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The study of customer share marketing

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THE STUDY OF CUSTOMER SHARE MARKETING

A Project

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Faculty of

California State University,

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in

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By

Wathanee Sethapan

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ABSTRACT

This project will describe the nature of customer share marketing, its advantages and disadvantages. It also will express how the marketing theme is graduating customers from market share marketing and customer share marketing. A company utilizes market share marketing to generate new customers. Next, it develops customer share marketing to retain and grow existing customers. The company differentiates customer share strategies based on customers' values. Strengthen relationship with valuable customers; they then turn into clients, and then members, which in turn promote advocates and partners to the company. These findings are congruent with the current theories of marketing strategists and business experts, and support the position that customer share marketing maximizes a company's profitability.

ACKNOWLEDGMENTS

There are so many people who had a hand in helping me make this project possible, but there are a few special ones whom I would like to thank for here.

To my family for loving me, supporting me, and encouraging me through all of this.

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CHAPTER ONE

INTRODUCTION

Background

Over the last century, marketers, advertisers, and business schools around the world have focused on the art of growing market share as the primary means of growth for a business. In recent years, attempts to expand only market share are not enough for a company's growth strategies. As the environment changes and companies adjust, marketers also are rethinking their philosophies, concepts, and tools. Marketing theme shifts from a focus on gaining market share to a focus on building customer share (Kotler, 2001). A growing number of executives are pursuing customer share marketing strategies as an alternative to generate growth. Examples are loyalty programs, airlines' frequent flyer programs, merchandises membership programs, rewards programs, and customer promotions.

The concept of customer share marketing is simple. Tom Osenton, the author of *Customer Share Marketing: How the World's Great Marketers Unlock Profits from Customer Loyalty,* CEO of the Customer Share Group LLC, (2002) explains that rather than market to a mass of people or firms, a company tries to grow its business with customers it already has, providing the incremental sales and profitable growth necessary to justify the investment.

Although the concept sounds easy, it continues to be an indistinguishable strategy in practice. Several issues can be addressed. First, how can a firm measure the success of its strategy? While a firm attempts to maximize customer share, its competitors try to get the same results as well. A study published in the *Journal of Marketing* (2003) by Peter C. Verhoef, pointed that "although customers may be satisfied with the focal firm's offering, they may be equally satisfied with competing offering from other suppliers" (p.42). For instance, a restaurant maybe convinces customers to visit the restaurant more often; the number of visits of a customer goes up from once a week for a $10 lunch to four times a week for a $7.99 lunch special. Revenue from the customer increases from $10 to $31.96 per week. Unfortunately, that customer also goes to another restaurant once a week but is pleased to pay $20 for a new favorite meal.

Another issue is which customers are worth developing and managing because each customer has different value to an organization. According to Jeanette Hansen Slepian, President of BetterManagement.com, (2003), companies win customer share by investing in customer development and customer management strategies. However, these strategies are neither cheap nor easy. It is imperative to determine which customers are worth developing and managing because not all customers have equal value. Some will spend a lot, pay their bills on time and never call the customer care center. Others will spend the minimum, wait ninety days to pay their bills, and tie up the company customer care representatives for hours. In addition, there are customers who probably would buy more services, but need just the right push at the right time to act.

The last issue is what conditions affect the success of customer share strategy. Why do, but why don't, some marketers succeed in using the customer share marketing strategies to grow revenue? Nordstrom keeps customers informed with email marketing. American Express promotes customer travel with the AmExcursions newsletter. Major airlines offer frequent flyer programs. Sprite rewards loyalty with RocketCash (Osenton, 2002). The practices of these innovative companies encourage many marketers to follow in their footsteps and to apply customer share strategies in their businesses. However, some of them adopt customer share strategies on a fragmented basis. They are unclear about how customer share marketing should be cost-effectively implemented. As a result, they waste their investment, and lose some of the customers they already have.

The Purposes of the Project

The purposes of this project are to explain the nature of customer share marketing, and to better understand which conditions are necessary to build and grow customer share. Throughout this analysis, these contributory conditions are identified and expanded upon to determine how they impact customer share. This study should help the reader understand how important the contributory factors are in determining customer share marketing and how customer share marketing ultimately contributes to the profitability and success of an organization.

Research Objectives

More specifically, the research seeks to answer the following questions;

1. What is the nature of the customer share strategy?

2. How is customer share marketing similar to or different from traditional marketing growth strategies?
3. What factors, environments are associated with successful customer share strategies?
4. What are the implications of customer share marketing to marketing management and marketing education?

The Methods Used

An exhaustive review of the literature was attempted to help answer the above questions. This research covers traditional growth strategies, relationship marketing and customer relationship management (CRM). Moreover, case studies from companies are analyzed to better understand what customer share marketing means in practice. Figures and tables are utilized to better explain all aspects of customer share and its components.

CHAPTER TWO

THE NATURE OF CUSTOMER SHARE MARKETING

Customer share marketing recently became a popular marketing strategy. It, however, has continued to have widely differing explanations and understandings. Before exploring the content in greater detail, one should examine the description of Customer Share Marketing.

Definition

Don Peppers and Martha Rogers, marketing strategists, co-founders of Marketing 1 to 1, defined customer share as "the ratio of a customer's purchases of a particular category of products and services from supplier X to the customer's total purchases of that category of products or services from all suppliers" (qtd.in Verhoef, 2003, p.30).

Pertaining to a study by Peter C. Verhoef (2003), "customer share changes occur over time when customers add (or drop) new (current) products or services to (from) their portfolio of purchased products or services at the focal supplier or at competing suppliers" (p.41).

For example, a gas station owner found that one of his customers usually fills gas four times a month, and spends about $20 each time. This customer visited his station two times last month. Therefore, the customer share for last month is 50 percent. The owner, then, offers the customer a free car wash if the customer buys at least $50 of gas within a month at his station. That customer, therefore, has to visit the gas station three times, or two times with the purchase of $25 per time. As a result, the revenue increases, and the customer share for this customer ups to 63 to 75 percent.

In conclusion, the definitions by Peppers and Verhoef capture the idea of the term: Customer Share Marketing as a business plan to increase the amount of revenues from existing customers who do business with the company. The ultimate goal is to maximize the company's profit.

Customer Valuation

In general, maximizing profit with existing customers relates to two components: minimizing retaining costs, and maximizing net revenue. Since each customer neither needs equal investment to retain nor provides equal revenue, they do not bring equal profit to the company. Therefore, each customer should be judged on his or her profitability to the firm to determine which customers are worth developing and managing. Moreover, it will benefit a company to prioritize its sales and marketing efforts.

The process to evaluate customer profitability is called customer valuation. Peppers (2001) suggested a Customer Lifetime Value (LTV) approach to measure customer value. LTV calculates profit from an individual customer over the lifetime of the customer relationship. There are several ways to calculate customer lifetime value. Paul Gray, professor of Information Science, Claremont Graduate School, (2001), explained a simple method in his article, *Customer Relationship Management* (see Figure 1).

```
                                 (Lifetime Net revenue)
Customer Lifetime Value =      - (Acquisition Costs)
                               - (Retention Costs * Number of Purchases)

Lifetime Net revenue      =      Average Sales
                               * Number of Purchase per Year
                               * Expected length of staying as customer
                                 (years)
                               * Average percentage of profit
```

Figure 1. Customer Lifetime Value Calculation.

