Antonella Angelini

THE VALUE OF THE CUSTOMER RELATIONSHIP

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To my husband Ludovico
and my sons Lorenzo and Davide

Contents

Preface

The challenge that companies have to face today in their markets is particularly complicated. In fact, in the last decades many changes have made it more difficult to remain competitive on the market(s), such as market globalization, digital revolution, emergence of the Internet and e-commerce, increased competition and increased customer demand for progressively customized products/services that are "suitable" to their needs and tastes. These are just some of the major changes that have partly altered the way some companies do business, some of which have necessarily started an internationalization process to enrich and/or increase the competitiveness of their approach and/or initiated partnerships with other companies/organizations to jointly develop new solutions to offer to the market, carrying out innovation and research efforts in a collaborative and synergistic way. Another particular important solution is the strengthening of the relationship with stakeholders, in particular, with customers, in order to deepen the level of knowledge of the latter and allow the design and implementation of differentiated and valuable solutions.

It is in this context that relational marketing was established. Relational marketing refers to "all marketing activities directed towards establishing, developing and maintaining successful relational exchanges" (Morgan, Hunt, 1994, p. 22). The Company-Customer relationship is of particular importance in the context of relationship marketing. The strengthening and enhancement of this relationship is now made easier, thanks to the use of technology and the Internet. However, it requires the adoption of a preliminary strategic orientation at the centre of which is placed the customer and his ultimate satisfaction and an adequate internal organization of human resources, processes and several business functions. Furthermore, the attention of companies must not be confined to the achievement of high levels of customer satisfaction since, even if they are essential, they do not guarantee the achievement of certain profitability targets. What is clear today, is that companies need to know their customers in depth, not only regarding their tastes, preferences and needs, but also regarding their contribution to the generation of business value.

This is essential to set different marketing actions that are calibrated based on the importance of the customer, current and prospective. These actions should enable the initiatives undertaken to achieve high levels of effectiveness and efficiency and an improvement in profits and market performance, also visible at the Enterprise Value level.

The purpose of this book is to clarify the transition from the paradigm of transactional marketing to that of relational marketing, focusing on a particular type of relationship, that between the Company and Customers. To strengthen this relationship over time and make it particularly attractive and useful to both parties, the use of Customer Relationship Management (CRM) systems is becoming more popular with strategic management of customer relationships, involving the appropriate use of technology (Frow and Payne, 2009, Berry, 1983), and recently, the social CRM with the growing popularity and use of the Internet. These topics will also be examined in depth, given their particular usefulness in the process of creating, improving and strengthening the relationship between the company and the customer. Finally, in the third and last chapter, the link between Customer satisfaction, Customer loyalty, Customer value and Enterprise Value will be clarified. In fact, initiatives aimed at positively impacting customer loyalty require, in our opinion, to be included within the "package of actions" aimed at increasing corporate value over time. Being the latter the ultimate goal of *profit oriented* companies, we understand the strategic importance they assume, albeit within a complex and articulated strategic and operational plan at the centre of which the customer and his utmost satisfaction are placed over time.

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Pisa, 9 February 2018

Chapter I
The relationship as an intangible resource

1.1. Introduction

Within the Marketing discipline, the issue of managing the relationship between the company and its customers and, in general, with the various stakeholders, has always been considered an important element in achieving business success. However, over the decades, this context of analysis has undergone some changes. With regard to the company-customer relationship, the role of customers is enriched, and its co-production capacity has grown, following the digital revolution that affected all sectors of the economy. In the service sectors, it is particularly evident as a consequence of its characteristics (Intangibility, Heterogeneity, Inseparability, Perishability) that there is often the need for an interaction between customers and employees during the process of service delivery. Consumers take part in this process, they must be informed and educated to create significant benefits for both parties. In other words, the relationship must be well managed to produce the desirable positive effects. Otherwise, the benefits sought will not be acquired and both parties will have a disappointing experience. The relationship is an important intangible resource of the company, which must be considered part of the company's global resources, so that it can be managed synergistically and strategically. In addition, the Resource-based theory suggests that it is possible to achieve and maintain a competitive advantage by leveraging the specific features of the company that relate primarily to intangible assets. Therefore, the creation of long-term economic value is linked to the increase of such type of resource. Thus, a continuous increase of resources can enable the company to maintain its market position and achieve a good economic performance, even in a critical economic situation as the current one. Companies' efforts should be directed towards this first step in order to enhance the competitive advantage. In this chapter, the relationship will be introduced as an important intangible asset in the set of resources and capabilities of enterprises. As a consequence, to the growing importance of the relationship for commercial success, a shift from transactional to relationship marketing occurred. The benefits of this change end up being numerous and significant, but it is necessary to manage its aspects in the best possible way to achieve the desired goals. All these topics will be presented and discussed in this first chapter.

