Will Profit per Customer Increase Each Year?

Do customers become more valuable over time?

In this exercise, you consider whether a customer is likely to increase their relationship with a firm over time, by evaluating likelihood of them progressing through a relationship life-cycle path.

A Smart Phone Customer

Let's consider the possible relationship life-cycle path of an average customer of a phone company, which also markets a range of home Internet and entertainment products. Your task here is to evaluate whether this progression is likely or rare for most customers.

INITIAL PURCHASE

- Customer connects their smart phone with the phone carrier

INCREASED PURCHASES

- Over time, customer becomes a heavy-user of the phone
- Six months later, customer connects home internet
- 12 months later, customer gets an online TV at home (via their phone carrier

REDUCED COSTS

- After a few months, customer knows service and never phones the call center
- They now get statements/bills online (no direct mail costs)
- And they now also pay bills automatically from their bank account

REFERRALS

- Over time customer starts acting as an opinion leader and refers 2-3 people per year to the firm

PREMIUM PRICING

- Two years later, customer stays with the firm, despite a 5% price increase, as they are happy with the service and relationship

Student Discussion Questions

1. How likely do you think it is the average customer to progress through the various stages as outlined above? (Assess each step on a scale of: most customers, some customers, or only a few customers.)
2. Given your answer to Q1, do you think that the customer lifetime value calculation should include an allowance for an increase in customer profit per year?
3. Given the possible progression outline, how important do you think it is the firms to market/cross sell products to their existing customers or will these changes simply happen automatically?
4. Which of the above options and progressions do you think would be most profitable for the firm?