Source: Gray, P.,& Byun, J. (2001, March). Customer relationship management, pp. 3-5, 30-34

Figure 1 shows that customer lifetime value can be simply calculated by computing the average net revenue by multiplying four quantities together; average sale, number of purchases per year, expected length of staying as the customer, and average percentage of profit. Having the net revenue, the customer lifetime value can be determined by subtracting acquisition costs and total retention costs for all purchases.

Once the company can identify the lifetime value of customers, it will be able to group and rank those customers to identify who are the most profitable customers. Peppers and Rogers (1998) suggested that a company can divide customers into three basic groups: most valuable customer (MVCs), most growable customers (MGCs), and below zeros (BZs) (see Figure 2)

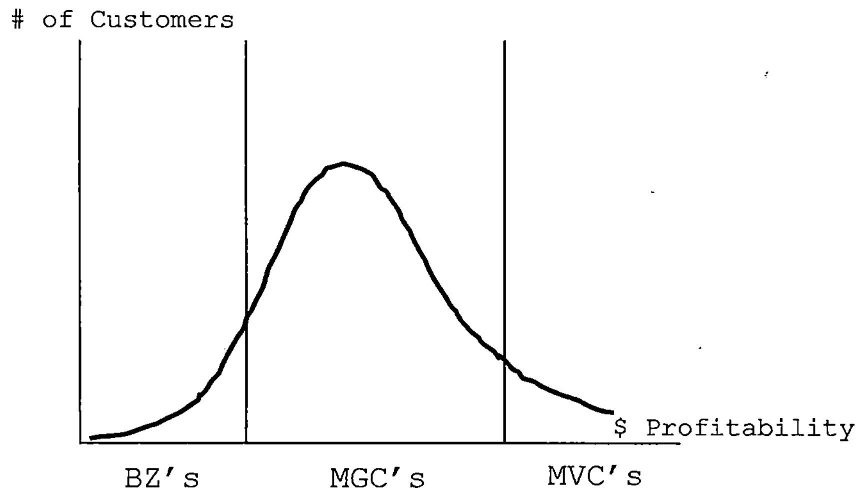

Figure 2. Three Basic Types of Customers.

Source: Adapted from Peppers, D.(1998,September). The one-to-one report: customer valuation. *DM Review*

Figure 2 shows that the highest profitability of a company comes from a small number of most valuable customers. Most customers are the most growable customers who bring less profitability to a company, and the below zero customers bring the least profitability.

In order to maximize profitability, Peppers and Rogers suggested that a company should retain MVCs, grow the value of MGCs, and either convert the BZs to MGCs or convince them to defect to a competitor.

The customer valuation process can be illustrated by example practice of Wells Fargo bank. According to Gray(2001), Wells Fargo Bank divided its customers into four categories based on annual profitability: outstanding, excellent, moderate, and potentially unprofitable. Profitability was determined from general results of revenues (monthly checking fees, late fees and bounced checks, and interest paid on mortgages) and costs (interest on savings, customer direct services, and allocated fixed costs). The bank's intention was to encourage profitable customers through additional service (retain MVCs and grow MGCs), try to cross-sell additional products to less profitable (grow MGCs) and unprofitable customers (convert BZs to MGCs), and discourage unprofitable customers by higher fees (eliminate BZs). The bank, then, used the profitability scores in each contact with the customer. When a customer contacts the bank, the customer's profitability category appears on an employee's monitor as a way to determine the level of service to give to them.

In summary, customer values are different from customer to customer. A company can maximize its profitability by prioritizing its sales and marketing efforts to customers who bring the most profit. The company may use Customer

Lifetime Vale method to calculate profit from an individual customer over the lifetime of the customer relationship, rank-order those customer value to identify who are the most valuable customers, most growable customers, and below zero customers. Then, can create an appropriate marketing program for them to increase their share. Furthermore, the company can measure the success of customer share program by compare their lifetime vale before, and after implementing the program.

Advantages

Several reasons exist for supporting a company should consider bolstering its customer share.

First, growing business with existing customers is less expensive than seeking new customers. Acquisition costs are considered expensive for a company. The costs include costs to find new customers, costs to convince them to trust the company, and costs to convince them to give their money by placing an order (Osenton, 2002). In addition, the company needs to communicate to the mass to get a new customer. That means some of the investment is wasted because some people are not interested in being the company's customer.

On the other hand, retention costs are cheaper because the process takes less time and money (Osenton, 2002). The company and a customer already know one another. The company knows what a customer likes, how he or she shops, and how he or she uses a product or service. The customer already knows and has some experience with some of the company's products or services. Therefore, it is easier to communicate with them, and introduce them to some other company's products or services.

Second, doing business with loyal customers may increase company profitability. Loyal customers become more profitable over time because they tend to concentrate their purchases, thus leading to larger volumes and lower selling and distribution costs. They also provide positive word-of-mouth and customer referrals and may be willing to pay premium prices for the value they receive (Walker, Boyd, Mullins,& Larreche, 2003).

Third, not all customers are equally valuable. Some customers are more profitable than others. Based on a customer's value, a company can determine how much time and investment should be allocated to that customer. Thus, a company will not waste its resources with unprofitable customers.

Last, doing business with only market-share focus, the company must compete with competitors to deliver a generic version at the lowest prices. However, customer-share focus which emphasizes customer satisfaction and loyalty, allows personalization which leads to premium pricing (*Bulletpoint*, 2002).

Disadvantages

Customer share marketing has several drawbacks as well.

First, overplaying the customer relationship sometimes irritates buyers who are happy with what they have and do not want more, or alert them to a new thing. They then buy from others who did not annoy them (*Bulletpoint*, 2002).

Second, customer share strategy overlooks non-customers. Even though recruiting new customers is considered costlier than retaining and expanding sales from existing ones, it must still be done. Marketing only to existing customers can make the company miss potential profitable customers who are not yet buying, or went away but would consider coming back (*Bulletpoint*, 2002).

Third, past behavior is not necessarily an accurate indicator of customer's future lifetime value (Walker et al., 2003). Some existing customers, though highly profitable, may have reached a ceiling. They may get to the highest budget that they want to pay to the company. Hence, targeting these saturated customers then means sharply higher cost for little rise, or even drop, in the amount they buy.

On the other hand, some below-zero customers could become more profitable. Some customers may not be spending much precisely because of the lousy service they have received as a result of not spending much with the company. For some reason, they might spend less money with a company because they were not satisfied with the company's current products or services. However, as the company modifies or expands its product lines, they could be interested in purchasing more. Therefore, before giving up on low spenders or high cost customers, the company should check that they are not waiting to splurge in response to a product improvement or change of marketing pitch.

