

Abstract

This paper focuses on the significance of creating value proposition for the customer and maintaining the glorious long term association. The purpose of a business is to create and keep a customer. If a business successfully creates and keeps customers in a cost-effective way, it will make a profit while continuing to survive and thrive. If, for any reason, a business fails to attract or sustain a sufficient number of customers, it will experience losses. Too many losses will lead to the demise of the enterprise. Hence creating the bundle of value for the customer and retaining the customers is of utmost importance as the brand image of the company gets enhanced.

Changing the economic characteristics of the product, a market, or an industry – by creating utility, or pricing, or adaptation to the customer's social and economic reality, truly represents the value to the customer. As always, a satisfied customer is a happy customer and will be loyal.

1. Introduction

The purpose of a business is to create and keep a customer. The two most important words to keep in mind in developing a successful customer base are Positioning and Differentiation. Differentiation refers to your ability to separate yourself and your product or service from that of your competitors. And it is the key to building and maintaining a competitive advantage.

This is the advantage that you and your company have over your competitors in the same marketplace – the unique and special benefits that no one else can give your customer. Value in one's product or service should be and almost always is defined on customers' terms. It is a matter of perception. If your product or service is perceived by the customer as having value then that perception will result in a purchase. Customer value may also arise from having used the product consistently with satisfactory results.

Customer value is its estimate of the products overall capacity to satisfy his needs. Of note, is that today's consumers are much more educated and informed due to the power of the internet. As such, they will tend to purchase products they feel are worth the cost needed to obtain such product. Consumers tend to know exactly what they want to purchase and will not waste time with unsuitable products.

It is important to have something unique that is not readily available anywhere else. This will make your product perceived as very profitable. A higher price would thus be favorable. In their quest to communicate information about products and services sales professionals often oversell and overlook the customer's needs. Consequently, the solution presented becomes unsuitable and of little value to the customer.



2. Objective

- To identify the causes responsible for the value creation of customer services and to know why the Customer value is the synonym of long term association with customer.
- To understand the difference between customer delivered value and actual customer value
- To explore how delivered value is the framework for retaining customers.

3. Methodology

The chi square significance model is used in the research design. Sample size is of 2000 customers randomly taken in NCR region. The mode of sampling is convenience random sampling. The primary research mode is made through Questionnaire and observation. The secondary sources include the information provided by official website and published reports.

Over 35 years ago Peter Drucker observed that a company's first task is to create customer. But today's customers face a vast array of product and brand choices. We believe that customers estimate which offer will deliver the most value. They form an expectation of value and act on it. Whether or not the offer lives up to value expectation affects customer's satisfaction and their repurchase probability.

Our premise is that buyers will buy from the firm that they perceive to offer the highest customer delivered value.

Customer delivered value is the difference between total customer value and total customer cost. Total customer value is the bundle of benefits customer expect from product or service.

Total customer cost is the bundle of cost customers expect to incur in using the product or service.

4. Data Analysis

How do we measure customer value?

Total customer value comprises product value, service value, personnel value and image value. Total customer cost comprises monetary cost, time cost, energy cost, psychic cost.

$$\text{Customer delivered value} = \text{Total Customer Value} - \text{Total Customer Cost}$$

	ABC (\$)	XYZ(\$)
Product Value	15000	15000
Service Value	3000	3000
Personnel Value	1000	1000
Image Value	1000	1000
TOTAL CUSTOMER VALUE(TCV)	20000	20000
Monetary Cost	13000	11000
Time Cost	1000	1000
Energy Cost	1000	1000
Psychic Cost	1000	1000
TOTAL CUSTOMER COST(TCC)	16000	14000
CUSTOMER DELIVERED VALUE= TCV-TCC	4000	6000

ABC delivered value is less than XYZ. It means the lower company sets the price the more is the delivered value. The delivered value maximization is one useful framework for attracting and retaining the customers.

5. Causes of Customer Value

1. Customer Satisfaction:

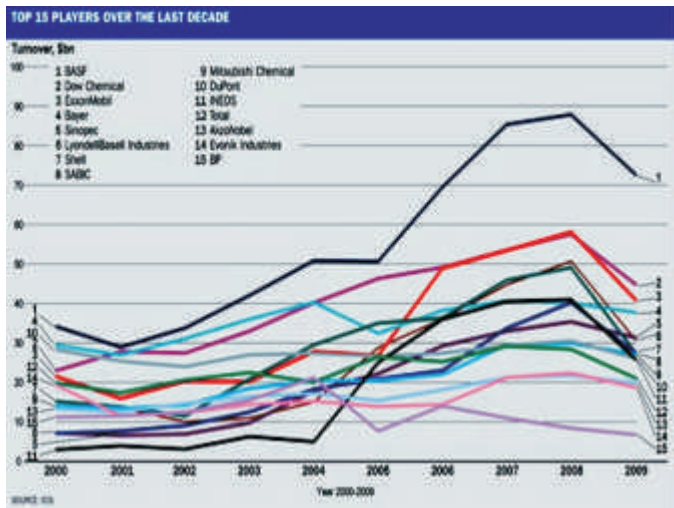
Sustaining customers is possible by giving high satisfaction to the customer. Today's most successful companies aim for total customer satisfaction.

2. Group approach Strategy

Why do some companies achieve sustained high growth in both revenues and profits? In a five-year study of high-growth companies and their less successful competitors, researchers found that the answer lies in the way each group approach strategy.