1.2. Tangible, Intangible and Human resources

Growing competition in the increasingly globalized and digitized market requires clear strategic planning and a correct choice of resources and skills by companies. In the past, key resources were mostly physical assets or financial capital. In recent years, intangible resource played a critical role to achieve a competitive advantage position (Itami, 1987; McGaughey, 2002). After all, intangible resources [1] have some characteristics that allow companies to acquire these important results as they are unique, irreplaceable, tacit in nature and synergistic (Barney, 1991; Treece *et al.*, 1997). Tangible resources are easier to identify, and their value is available in the company's balance sheet. However, it should be highlighted that the book value of these resources does not give any relevant information for strategic purposes. Additional information should be added to understand their potential to create a competitive advantage (Grant R.M, 2010). In addition, in order to identify interventions aimed at creating additional value from them, it is necessary to consider existing opportunities to enter the

[1] Within intangible assets it is possible to distinguish c.d. Invisible asset. Itami noted that the information gathered by the company is the center of invisible resources, as well as the channels through which it is possible to achieve such accumulation. H. Itami, Invisible Resources, GEA ISEDI, Petrini Publisher, 1988. The main features of invisible resources are summarized in the following: sedimentality, uniqueness, difficult acquisition, multiplicity of use, transferability, perishability, incrementability and difficult copyability, although there are discordant opinions on the latter point. For further information, Vicari S. (1989) "Invisible asset" and incremental behavior, Finance, Marketing and Production, n. 1. R.P. Rumelt (1991), How much does industry matter?, Strategic Marketing Journal, n. 3.

market and make better use of existing resources. The goal is to use the least amount of resources to achieve the highest level of efficiency and at the same time, the turnover targets, profitability, market share, customer satisfaction, etc. In many companies the value associated with intangible resources is substantially higher than that of tangible, although not identified in the company's balance sheet. These resources therefore, have a high strategic importance in order to generate business value and reach competitive advantage. Reputation, Relationship, Skills, Knowledge and Technology are examples of strategic intangible assets. A brand is a way to express the company's reputation. The brand allows the company to differentiate their products/services in the market and influence the value of their corporate assets. The brand is part of these assets, belonging to the ones "capable of a process of continuous reproduction and self-feeding" (Vicari S., 1995). In addition to tangible and intangible resources, it is possible to identify the category of human resources. The aptitudes and skills possessed by employees are fundamental to generate business value. Psychological and social characteristics of employees (D. Goleman, 1995) and organizational culture are also important for achieving this goal. The latter has been defined as a high value resource, one of great strategic importance (Barney, 1986). Generally, the resources can be classified in three main categories: tangible, intangible and human (Figure 1.1). These resources must be properly organized with the use of organizational competence, that is, "the ability of an enterprise to allocate resources to achieve a desired goal" (Helfat, Lieberman, 2002). With the proper strategy, defined by considering critical success factors, management can promote the company to a position of competitive advantage. According to the Resource-Based View (RBV), the reasons for competitive advantage must be sought in the possession and availability (not necessarily the property) of resources, endowed with specific characteristics (Wernerfelt, 1984, 1994; Prahalad e Hamel, 1990). In this sense, intangible assets play a critical role. In particular, intangible assets related to Marketing appear to be important to achieve the following competitive advantages: associate the corporate image with the company name and its different brands, customer portfolio, product portfolio, sales networks and licenses [2].