CHAPTER THREE

CUSTOMER SHARE MARKETING VERSUS MARKET SHARE MARKETING

For years, business people and scholars have been convinced that companies should focus more on customer share marketing as an alternative strategy to grow a company's profitability. A study found that shifting to a customer-share focus does not mean to replace the market share marketing but to complete it. This finding can be described by an evaluation of how market share marketing and customer share marketing play their roles. When should a company pay attention to market share marketing? When should it focus on customer share marketing? Why?

Technically, market share marketing and customer share marketing have different focuses. According to Walker et al. (2003), the market share marketing focuses on maximizing the number of customers adopting the firm's products or services. On the other hand, the customer share focuses on maximizing lifetime value. Peppers (1998) supported the idea that customer share marketing completes market share marketing with an explanation of effects of market share marketing implementation and customer share marketing implementation (see Figure 3).

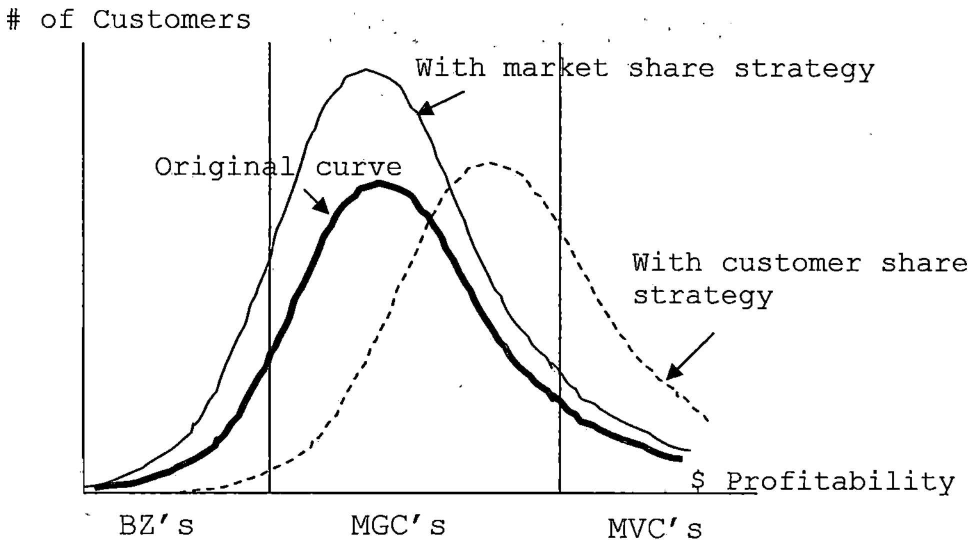

Figure 3. Customer Share Marketing and Market Share Marketing Effects.

Source: Adapted from Peppers,D.(1998, September). The one-to-one report: Customer valuation. *DM Review*

Figure 3 compares results between utilizing customer share marketing and market share marketing. Market share marketing shifts the original curve upward resulting in an expanding the number of customer base. A company gets more

MGCs and MVCs. However, a number of BZs increases as well. Therefore, the overall profitability does not change.

Customer share marketing, on the other hand, shifts the original curve to the right. As a result, the MVCs increase as the company converts MGCs into MVCs. The MGCs increase because some of BZs grow up. The BZs decrease since some of them convert into MGCs and some of them are eliminated. Therefore, the overall profitability increases.

A study found that both market share marketing and customer share marketing are essential for business growth. A company does not adopt customer share marketing by replacing market share marketing. The idea is that market share marketing and customer share marketing complement one another (Osenton, 2002). As the market share marketing increases the number of customers, it is used as an acquisition strategy. Conversely, the customer share marketing is used as a retention strategy to improve customer value increasing profitability to the company.

Due to the fact that market share marketing and customer share marketing play different roles, focusing on only one of them is critical. "When the business strategy is to grow market share, the meaning to accomplish that strategy is to employ mass marketing tactics to drive acquisition. Mass marketing helps deliver a level of customer share as well, but that is very difficult to measure and much depends on the product fulfillment the promise that its advertising makes" (Osenton, 2002, p.51). Therefore, focusing only on market share marketing, a company has to ensure that its products and services satisfying customers' needs and wants, and are superb enough to convince customers to stay with the company. However, ignoring to take care of customers, a company has high likelihood to lose them. Studies show that customers leave for many reasons. For example, they are no longer satisfied with the company's products or services, or they find something else that they want from the company's competitors. As a result, the company has to keep finding and gaining new customers to replace ones that it lost. Marketers concluded that "acquiring new customers can cost five times more than what it costs for retaining current customers" (Kotler, 2001, p.28). Therefore, a company's profitability decreases as costs go up.

Nevertheless, a customer share marketing alone increases today's profitability, but it does not guarantee profitability in long term. Customer share marketing primarily refers to a strategy to retain and grow existing customers. Kotler (2001) explained that

> "the key to customer retention is customer satisfaction. A highly satisfied customer stays loyal longer, buys more, talks favorably about the company and its products, pays less attention to competitors, is less price-sensitive, offers product or service ideas, and is cost less to serve than a new customer because transactions are routinized" (p.27).

Moreover, customer share marketing decreases defection rate, the rate at which a company lose customers. However, some of them still leave or become inactive somehow. For example, a student leaves a school as he or she graduates. A mother stops buying baby products as her baby grows up. Moreover, in many cases, a customer leaves because other companies give him or her more offerings or treat him or her better than a company does. Therefore, the company still needs new customers to replace defected customers.

Shifting from market share marketing to customer share marketing in practice can be illustrated through the customer development process (see Figure 4).

