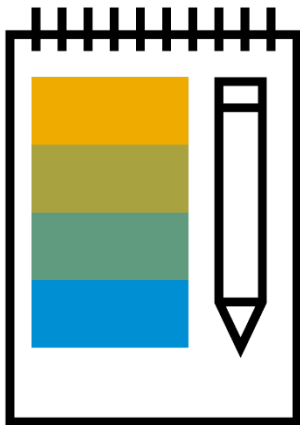


Introduction to Customer Relationship Management (CRM) in the Cloud

Prof. Dr. Carsten H. Hahn SAP SE and University of Applied Sciences, Karlsruhe

Part 3/3, June 25, 2021

Agenda



Chapter 1: Motivation to become a Cloud Provider

Chapter 2: Introducing the Cloud Business Application “SAP Business ByDesign”

Chapter 3: Customer Relationship Management and Leads and Opportunity Management

Chapter 4: Customer Lifetime Value (CLV)

Customer Relationship Management

MOTIVATION: CUSTOMER VALUE MANAGEMENT

Customer Value Management rests on the idea of allocating resources differently to different customers.

The basis of this differential resource allocation is the economic value of the customer to the firm.

Thus, before one can start to manage customers, one must have a thorough understanding of how to compute the value contribution each customer makes to a firm

Customer Relationship Management

CUSTOMER PROFITABILITY - DEFINITION

Definition of **Customer Profitability**:

Customer Profitability is the sum of the revenue a company **has achieved** with the customer in a **defined time frame** minus the costs, including the direct costs of the product or service plus the acquisition costs of the customer.

Example:

Revenue over the last 5 years:	5000 USD (1000 USD/year)
Direct costs over the last 5 years:	2500 USD (500 USD/year)
Acquisition costs of the customers:	500 USD (one time effort in year 1)
Customer Profitability	2000 USD

→ **Past-oriented metric**

Customer Relationship Management

CUSTOMER LIFETIME VALUE - DEFINITION

Definition of **Customer Lifetime Value (CLV)**:

Customer Lifetime Value is the **dollar value** of a customer relationship based on the **present value** of the **projected future cash flows** from the relationship.

The present value of the projected future cash flows is simply **the amount of profit/loss you expect** to make from a particular customer over time (calculated in today's dollars).

Therefore, in this definition of customer lifetime value, CLV is defined as a single dollar amount that measures the potential profit/loss of a customer to a firm or brand.

→ **Future-oriented metric**

Customer Relationship Management

CUSTOMER LIFETIME VALUE - CALCULATION

Simple calculation of CLV:

Annual profit contribution per customer multiplied with average number of years that they remain a customer less the initial cost of customer acquisition

An example of the simple CLV formula

Let's assume the following:

- Profit generated by the customer each year = \$1,000
- Number of years that they are a customer of the brand = 5 years
- Cost to acquire the customer = \$2,000

The CLV of this customer would be:

\$1,000 (annual profit from the customer) X
5 (number of years that they are a customer) less
\$2,000 (acquisition cost) = \$3,000 = CLV.

$$\text{CLV} = \$1,000 \times 5 - \$2,000 = \$3,000$$

Comprehensive calculation of CLV: See CLV Excel Sheet in Infotools

Customer Relationship Management

CUSTOMER LIFETIME VALUE (CLV) – KEY POINTS

The key points to note are:

- CLV is calculated as a **single dollar number**,
- CLV summarizes **future total revenue and costs** related to a customer over time,
- CLV provides a net **profit/loss summary** of the customer's total relationship with the firm,
- It is calculated on **per customer basis**, or more usually on the average value for a customer within a particular market segment,
- CLV is usually considered to be a very important marketing metric, because of the **range of the marketing objectives** it measures within a single number.

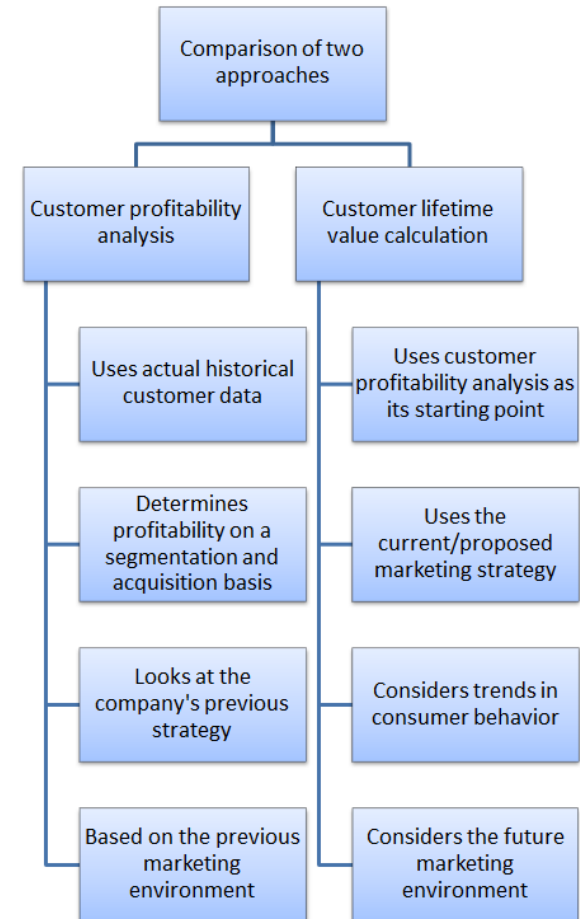
Customer Relationship Management

CUSTOMER PROFITABILITY VERSUS CUSTOMER LIFETIME VALUE

To make a very simple distinction between Customer Profitability and Customer Lifetime Value:

Customer Profitability looks at the **past** (and the previous marketing environment and the previous marketing programs of the firm), whereas

Customer Lifetime Value looks at the **future** marketplace in conjunction with the proposed marketing programs of the firm



Exercise 4.2 – Session 4 Customer Lifetime Value Calculation

THE EXERCISE CAN BE FOUND IN CLV EXCEL SHEET

Literature

KUMAR, REINARTZ, "CUSTOMER RELATIONSHIP MANAGEMENT", 2018, SECOND EDITION, SPRINGER.

FARRIS ET AL., "MARKETING METRICS: THE DEFINITIVE GUIDE TO MEASURING MARKETING PERFORMANCE", 2010.