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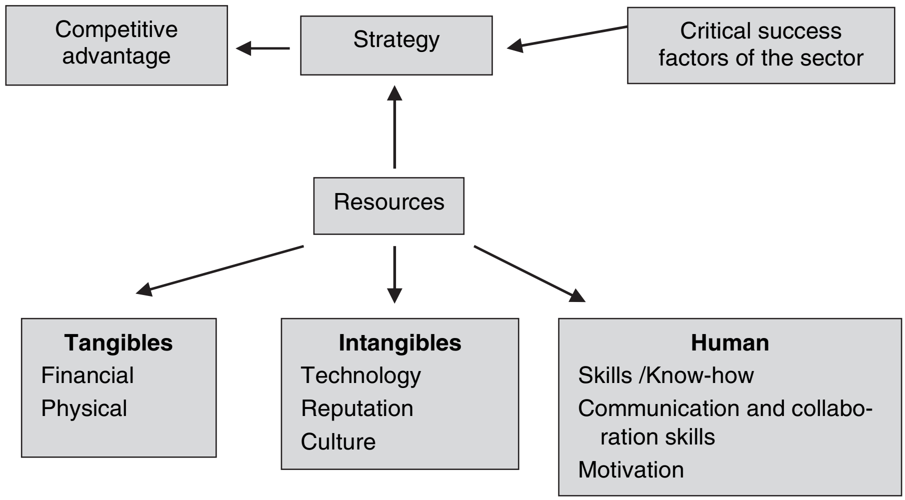
[2] This finding has been made based on critical success factors and competitive differentials of the company that have three fundamental characteristics (G. Brugger). These factors:

1. are subject to significant investment flows;
2. produce considerable differential economic benefits;
3. are transferable.

Figure 1.1 – Resources, competences and competitive advantage



Source: Adapted from Grant R.M. (2016), Contemporary strategy analysis 9/e, Chichester (UK), John Wiley & Sons Ltd.

More details on Brand Equity, Image, Identity and Reputation are listed below, while the value of relationships will be deepened in the rest of the volume.

This latter requirement allows you to avoid the risk of making mistakes of duplications, overlaps, but also omissions. Only the intangible asset that can be surrendered "extracting it from the company in which it is formed" (L. Guatri) can be qualified as "intangible" if the other two characteristics mentioned above also exist. Brugger G. (1989), La valutazione dei beni immateriali legati al marketing ed alla tecnologia, Finanza Marketing e Produzione, n. 1. Guatri L. (1989), Il differenziale fantasma: i beni immateriali nella determinazione del reddito e nella valutazione delle imprese, Finanza, Marketing e Produzione, n. 1.

1.2.1. Brand equity

In the field of intangible assets [3] related to Marketing [4], the brand plays a leading role as is able to significantly affect the process of maintaining and increasing the value of the company's assets [5].

Companies that adopt a brand policy must consider the underlying factors of brand value. By leveraging on them, it is possible to produce additional value and capture all the potential tied to the brand. In this regard, the creation of brand equity is "a function of the knowledge and trust resources that the company has and accumulates [6] over time.

Brand equity is the value added by the brand name to a product that does not have the brand name (Farquhar, 1989; Keller, 1993; Sriram *et al.*, 2007). A more comprehensive definition of brand equity, is the value of the brand originating from high levels of brand loyalty, perceived quality, name awareness and strong brand associations, as well as assets such as trademarks, patents and distribution channels associated with the brand (Kotler and Keller, 2012; Aaker, 1991; cf. Sinclair and Keller, 2014). Aaker (1991, p. 15) also described brand equity as "a set of brand assets and liabilities linked to a brand, its name and symbol that add or subtract from the value provided by a product or service to a company and/or its customers". Instead, Srinivasan *et al.* (2005) defined brand equity as the brand's annual incremental contribution when compared to a

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[3] It has been noted that it is difficult to draw a clear line between intangible assets. Guatri L. (1989), Il differenziale fantasma: i beni immateriali nella determinazione del reddito e nella valutazione delle imprese, *Finanza marketing e produzione*, n. 1. For this reason, it is believed that it is appropriate to limit to one or a few intangible resources, to express, albeit briefly, the intangible assets of a company.

[4] "Valuable" intangible assets have been reclassified into the following categories:
– intangible assets related to marketing;
– intangible assets related to technology knowledge and skills

Guatri L. (1997), Il valore di mercato dei beni immateriali riguardanti il marketing: la valutazione dei marchi non corre più all'impazzata? *La valutazione delle aziende* n. 5.

[5] Corporate assets are a "set of assets that the company uses for its operation", S. Vicari (1995), *Verso il Resource-Based Management*, in S. Vicari (a cura di), *Brand equity, il potenziale generativo della fiducia*, EGEA, Milano.