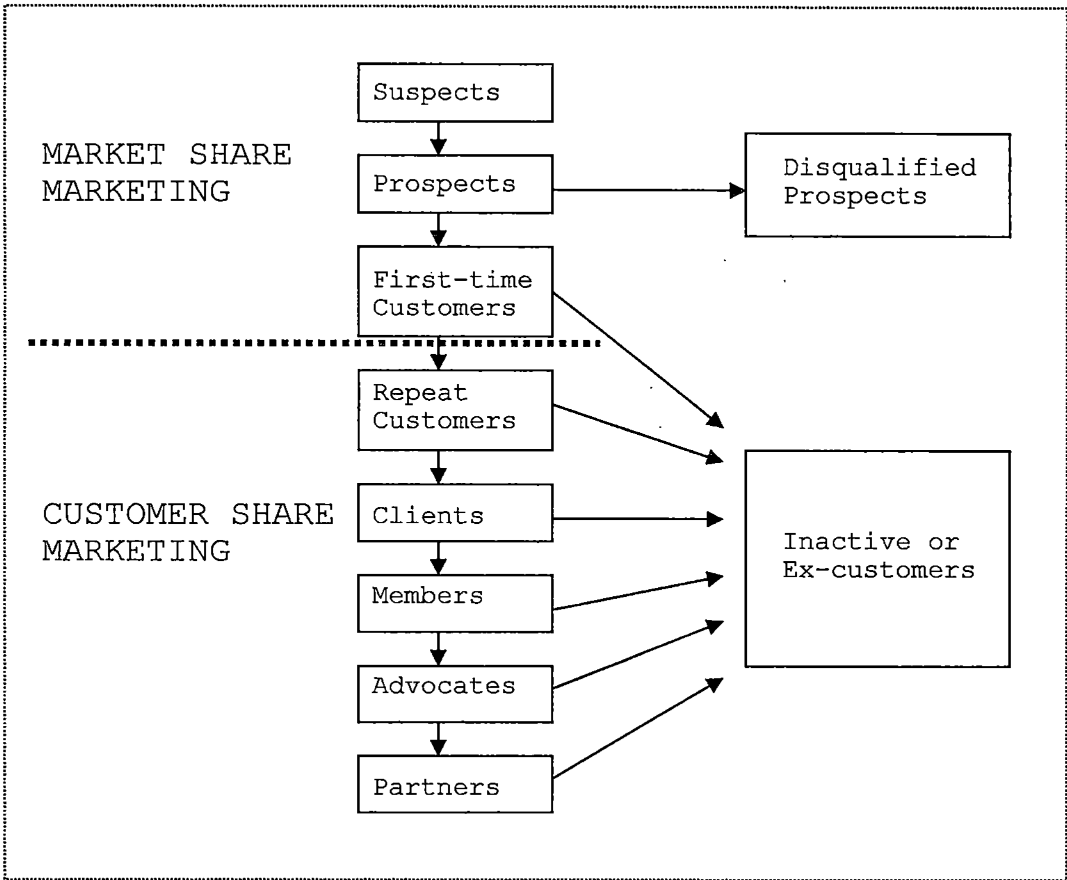

Figure 4. Customer Development Process.

Source: Adapted from Kotler, P. (2001). *A framework for marketing management*. New Jersey: Prentice Hall, Inc., p.29

Figure 4 shows main steps in the customer development process. A company spends considerable time and resources searching for new customers. By utilizing market share marketing, it can use ads, Web pages, direct mail, telemarketing, and personal selling to generate leads and produce a list of suspects, everyone who might conceivably buy the product or service. The company examines suspects to determine its most likely prospects, the people who have strong potential interest and ability to pay for the product. Disqualified prospects are those the company rejects because they have poor credit or would be unprofitable. The company initiates sales activities to convert many qualified prospects into first-time customers.

At this point, a marketing focus will shift to customer share marketing. The purpose is to retain first-time customers and turn them to repeat customers. Once the company acts to convert repeat customers into clients, customers whom the company treats very specially, the next challenge is to turn clients into members, by starting a membership program offering benefits to customers who join. The goal is to turn members into advocates who recommend the company and its offering to others. The ultimate challenge is to turn advocates into partners, where the customer and the company work together actively. During the process, some customers may inevitably become inactive or drop out for some reasons such as financial reasons, moves to other locations, or dissatisfaction. Therefore, another challenge is to reactivate those ex-customers. However, Kotler (2001) noted that reactivating ex-customers is easier than finding new customers because the company knows those names and histories.

Differences between market share marketing and customer share marketing include what and how a company manages as well. Peppers (2001) suggested that a company gains market share by managing products while generates customer share by managing customers.

In the early stages where a company uses market share marketing, customers may have little or no knowledge about the company or brand. Strategic decisions, therefore, generally are about marketing-mix: product, price, place, and promotion to convince targets try and buy a product. People have numerous options to buy. For instance, they can buy a personal computer from Dell, Apple, Compaq, or a host of other PC makers. They can buy the novel they choose from an online merchant such as Amazon.com, from large chain booksellers such as Barns and Noble, from book clubs, from local bookstore. They even can borrow the book at their local library and not buy it at all. Walker et al. (2003) noted that "differentiation is why people buy" (p.172). People may buy books from Amazon.com because they know Amazon's selection is enormous, and its one-click ordering takes only a minute. They buy it at the supermarket because it is convenient. They buy it from their local bookseller because they feel good about supporting their local merchant who remembers them and always nice with them.

On the other hand, when the company shifts its focus to customer share marketing, the company manages customers. After customers make the first purchase, customers know and have some experiences with the company and brand. To develop customers to the higher level of customer development process, the company's strategic decisions are to develop more and more deeply into each individual customer's needs to lock the customer in, make the company more valuable to the customer over time, and increase the company's margin with each customer. "The company manages customers by developing each customer relationship, finding products and services for each customer. It also needs to determine how to customize itself to meet each customer's specifications" (Peppers and Rogers, 1998, p.32).

In conclusion, the market share marketing and customer share marketing are necessary to the company growth. A company utilizes both market share marketing and customer share marketing to complement one another in the customer development process. Market share marketing focuses on maximizing the number of customers adopting the company's products or services. The company uses market share strategies, makes decisions on marketing-mix to convert suspects into prospects, and then, customers. Customer share marketing, however, focuses on retaining and growing value of customers. The purpose is to develop customers to the higher level of customer development process. Therefore, the customer share strategies are developing each customer relationship, finding products and services for each customer, and making the company more valuable to them.

CHAPTER FOUR

CUSTOMER SHARE DEVELOPMENT

As described in the last chapter, the role of customer share marketing in the customer development process is converting first-time customers into repeat customers, clients, members, advocates, and, finally, partners. The implications of customer share marketing to marketing management, therefore, embrace all of activities that customer-centered companies undertake to retain and grow their valued customers. This chapter covers details of customer share activities and measurement of their success.

Customer Share Implementation

A company makes decisions in customer share development based on its purposes: retaining customers, or growing value of customers.

Retaining Customers

Traditionally, companies strengthen customer retention by erecting high switching barriers. Customers are less inclined to switch to another supplier when this would involve high capital costs, high search costs, or loss of loyal-customer discounts. However, competitors simply overcome switching barriers by offering lower prices or switching inducements (Kotler, 2001). Customer share-focused companies, on the other hand, strengthen customer retention by delivering high customer satisfaction and creating strong customer loyalty.

Increasing Customer Satisfaction. A company can develop stronger customer satisfaction through three value-adding approaches: adding financial benefits, adding social benefits, and adding structural ties. Berry and Parasuraman (1991) described that two financial benefits a company can use to bond customers more closely are frequency marketing programs and club marketing programs. "Frequency marketing programs reward customers in relation to the amount of money they spend with the company to provide an incentive for customers to spend more" (Osenton, 2002, p.245). Examples are American Airlines offer free mileage credits that customers can use to redeem free air travel. Credit card companies reward their customers with collecting points to refund or redeem for gifts.

A company increases its social bonds with customers by individualizing and personalizing customer relationships. The company distinguishes between customers and clients in order to find ways to turn customers to clients. "Customers may be nameless to the institution; clients can not be nameless. Customers are served as part of the mass or as part of larger segments; clients are served on an individual basis. Customers are served by anyone who happens to be available; clients are served by the professional assigned to them" (Kotler, 2001, p.31)

Adding structural ties involves supplying special equipment or computer linkages to help customers manage their operation such as orders, payroll, and inventory. For example, Coco-Cola Company provides a fountain machine or a refrigerator to business customers who want to sell its products. Milliken & Company provides proprietary software programs, marketing research, sales training, and sales leads to loyal customers (Kotler, 2001).

