifically, customer equity is created by three key business activities:
1. Acquiring new customers.
2. Retaining existing customers.
3. Expanding the customer relationship – by selling more products and services to current customers.

Historically, managers have tended to focus on cost management or revenue growth, with the prevailing wisdom suggesting a company should attempt to acquire as many new customers as it possibly can given its available resources for advertising and other marketing expenditure. Customer equity, by contrast, suggests more value will be created if the three key activities are approached as an optimized set of business activities. Or put differently, customer equity suggests the maximum amount of value will not be created solely by securing new customers. Customer retention and add-on selling also hold the potential to add significant long-term value to an organization, particularly as customers work their way through the typical life cycle.

Firms that manage their customers as an important asset will have three competitive advantages:
1. They will be able to make better decisions than anyone who views their business by product lines.
2. They will make better use of all the customer information available to them.
3. They will be better positioned to respond to changing market conditions in the years ahead.

The customer equity of a firm consolidates the financial value of each customer relationship – the potential profitability of each customer to the company over the entire lifetime of each relationship. Businesses which understand customer equity better than their competitors are then able to:
• Make better informed decisions – hitting a balance between cost management and revenue growth.
• Generate higher profits – by managing products and customers better over the lifecycle.
• Increase shareholder wealth – by allocating resources and efforts more efficiently.

A firm's customer equity is the sum (across all segments and product lines) of three types of equity:
• Acquisition equity – The profit generated by first-time buyers less the costs incurred.
• Retention equity – The expected profits from future sales to these newly acquired customers.
• Add-on sales equity – The profits which will are projected to be generated over the lifetime.

Customer Equity = Acquisition Equity + Retention Equity + Add-on Sales Equity

Customer equity focuses on finding the optimum strategic balance of acquisition, retention and add-ons that maximizes the sum rather than any particular part. Or put differently, for different levels of fixed investment, customer equity analysis will determine what strategy will yield the highest possible return.

Any organization which is attempting to maximize the creation of customer equity on an ongoing basis will focus on eight key imperatives:

The Eight Organizational Imperatives of Customer Equity	
1	Know your customers collectively and individually.
2	Calculate the asset value of each individual customer.
3	Manage the customer acquisition processes.
4	Manage the customer retention processes.
5	Expand the relationship through add-on sales.
6	Hit a balance between acquisition, retention and add-ons.
7	Manage portfolios of customers through their life cycles.
8	Tailor the marketing mix at the customer level.