[6] S. Vicari (1993), Risorse aziendali e funzionamento d'impresa, *Finanza Marketing e Produzione* n. 3. The company's cognitive system has set its own work on competence and trusted resources. The former has been broken down into technological, market and integrative competencies, while the latter have been classified into internal and external and, in the latter, in vertical or lateral trust resources. S. Vicari, G. Verona, La generazione del vantaggio competitivo. Recenti sviluppi e nuove implicazioni per il Resource-based management, *Finanza Marketing e Produzione*, n. 2/2000.

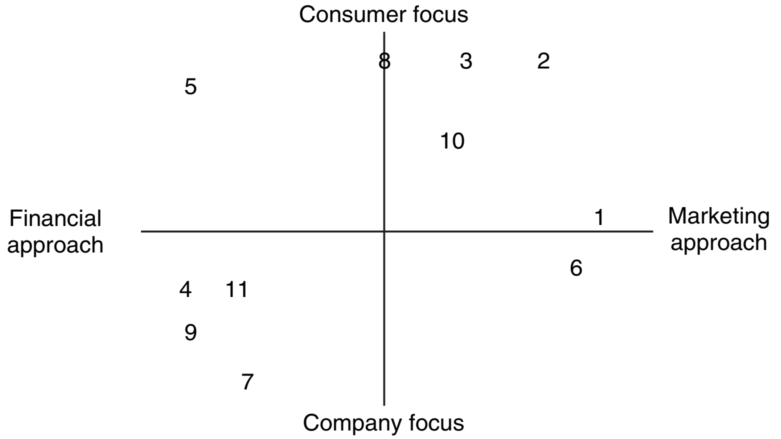
base product. The brand equity describes the asset created by the marketing department of the company, which will "drive future cash flows from the sales of that brand" (Ambler *et al.* (2002, p. 23). Furthermore, the "brand equity" terminology notes that a brand is an asset that can be bought or sold for a certain price (Aaker *et al.*, 2004; Sinclair and Keller, 2014; Spielmann, 2014). Thus, the brand generates value if properly managed, which can take on a significant relevance in Merger & Acquisition's operations.

The definitions of brand equity mentioned above, are based on different points of view. It is possible to adopt a Marketing or Financial approach and focus on the Consumer or the Company (Figure 1.2). Nevertheless, the brand with high reputation produces benefits for the company and its customers, but requires investments and the correct use of Marketing tools by the company. In addition, management must acquire accurate information to target the audience and monitor the decision that consumers attribute to the brand, without neglecting social networks and the virtual environment.

Therefore, the brand value quantification process should not be conducted by the enterprise only in M&A operations, but carried out regularly, to verify whether the investments made are producing the expected results in terms of brand-value growth as a result of the enhancements made on brand-image, customer loyalty and relationship with the brand. To "fully" exploit the creation potential of the brand, the company must embrace actions to enhance its brand equity. This does not mean exploiting the results attained, but rather "feeding, on a long-term basis, the first source of intangible assets intrinsic to the brand" [7], allowing therefore, continuous self-production and supply of resources underlying the value of brand equity. This approach is the only one consistent with the medium and long-term growth target of the intangible asset of the "brand" and the company in general.

[7] B. Busacca, G. Verona, La difesa e lo sviluppo della marca, *Economia & Management* n. 6/95.

Figure 1.2 – **Conceptual matrix of brand equity**



Sources: 1 – Farquhar (1898); 2 – Aaker (1991); 3 – Keller (1993); 4 – Simon and Sullivan (1993); 5 – Kamakura and Russell (1993); 6 – Yoo *et al.* (2000); 7 – Ailawadi *et al.* (2003); 8 – Srinivasan *et al.* (2005); 9 – Ambler (2008); 10 – Keller and Lehmann (2003, 2006); 11 – Raggio and Leone (2009).

Source: from Davcik N.S. *et al.* (2015).

However, the trust relationship mentioned above should portray not only the relationship between the company and its customers, but also the relationship between the company and its stakeholders. In this way, the brand is more likely to have another brand (new, unknown or for which the level of confidence is lower) to obtain better conditions in the relationship with external parties.