Strengthen Customer Loyalty. The task of creating strong customer loyalty is called relationship marketing. Kotler (2001) distinguished five levels of investment in customer relationship building:

- Simply selling the product.
- Selling the product and encouraging customers to offer questions, comments, or complaints.

- Following up after the sale to see whether the product meets expectations and to ask for improvement suggestions and any specific disappointments.
- Contacting customers periodically with suggestions about improved product uses or helpful new products.
- Working continuously with customers to find ways to perform better.

The likely level of investment depends on the number of customers and profit margin level. For example, Campbell Soup is not going to call all customers to express appreciation. What the company does is sending e-newsletters to permitted customers. The customers receive suggestions about a variety of product usage in form of copy of Meal-mail attached with a recipe of the day. Each recipe of the day involves using one or more Campbell Soup products as part of the recipe. Each Meal-mail also includes links to the company's Web site, where customers can view other featured recipes or search for specific recipes. However, in markets with few customers and high profit margins, most companies will move toward partnership marketing. Boeing, for example, works closely with American Airlines in designing Boeing airplanes that fully satisfy American's requirements.

Growing Value of Customers

Customer-driven companies "build customer share by offering a larger variety of products or services to their existing customers and by training employees in up-selling and cross-selling" (Kotler, 2001). A company can convince customers to spend more amount of money by providing better quality of products and services, encouraging a wide variety of uses, and implementing marketing programs such as rewards programs that motivate customers to spend more money on the company's products or services. The number of purchases can be raised by simplifying repeated purchasing. For example, several banks offer online banking to help their customers to simplify paying bills. Instead of connecting to several Web sites of companies to pay each bill, they simply connect only to the bank's Web site and pay all those bills. This service drives customers to visit the bank's Web site more often, and opens an opportunity for the bank to promote some other services. Moreover, many companies raise the number of purchases by initiating marketing activities that motivate customers to shop more often such as frequent buyer programs. The company decreases retention costs by targeting its programs only to profitable customers (MVC's and MGC's), and eliminating unprofitable customers (BZ's). In addition, a company should improve salesforce performance and consider effective marketing tools. Lengthening customer lifetime involves strengthening the relationship with the customer and increasing customer loyalty. Many companies adopt Customer Relationship Management (CRM) to control a way of collecting and using existing customer data to create direct marketing programs to the customer.

Traditionally, a company grows its business with current customers by using market penetration strategy and/or product development strategy (Walker et al., 2003; Peppers, 2001). In customer-driven companies, these strategies can be applied to grow customer share. However, instead of targeting to the mass of prospects and current users, customer share marketing targets those strategies to a company's existing customers.

Market Penetration. This strategy typically requires actions such as making product or service improvements, cutting costs and prices. Additional growth may be possible by encouraging customers to become more loyal and concentrate on their purchases, use more of the product or service, use it more often, or use it in new ways.

Amazon.com, for example, formed alliances with Web portals, affinity groups, and improved warehouses and order fulfillment activities to expand its share of Web shoppers. Amazon also tried to create needs with customer by recommending some other products to customers based on their order history. Customers' information was kept; they did not need to give to the company again and again. Therefore, the repurchasing process became easier for customers. As a result, by the year 2000 more than three-quarters of the firm's sales were coming from repeated customers (Walker et al., 2003). Other examples include museums that sponsor special exhibitions to encourage patrons to make repeated visits, and the recipes that Quaker Oats includes on the package to tempt customers to include oatmeal as an ingredient in other foods, such as cookies and desserts.

Product Development. This strategy emphasizes on the introduction of product-line extensions or new product or service offerings. A company develops an idea to add a new product line or improve its products by asking customers; what else they are buying and what else they want, to see if they could get from the company either products that the company already offer or the one that the company could develop. The company may co-develop new idea with the customers to ensure a new product will meet their expectation (*Bulletpoint*, 2002).

In summary, a company retains and grows customers by satisfying customers with value-added products and services, developing relationship with its valued customers to create loyalty and convert customers into clients, members, advocates, and partners. Moreover, it offers customers a larger variety of products or services and trains employees in up-selling and cross-selling. Activities of each task are summarized in Table 1.

Table 1. Activities to Promote Customer Share

MARKETING FOCUS	MARKETING ACTIVITIES
Increase customer satisfaction	• Increase attention to quality control • Continue product modification and improvement efforts to increase customer benefit • Initiate marketing activities such as frequent buyer program, club member program • Increase salesforce's servicing; consider formation of national and

	key account representatives to major customers; consider replacing independent manufacturer's representatives with company salespeople where appropriate. • Expand postsale service capabilities; develop customer service hotline or website. • Strengthen relationship with major customers
Strengthen loyalty, building relationship	• Initiate touch points with customers • Establish a direct connection with customers from multiple directions • Encourage customers to offer questions, comments, or complaints. • Follow up after the sale to see whether the product meets expectations and to ask for improvement suggestions and any specific disappointments. • Contacting customer periodically with

	suggestions about improved product uses or helpful new products. • Work continuously with customers to find ways to perform better.
Encourage and simplify repeated purchasing	• Expand production capacity in advance of increasing demand to avoid stockouts. • Improving inventory control and logistics systems to reduce delivery times. • Strengthen relationship with strongest distributors/dealers • Consider negotiating long-term requirements contracts with major customers. • Consider developing automatic reorder systems or logistical alliances.
Increase frequency of use	• Move storage of product closer to the point of end use by offering additional package sizes or designs. • Encourage larger volume purchases:

	offer quantity discounts, offer customer promotions to stimulate volume purchases or more frequent use.
Encourage a wider variety of uses	• Develop line extensions suitable for additional uses or applications. • Develop and promote new uses, applications, or recipes for the basic product. • Encourage new uses through sales promotions
Focus salesforce efforts on attaining repeat purchases	• Increase salesforce's servicing; consider formation of national and key account representatives to major customers; consider replacing independent manufacturer's representatives with company salespeople where appropriate. • Reorganize salesforces into specialized groups focused on major industries or user segments; assign key account representatives, or

	cross-functional account teams to service largest customers.

Source: Adapted from Walker, O., Boyd, H., Mullins, J.,& Larreche, J. (2003). *Marketing strategy: A decision-focused approach*. New York: McGraw-Hill Companies,Inc; Osenton, T. (2002). *Customer share marketing*. New Jersey: Prentice Hall PTR.; Kotler, P. (2001). *A framework for marketing management*. New Jersey: Prentice Hall, Inc.

Success Measurements

A review of the literature found that a company can measure the success of customer share implementations by;

- using customer spending ratio approach or
- using customer lifetime value approach

Customer Spending Ratio Approach

As mentioned previously, "customer share is the ratio of a customer's purchases of a particular category of products and services from supplier X to the customer's total purchases of that category of products or services from all suppliers" (Peppers and Rogers, qtd.in Verhoef, 2003, p.30). Therefore, the company's customer share increases when the rate of customer spending with a company increases and exceeds the increasing rate of total spending with all suppliers (see Table 2).