3. Proper quality measures and management system

Enable the company to have maximum retention.



4. Reduction in defection rate

High growth companies focus on customer defection rate and take steps to reduce it. The steps include:

- (i) The company must define and measure its retention rate
- (ii) The company must distinguish the causes of customer attrition and identify those that can be managed better.
- (iii) The company needs to estimate how much profit it loses when it loses customers. For instance the company had 64000 accounts; the company had lost 5% of its accounts this year due to poor service. This was a loss of 3200 accounts. The average loss account represented \$ 40000 loss in revenue. Therefore the company lost \$128000000 this year. The profit margin is 10% so company lost \$12800000
- (iv) The company needs to figure out how much it would cost to reduce defection rate. As long as the cost is less than the lost profit, the company should spend time and reduce the defection rate.



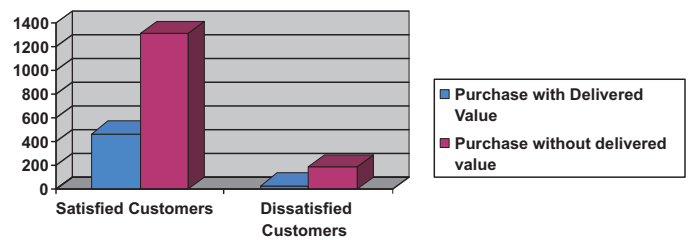
Bogomolova and Romaniuk (2009) surveyed 765 business-owners who canceled their electronic funds transfer services with an Australian bank, and found that 57 percent of the cancelations were for reasons outside the control of the bank. Sharp (2010) includes several examples of products and services for which some customers defect for reasons that the firm could never reasonably prevent.

5. Retention Strategy

It is five times more profitable to spend your marketing dollars to retain the customers that you have than to use the dollars to beat the bushes for new customers. customer retention strategies include

- customer education of products purchased
- saving customers who indicate that they no longer want the product/service
- rewarding and recognizing customers for their ongoing business
- Optimizing customer needs by helping them to change to the appropriate products/services as the customer's needs change.

The following analysis shows that customer delivered value is the basis of customer satisfaction.



The cost of attracting a new customer is estimated to be five times the cost of keeping the current customer happy. Traditionally marketing mix helps in creating the customer but retaining the customers is the need of hour today.

The table below shows the group of mixed buyers who choose the offer with delivered value and the buyers who choose offer without delivered value. (Chi square significance is used)

	Dissatisfied	Satisfied	Total
Purchase with delivered value	31	469	500
Purchase without delivered value	185	1315	1500
Total	216	1784	2000

We test the 'purchase with delivered value is not enough to satisfy the dissatisfied customers'.

Let us take the hypothesis that 'customers purchase without the consideration of the delivered value'. On the basis of this hypothesis, the expected frequency corresponding to number of persons

- A. Purchase with delivered value
- B. Dissatisfaction

$$\text{Expectation (AB)} = \frac{500 * 216}{2000} = 54$$

We can write the expected values as

	Dissatisfied : A	Satisfied : b	Total
Purchase with delivered value: A	(AB)=54	(Ab)=446	500
Purchase without delivered value : a	(aB)=162	(ab)=1338	1500
Total	216	1784	2000

Calculation of Chi-square:

Group	Observed Frequency	Expected Frequency	(Oij-Eij)	(Oij - Eij) ²	(Oij - Eij) ² /Eij
AB	31	54	-23	529	9.796
Ab	469	446	+23	529	1.186
aB	158	162	+23	529	3.265
ab	1315	1338	-23	529	.395

$$\chi^2 = \sum (O_{ij} - E_{ij})^2 / E_{ij} = 14.642$$

$$\text{Degree of freedom} = (r-1)(c-1) = (2-1)(2-1) = 1$$

The chi-square for 1 degree freedom at 5% level of significance is 3.841 and calculated value of chi-square is much higher than this table value. Hence the result does not support the hypothesis.

We can conclude that the purchase with delivered value can lead to satisfied customers.

6. Findings

- It is necessary to compute the defection rate of goods/service delivery and reduce the same for increasing the loyal customers.
- There exist a linkage between marketing mix elements and organizational capabilities and internal networks within the organization in a changing environment.
- For long- term strategic perspectives for the organization, developing customer relationships is necessary before planning any kind of CRM initiative.
- It is necessary to know the behavioral aspects of customer and how they can be used to build relationship with the brand. The marketing mix is primary requirement but in today's competitive scenario relationship marketing and retention are significant and indispensable elements.
- The chi-square non parametric measures used in the above research has enunciated the fact that it is the delivered value which customer expect while making the purchase and sustaining that value throughout is essential for any company.
- The chart shows that the customers who are dissatisfied tend to purchase the product because of brand image as well as the service image. The value generation should be complete in all respect.
- The above graph shows that satisfied customers sometimes ignore the delivered value while purchasing because of brand loyalty.
- Dissatisfied Customers also purchase goods due to good behaviors of sales personnel.

7. Conclusion

Piercy has rightly said that marketing is a set of management activities that define, create and deliver value to the customers.

According to Kotler the value creation and delivery has three phases first value choosing. i.e. STP (segmentation, targeting, positioning). Secondly value providing through product development, offering and distributing and serving. Finally to value communicating through sales force, advertising.

Conclusively today's increasingly competitive global markets, building customer loyalty and retaining profitable customers is a critical component in any company's success.

8. References

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