In this regard, the benefits associated with the brand by consumer goods and branded industrial products, were included in 4 categories (Busacca, Verona, 1995):

1. Trade-leverage: ease of access to distribution, better product exposure, lower distribution margins, greater distribution capillarity;
2. Competitive differentiation: reduction of competitive intensity, higher sales volumes, premium price application, image creation exploitable in new competitive environments;
3. Potential relationship with consumers and financiers: improving relations with consumers and lenders while increasing customer loyalty;
4. Potential relationship with distributors: awareness and relationship enhancement.

These are significant advantages, which can only be "obtained" by marketing-oriented businesses after considerable financial, timely and organizational efforts[8].

[8] B. Busacca, G. Verona, "*La brand equity nella prospettiva delle imprese*" in S. Vicari

Therefore, these benefits are linked to a higher quality of relationship with stakeholders, mostly with distributors, customers and financiers. A relationship that generates the effects mentioned, allows firms to differentiated themselves from competitors and obtain better conditions within distribution channels and the banking system in general. In fact, a strong brand is required by the distributor as it increases the degree of attractiveness of the point of sale and can help to increase his turnover. As for the banking system, it expresses a lower perceived risk linked to the ability of the firms to produce certain levels of cash flow in time and have the opportunity to pay on time due debts on maturity. It also affects the relationship with customers because it increases trust and generates positive consequences on the strength and length of the relationship itself.

These considerations lead to determine that during the purchasing process, trust tends to replace information, "proving itself to be an alternative to them[9].

Therefore, it is clear that by increasing customer loyalty and confidence, the company can increase revenue and business profitability. Moreover, companies that have invested a lot on brand and achieved a high reputation, generate great value, which may represent a significant part of the sales value in the case of M&A operations. Table 1.1 shows the Best Global Brands 2016 ranking the top 10 positions.

Table 1.1 – Ranking of Best Global Brands 2016

Positions	Brand	Brand value	Δ %
1	Apple	178,119	+5%
2	Google	133,252	+11%
3	Coca-Cola	73,102	-7%
4	Microsoft	72,795	+8%
5	Toyota	53,580	+9%
6	IBM	52,500	-19%
7	Samsung	51,808	+14%
8	Amazon	50,338	+33%*
9	Mercedes-Benz	43,490	+18%
10	GE	43,130	+2%

Note: Brand value is calculated as the Net Present Value of the future profits generated by the brand.

Source: Interbrand.

(a cura di) *Brand Equity* … op. cit.; B. Busacca, G. Verona, La difesa e lo sviluppo della marca, *Economia & Management* n. 6/95.

[9] S. Vicari, *L'impresa vivente. Itinerario di una diversa concezione*, EGEA, Milano 1991.

Brand value can be considered part of reputational assets because is based on the trust customers have towards the brand itself. Management must develop actions to strengthen this reputational asset, which must necessarily include the brand and its stakeholders' relations.

1.2.2. Image, Identity and Reputation

Within the framework of intangible resources there are also Image, Identity and Reputation. Many studies have been conducted on these concepts trying to define the boundaries and formulate a shared definition, considering the relationship between them. The following are some of the most significant contributions in this specific field of research.

- Wartick S. (2002): the author analyzes the relationship between image and identity, stating that the image relates to the perceptions of external stakeholders, while identity refers to perceptions of internal stakeholders. The company's reputation is the result of both, involving both external and internal perceptions, and so it is the aggregation of perceptions of a single stakeholder regarding the degree of satisfaction of the expectations of the various organizational stakeholders.
- Whetten and Mackey (2002): these authors take the point of view, which sees identity, image and reputation as different concepts: they state that identity is what is kept by the members of the company and aims to show the true essence of the company, the values that characterize it and what makes it unique. The corporate image, instead, is treated by the authors as a projection of external stakeholders. The concept of reputation is considered a feedback, which shows if the actions carried out by the company are credible by the stakeholders themselves. It appears therefore, the credibility factor related to that of reputation.
- Chun (2005): this author follows the path traced by the previous authors presenting the concept of image as an external vision of the company by the stakeholders. It also defines reputation as the impression that the internal and external stakeholders have of the company. Unlike the image, reputation is a concept that evolves over a large period of time and above all, cannot be formed without the in-depth direct experience with the company or the products/services offered by it.
- Barnett *et al.* (2006): these authors provide a definition of image as a perception expressed by external stakeholders, which can be influenced by public relations and marketing operations. The concept of identity is found, similarly to the study of Whetten and Mackey, in the founding values of the company, in what the company really is. As for reputation, they believe that