Table 2. Customer Share Calculation

SPENDING ($)	MAY	JUNE	PERCENT CHANGE
X Department store	100	230	130
Y Department store	150	120	(20)
Z Department store	100	120	20
Total	350	470	34
CUSTOMER SHARE (%)			PERCENT CHANGE RATIO
X Department store	29 (100/350)	49 (230/470)	130 :34
Y Department store	42 (150/350)	25.5 (120/470)	(20):34
Z Department store	29 (100/350)	25.5 (120/470)	20:34
Total	100	100	

Table 2 shows Miss A's spending at department stores: X, Y, and Z in May and June, and Miss A's share for each department store. X Department store's customer share increases as Miss A spent more money in June in a bigger proportion (130 percent) than the increasing rate of total spending (34 percent). Y Department store's customer share decreases because Miss A spent less money in June than she did in May. Z Department store's customer share, on the other hand, decreases. Although Miss A spent more money in

June than she did in May, the increasing rate at Z Department store (20 percent) is less than the increasing rate of total spending (34 percent).

Customer Lifetime Value Approach

This approach measures the success of customer share activities by comparing value of customers before and after implementing the activities. Refer to Figure 1, customer lifetime value can be calculated by computing the average net revenue by multiplying four quantities together; average sale, number of purchases per year, expected length of staying as the customer, and average percentage of profit, then, subtracting acquisition costs and total retention costs for all purchases.

In conclusion, a company can grow its customer share by using customer spending ratio approach or customer lifetime value approach. Purposes of both approaches are similar; convincing existing customers to buy more amount of money, and more often. Methods to promote customer buying include product development, product line extension, marketing activities such as rewards programs, frequent buyer programs. However, the customer lifetime value approach pays more attention to retention costs and customer relationship to lengthen a period of time customer stays as a customer.

Companies that use the customer lifetime value approach, then, tend to adopt CRM initiatives, and membership programs. The success of customer share programs, therefore, can be measure by comparing customer spending ratio or customer lifetime value before and after implement the programs.

CHAPTER FIVE

METHOD AND RESULTS

Method

An analysis of how companies utilize customer share marketing determines how much companies actually focus on their customer share development, and identifies some factors that are associated with successful customer share strategy.

The analysis is done by selecting sample companies. Selected companies included big and small companies. The big companies are leaders in their markets; small companies are selected from the 100 hot growth companies listed by *Business Week* magazine, published in June 7, 2004 issue. Those sample companies are;

1. General Motors (GM): the world's and U.S.'s leader manufacture in the automotive industry.
2. Amazon.com: the top online retailer and the top online book firm, according to *Market Share Reporter*, 2003.
3. Alaska Air Group, Inc.: the industry's pioneer in the application of computer technology, according to the *Industry Surveys: Airlines*, 2003., and the top of customer satisfaction with 11 major airlines in 2001,

according to the *Airline Quality Rating*, published annually by the University of Nebraska Omaha Aviation Institute and the School of Business at Wichita State University.

4. PetMed Express, Inc.: the first list of the hot growth companies with average sales increases of 102.2 percent and average profit increases of 173.9 percent from the year 2000 to 2003.
5. Universal Technical Institute, Inc. (UTI): the second list of the hot growth companies with average sales increases of 29.1 percent and average profit increases of 1,242.9 percent from the year 2000 to 2003.
6. Chico's FAS, Inc.: the eighth list of the hot growth companies with average sales increases of 43.3 percent and average profit increases of 52.9 percent from the year 2000 to 2003.
7. Panera Bread Company: the 30th list of the hot growth companies with average sales increases of 33.5 percent and average profit increases of 64.8 percent from the year 2000 to 2003.

Next, collecting data of how sample companies acquire and retain their customers. Then, use the data to analyze through the customer development process.

Results

The following tables show summarized results of how sample companies utilize market share (see table 3) and customer share strategies (see Table 4).

Table 3. Results: Market Share Strategies

STRATEGIES	C	O	M	P	A	N	Y
	1	2	3	4	5	6	7
Expand offering; line extensions to appeal to multiple segments.	X	X				X	
Expand offering; item extensions to increase occasions of use.	X	X	X	X	X	X	X
Additional product development limited to improvements or modifications to increase appeal to target segment.	X	X			X		X
Optional feature pricing to appeal to multiple segments.	X		X	X		X	X
Extended credit terms to encourage initial purchases.	X			X			
Expand geographic distribution • A company owned	X		X		X	X	X

• Franchising/licensing	X					X	X
Increase channel of sales							
• Internet, fax, phone, catalog			X			X	X
• Affiliate program		X	X	X			
Advertising to generate awareness among suspects and prospects; broad use of mass media.	X	X	X	X	X	X	X
Support community events, trade shows to generate awareness among suspects and prospects.	X		X		X		X
Extensive salesforce efforts; use incentives to encourage new product sales.	X				X	X	
Extensive introductory sales promotions to induce trial (sampling, couponing, quantity discounts).				X			X
Offer free trial, liberal return, or extended warranty policies to reduce perceived	X			X			

risk of adopting the new product.							

Table 3 summarizes how sample companies use market share strategies to generate their new customers.

Mass-market companies such as GM, Amazon.com, and Chico's FAS, use market development strategies such as expanding their offerings to appeal to multiple target segments. GM offers several lines of cars and trucks including sedan, coupe, sport, sport utility vehicle (SUV), pick-up truck, and mini vans. As consumers are more interested in SUV, the company develops Chevrolet Tahoe, a full-size SUV; Cadillac Escalada, a premium luxury SUV. Amazon.com entered the market in 1994 as an online bookstore. Now, it also offers variety of products, such as CDs, DVDs, videos, toys, tools, electronics, home furnishings, apparel, and many more. Chico's FAS designs and produces fashionable clothes, and sell them through Chico's and Chico's outlet stores targeting primarily middle-to high-income women ages 25 to 40. Now, the company introduces a new concept store, called Pazo. Pazo sells American and European boutiques targeting women ages 25 to 35. The company differentiates two stores' styles and materials to appeal different market segments.

Product development strategies are used to appeal target segments. The strategies include expanding product or service offerings, developing or modifying products or services. The 2004 models of all eight brands of GM comprise with five models of two-door coupes, 16 four-door sedans, six sport-convertible cars, nine pick-ups, nine minivans, and 19 SUVs. Amazon.com claims itself as the Earth's biggest bookstore with over 20 subject-browsing areas and a catalog of 2.5 million titles on the World Wide Web. In 1999, Alaska Airlines scheduled air service to 36 cities in the U.S. and Mexico. Today, it expands its services to 80 cities covering the U.S., Canada, and Mexico. It also extends its hour of operation by offering early morning and late evening flights, and offering frequent departures. PetMed Express offers prescription and non-prescription pets medications. It also sells health and nutritional supplements, gifts, and accessories for cats and dogs. UTI provides undergraduate degree and certificate programs of automotive, motorcycle, and marine and watercraft technician training. It expands program offerings with additional courses, manufacturer elective and advance level training programs for sponsors such as Ford, Jaguar, Audi, Toyota, Porsche, and Volkswagen. Chico's casual wear includes tops, pants, shorts, skirts, and dresses. Now, Chico's is introducing jewelry, handbags, belts, watches, as well as shoes. Clothes were made primarily from natural fabrics such as cotton, linen, silk. However, the company selects higher quality material for special collections such as wrinkle-free for most traveler collections. Panera Bread offers made-to-order sandwiches, bread, bagels, and pastries. The café expands its lines of products by including soups, salads, and gourmet coffees in its menu. Moreover, it offers dipping sauces, oil, salad dressings, and whole-bean coffee under the Panera brand as well.

Some companies use optional feature pricing strategy to appeal multiple segments. GM sets standard prices for main products, and additional prices for optional features and services. Alaska Airlines offers three fare options on each flight: economy, business, and first class. To target more specific segment, it differentiates the prices of each destination based on schedule as well. For example, prices of early morning or late evening flights are cheaper than morning or afternoon flights. Prices of some Tuesday and Wednesday flights are cheaper than others. PetMed Express offers broad price range of products to appeal multiple segments. For example, prices of shampoo for dogs start from $5.99 for Vet Solution Oatmeal and Aloe shampoo, $7.99 for waterless shampoo, $8.59 for tearless shampoo. The prices increase to $21.99 for Malaseb shampoo.

Companies which offer high-involvement products or services utilize promotional price strategies such as offering incentives and extending credit term. GM offers zero percent financing for 60 months term for some models to stimulate demand, and extends payment term from 36 months to 72 months to increase customer affordability. UTI offers financial aids, scholarships, and student's loan to motivate students to enroll in a program.

Expanding distribution channel includes increasing physical stores and adding types of channel. Companies increase stores geographically both by companies owned and selling their licenses. Companies which focus on selling products via the Internet such as Amazon.com, PetMed Express, and Alaska Airlines incorporate affiliate program to increase their sales.

In general, companies communicate to mass people through mass media to increase awareness among consumers. A study found that they also integrate their advertising strategies with others. GM joins major auto shows, offers one day test drive to create trial, and offers aggressive incentive such as zero percent financing, cash back, and waiving down payment to encourage new product sales. Alaska Airlines, UTI, and Panera Bread support community events. Panera Bread also participates in charitable events such as Operation Dough Nation and Dough For Funds, teams up with Viking Culinary Arts Center and the Chopping Block to provide cooking classes which, in turn, promote its brand, products and recipes. Moreover, Panera Bread coordinates Meal Makeover Contest targeting to officers. Participants join the contest by explaining about the worst lunch experience they had in the entry form. The company rewards a sole winner every week for one year with a Panera lunch box that can serve ten people. The contest not only benefits the company by increasing brand awareness, but the company also receives feedbacks about unmet needs of consumers. Based on these feedbacks, the company can improve its products or services to meet those needs. PetMed Express encourages larger volume purchases by offering free shipping service and quantity discount. Customers who purchase products for $39 or more will receive free shipping service; those who purchase $100 or more will receive $5 discount, and those who purchase $150 or more will receive $10 discount.

Table 4. Results: Customer Share Strategies

STRATEGIES	C	O	M	P	A	N	Y
	1	2	3	4	5	6	7
Increase attention to quality control.	X	X	X	X	X	X	X
Continue product improvement to increase customer benefits.	X	X	X	X	X	X	X
Initiate activities such as rewards program, membership program.			X			X	
Increase salesforce's servicing; formulate key account representatives.							
Expand post-sales service capabilities (Hot line, Web site).	X	X	X		X	X	X
Establish a direct connection with customers from multiple directions (newsletter, e-	X			X	X		X

newsletter, email, telephone).							
Encourage customers to offer questions, comments, or complaints.			X		X		
Follow up after the sale to see whether the product meets expectations and ask for improvement suggestions.			X		X		
Simplify repeated purchasing process.	X	X		X	X		X
Develop line extension suitable for additional uses.				X	X	X	X
Focus salesforce efforts on attaining repeat purchases.							
Prioritize marketing efforts to customers who bring the most profit; reward customers differently based on their values.			X				

Companies are graduating customers from market share marketing to customer share marketing by implementing strategies to increase customer satisfaction and loyalty, strengthen relationship with valuable customers, simplify repeated purchase process, encourage larger volume purchases, encourage frequency of use. However, to gain the most profitability, the companies prioritize their marketing efforts to customers who bring the most profit; reward customers differently based on their value.

The study of how sample companies implement customer share marketing found that;

In general, companies increase customer satisfaction among existing customers by giving more attention to quality control, continuous improving product to increase customer benefits, as well as expanding post-sales service capabilities. GM creates a Web-based GM Owner center for customers who want to personalize their service. For example, by providing vehicle information and driving patterns to the company, customers will receive recall notices, E-mail service reminders, online service and maintenance records, as well as exclusive privileges and offers. Alaska Airlines rewards customers with mileage points for every purchase. Chico's FAS gives special discounts to its permanent members. However, none of sample companies consider increasing salesforce's servicing such as formulate key account representatives.

Companies strengthen relationships with their customers. They take advantage of advanced technologies to establish a direct connection with customers. GM sends email reminders for maintenance services to customers. PetMed Express and Panera Bread send e-newsletters to update their product offerings and promotions. However, only Alaska Airlines and UTI that strengthen loyalty and deepen relationship with customers by encourage them to offer questions, comments, or complaints. They also follow up after the sales to ensure that their products or services meet expectations and ask for improvement suggestions. Alaska Airlines implements these strategies in form of informal meeting between a management team and its gold members. UTI students evaluate their classes and professors to see whether the class offerings meet their expectations.

Companies try to simplify a repeat purchasing process to increase frequency of purchase. GM sends email reminders for next maintenance services to customers who join GM Owner Center. Because GM Owner Center is a Web-based tool, the customer vehicle's information also link to authorized service centers. Therefore, it would be easier for a service center to check up customers' vehicles. Amazon.com and PetMed Express, which sell product online, store customers' personal information such as credit card number and shipping address. Therefore, existing customers will simplify and shorten their ordering time. UTI students can register online. Panera Bread sells Panera card which customers can use as cash to buy products. The card benefits both customers and the company by reducing purchasing time.

However, the study found that none of these companies focus salesforce efforts on attaining repeat purchases. The efforts such as commissions and incentives were primarily used for gaining market share.