it is identified in the judgment of internal and external stakeholders on the company's financial, social and environmental commitments. From this it is also understood the link with Corporate Social Responsibility. CSR is essentially a business-driven movement, based on voluntary compliance and self-regulation (Zadek, 2001). Over the last few decades, different self-regulation instruments have appeared to help corporations adopt CSR practices. These include social and environmental performance standards and limits, social and environmental management systems, codes of conduct, best practices, instruments for certification and label, transparency guidelines, and sustainable reporting and monitoring (European Commission, 2001). These mechanisms aim to equip the private sector with tools to control and manage their operations to minimize the level of social and environmental risks implied by their activity (Albareda, 2008).

• Walker (2010): Walker takes up the definition of image of Whetten and Mackey, that is, an image as a projection of external stakeholders of the company; he also states that the image is not as stable as reputation, similarly to Chun, leads us to define reputation as a relatively stable aggregate of past actions and prospects of the company compared to certain standards represented by competitors, previous reputation or industry reputation.

From the above it is possible to identify common points which can be summarized as follows:

• reputation, image and identity are three concepts related, but distinct from each other;

• the image is understood as the set of perceptions regarding the company by external stakeholders and can be influenced in the short term;

• identity is found in the company's founding values, in the motivation for which the company was born: all this is "kept" by internal stakeholders.

• reputation is defined as a judgment on the company coming from both external and internal stakeholders. It is a concept tends to be stable over time, albeit subject to change as a result of the events that gradually affect the company over the years, partly influenced by the strategic plan developed and implemented by senior management.

As has been stated so far, reputation is defined as stable by most of the studies on the subject. On the contrary, the image, being influenced in the short term, can be damaged due to the occurrence of crises, to which it is necessary to respond effectively because otherwise the situation can worsen to the point of undermining the reputation.

1.3. From transactional marketing to relational marketing

In the Marketing field, the ability of the firm to relate to customers, and stakeholders, has been valued as an important element for the accomplishment of the company's goals and their success. However, due to the development related to this environment and its activities, the analysis approach has undergone deep changes over the years, shifting from transactional to a relational one. The transactional approach allocates the core of the action in the administration of marketing mix policies. (Borden, 1964). This brought the focus on product development, pricing and the promotion and organization of distribution at points of sale. The turning point was determined by the stagflation caused by the oil crisis in the 70's, which hit the American economy (Perretti, 2010). The limits of the above-mentioned approach, revealed themselves when American companies started to obtain very low revenues while Japanese companies achieved good performances.

The transactional method determined short-term solutions to obtain the desired revenue, preventing the company to innovate and, consequently, to keep over time, a competitive advantage position. In addition, it led to the adoption of imitation and adjustment behaviours related to the external reference environment.(Wind, Robertson 1983; Zeithaml, Zeithmal 1984). In the following years, experts analysed the limits and the possibility of extending the standard marketing paradigm to new applications, with different conclusions. Relational marketing appears in this discussion topic. According to some researches, it is compatible with traditional theory and its basic assumptions, outlining it as a partial review (Borg, 1991). On the other, others defined this approach as completely incompatible with marketing management assumptions (Arndt 1985). The *relationship management approach,* a new tool for that time, started developing in the mid-70's in the service and industrial goods sectors, to be more precise, in sectors where the transactional paradigm found major difficulties. In such competitive situations, it is imperative to recognize the importance and necessity to create stable relationships with "interest-related key groups" (Hokansson, Wootz, 1979), by stipulating long-lasting agreements with clients and suppliers. While this new approach spread out, new Partners started to appear, in addition to the original ones, introduced by McCarthy: people, process, public opinion, physical evidence and political power. The belief in the inability of a purely tactical Marketing to meet an increasingly differentiated, well-informed and dynamic demand, has spread and strengthened. The strategy of the companies started to focus on customers rather than on products. the customer began to play a key role and interact with it in a very personalized way became very important. This led companies to start equipping themselves with appropriate technology and organizational tools. Table 1.2 summarizes the main differences between the two paradigms.