Moreover, only Alaska Airlines prioritize its marketing efforts to customers who bring the most profit. The company reward customers differently based on their values. Gold members, passengers who had flown 45,000 miles or 60 flight segments on Alaska are the most valuable customers for the company. The company then rewards them with exclusive offerings. Gold member would receive an additional 100 percent bonus on actual miles flown, first class upgrades every 5,000 miles, free board room membership, and an additional 25,000 miles when they had flown 100,000 miles. Passengers who use self-service check-in are the most growable customers of the company because they help the company decrease operation costs. Therefore, the company gives them more mileage rewards than customers who do not use self-service check-in. The customers could receive a total of 1,000 miles every time they went through the entire self-service process; 250 miles for booking a ticket on the web, 250 miles for using an electronic ticket, and 500 miles for using an Instant Travel airport check-in kiosk.

CHAPTER SIX

FINDINGS

The Customer Share Implications to Marketing Management

The study of sample companies found that;

First, most companies place more focus on market share marketing to acquire new customers than customer share marketing. The companies' customer share strategies are blurred. These companies retain their customers by continuous improving their products and/or services, simplifying repurchasing process, and adding financial benefits in order to satisfy their customers. However, the companies do not give enough attention to deepen relationship with their customers. Therefore, the customers stay with the companies as repeat customers or clients, but they were not developed toward members, advocates, and partners. That means the relationships between the companies and customers are somewhat weak. If their competitors are able to satisfy their customers either equal to or more than the companies, the customers may easily switch to their competitors.

Moreover, most companies apply same strategies to all customers. First-time customers and repeat customers are treated similarly. A new customer and an old one buy products at the same price and same promotion with the same way. Moreover, most valuable customers, most growable, customers, and below zero customers are not clear identified, and are treated similarly as well. Therefore, customers are not motivated to purchase more or develop to next stages of customer development process. However, a customer-oriented company such as Alaska Airline Group, Inc. rewards its customers differently. A general customer receives mileage points depended on the amount of miles he or she flies. An E-ticket customer and a customer who uses self-service check-in kiosk are considered more profitable customers because they help the company to decrease operation costs. These customers will get more rewards: additional mileage points. Gold members, the most valuable customers, receive the most rewards: more additional mileage points, and special treatment. These rewards motivate general customers to purchase tickets online and use self-service check-in kiosk, as well as motivate members to upgrade into gold members making the company maximize its profitability.

Second, technology played important roles to simplify purchasing and repurchasing processes, and to strengthen relationship with customers. For example, GM developed a web-based center, GM owner Center, to personalized services to individual customers. GM also uses its wireless communication network for direct communication to strengthen its relationship with customers. Amazon.com developed a information system to enhance its ability to store and manage customers data; and an operational system to simplify searching and purchasing processes. Alaska Airline used advanced technologies such as self-service check-in kiosks in order to enhance operational performance. PetMed Express and Panera Bread use the Internet technology to regularly send e-newsletters to their customers.

Key Success Factors

Factors that are associated with successful customer share marketing include:

Relationship between a Buyer and a Seller

The relationship between a company and its customers involves continuous communication and interaction. Refer to *Information Technology & People* (2000), "if the relationship between a buyer and seller is short-lived, a buyer may choose to buy (or not to buy) from a particular seller" (p.144). For example, after customers purchase products from Amazon.com, they are then free to choose any other seller in the future. GM's customers do not need to contact the car dealer or manufacture once a week or a month. They can change oil or maintain their vehicle with different service station. Conversely, the relationship between UTI and students is stronger and closer. Once students register into a program, they need to register every term until they finish the program. They even reapply for an advance program.

A company that has short or weak relationship with its customers tends to enhance the relationship by trying to contact customers regularly or more frequently. For example, Panera Bread, and PetMed Express send retention e-mail to customers. Amazon.com, and GM create personalized services to sustain a relationship with their customers.

Ability to Fulfill Customer Expectation

Companies tried very hard to meet the expectation of first-time customers. For example, Panera Bread implements Meal Makeover Contest in order to learn the unmet needs of its prospects and use that information to improve its products and services. GM provides optional pricing and promotion strategies to response to customers' affordability.

However, the customers' expectation may change after they become existing customers. A customer-oriented company updates its customers' expectation by regularly contacting and checking customers' feedbacks. For example, Alaska Airline management team always has lunch with its gold members to survey the customer feedbacks about the airline's services.

Privileged Benefits

If benefits that companies provide to each level of customers are not different, customers may not intend to upgrade themselves to the next level. The companies which are able to determine differences among their repurchase customers, clients, and members will be able to differentiate strategies and develop customers to the next level. UTI and Alaska Airline are able to develop their customers to deeper relationship level. UTI students get different financial benefits based on their performances. Alaska Airline gives more rewards to Gold members than regular customers.

What to Offer

To successfully grow current customers, a company should ensure that what the company offers is something the customer is actually interested in. Since the Alaska Airline' mileage points can be used to redeem only for the air ticket, travelers who rarely fly might not be interested in applying for an Alaska credit card. On the other hand, GM's OnStar members who are concern about road assistance would rather pay $16-95 for Safe and Sound Plan of OnStar service in order to drive confidently.

CHAPTER SEVEN

CONCLUSION

Customer share strategy is a marketing strategy designed to increase the amount of business each customer does with the company. It focuses on growing business with existing customers rather than a new one. Since the company resources are limited and all customers' worth are not equal, it would be more productive to differentiate customers and do business with them individually. A company can differentiate its customers by scoring customers valuation. Customer valuation requires the company to evaluate past data and learn which customers purchased recently, which customers purchased frequently, and which customers spent the most money, in hopes that the company can forecast future purchase potential and make sure time and resources are spent only on its best customers. One method to measure value of customer is customer lifetime value (LTV), the profit that the company makes over the lifetime of the customer relationship.

A company utilizes customer share marketing to complement its market share marketing. Market share marketing focuses on maximizing the number of customers adopting the company's products or services. The company uses market share strategies, makes decisions on marketing-mix to convert suspects into prospects, and then, first-time customers. Customer share marketing, however, focuses on retaining and growing value of the customers. The purpose is to maximize a company's profitability.

A company retains and grows customers by satisfying customers with value-added products and services, enhancing relationship with its valued customers by developing them into the higher level of customer development process in order to create loyalty and convert the customers into clients, members, advocates, and partners. Moreover, the company convinces customer to spend more by offering a larger variety of products or services and training employees in up-selling and cross-selling. Methods to promote customer buying include product development, product line extension, marketing activities such as rewards programs, frequent buyer programs. Success of customer share programs can be measured by comparing customer spending ratio or customer lifetime value before and after implement the programs.

Factors that are associated with the success of customer share strategy include relationship between buyer and seller, ability to fulfill each customer expectation, ability to make customer feel privileged, and what to offer. Successful companies try to strengthen their relationship with their customers and raise their switching cost in order to increase customers' loyalty, and keep them longer. An initial sale must be able to fulfill customers' expectations for the next purchase. However, the customers' expectation may change over time or when the customers move to the next level of customer development process, it is important for the company to update the expectations and ensure that the company's offering meets those expectations. The company can successfully make its customer feel privileged by determining differences among each step of customer development process, then differentiate strategies and develop customers to the next level. Last, the add-on sales will occur if the companies offer products or services in which their customers are really interested or concern about.

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