The elements inducing the shift from transactional to relational Marketing can be summarized as follows (Harwood, Garry 2006):

• Not all clients are equally profitable; this assumption is linked to Pareto's law [10], which supports the belief within businesses that 80% of profits originates from 20% of clients. From this, it is clear that these clients are classified as strategic and have the right to specific care (Angelini, 2005), meaning better and more intense relationships/interaction with them;

Table 1.2 – Traditional and Relationship Marketing

	Traditional Marketing	**Relationship Marketing**
Focus	Single sale	Customer retention
Orientation	Product features	Product benefits
Time scale	Short	Long
Service level	Little customer service	High customer service
Commitment	Limited	High
Customer contact	Moderate	High
Quality	Concern for production	Overall concern

Source: Ballantyne *et al.* (2000).

• Keeping clients rather than seeking new ones can turn to be more profitable; the industry had already recognized the importance of customer loyalty due to its contribution to profitability. For these reasons, researchers began to identify and assess the causes and consequences of customer loyalty (Bowen and Shoemaker, 1998; Baloglu, 2002), to generate more customer loyalty.

• For a competitive advantage position, increasing importance is attributed to the Supply Chain Management System, leading to greater openness among buyers and sellers. In addition, competition nowadays, rather than among firms, among business networks (Hassini, 2008). Its global competi-

[10] Pareto's Law is also known as the 20/80 law. It asserts that in any kind of phenomenon, about 20% of the causes determine 80%, or similar percentage, of the effects.

tiveness also depends on the value of the relationships established within the network itself;

- Increased transactions involving products with high added value, inducing strategies aimed at lasting relationships between buyers and suppliers;
- The use of outsourcing is growing and, to accomplish common benefits, it is necessary to establish "co-makership" agreements.

In summary, the core of the theory of relational marketing is the creation of value through exchange processes involving more connected players thanks to the Internet and the development of Information Technology, that allows a simpler, faster and more economical way of interaction.

It is important to emphasize that the studies on Relational Marketing have highlighted the importance and individuality of the customer, emphasizing the importance of a two-way communication that the company is called to activate, and feed with its customers, using, in this regard, the solutions considered most appropriate, among which are the ones taking a fundamental role, using the Internet and, in general, new technologies. The evolution of the relationship between the two parties in question also foresees a change in the logic of communication because if in the early stages of the relationship a planned communication with low levels of interactivity and participation can be sufficient, in the subsequent phases the evolution of the relationship will occur, thanks to the dialogue with which the relationship can be enriched, allowing the parties to acquire new knowledge and produce greater value for both. The dialogue is defined as "an interactive process whereby you learn jointly" (Ballantyne, 2004). The latter finds something new and implies an evolutionary change in the relationship between the parties involved. The consolidation of this relationship depends on the ability of the company to "keep promises" but also to adapt itself over time thanks to the knowledge it acquires thanks to the relational exchanges with the customer. In other words, interaction and dialogue become important sources of information for the company and the client, allowing both to improve the level of mutual knowledge, enabling the company to easily achieve the targets set in terms of customer satisfaction, income and/or market performance, acquisition of inputs to improve and/or innovate the proposal to the market, etc. Relational ability is therefore an important additional element of the offer, capable of creating greater value perceived for the customer. Moreover, what drives a customer to buy a product/service from a given supplier is not only what the company offers but how it relates to the customer.

This situation is of high strategic importance today for the company, so it can stand out from the competition, achieving and maintaining a position of competitive advantage. It is evident that this latter situation requires, among other things, a careful and rigorous analysis of management costs as well as a correct investment and financing policy. In other words, the achievement of high levels of revenue is not in itself sufficient for the generation of a satisfactory operating income. If this level of revenue has indeed been reached with the diseconomies and/or in a less efficient way, compared to competitors, the economic performance will be negatively affected. This is due not so much to problems regarding the ability to meet demand, but to management problems that have exerted negative effects on costs. The result is a compression of economic returns, with negative effects in terms of self-financing capacity and adequate return on the capital invested in the business.

In summary, the approach of relationship marketing sets a fundamental change of paradigm when highlights the empowerment of the customer. It is stated that: “value is created by marketers and customers who participate and contribute to the process and its result” (Grönroos, 2000).

Moreover, the introduction of RM is relevant to large, medium and small size companies (SMEs). Regardless of the size of the company, it’s important for the business success to activate and develop over time, a close interaction with other individuals, such as customers and potential customers (Harwood, Garry 2006). It is important to manage a multitude of personal relationships in a “lifelong learning network” (Kirby, 2003).

1.4. Relationship marketing

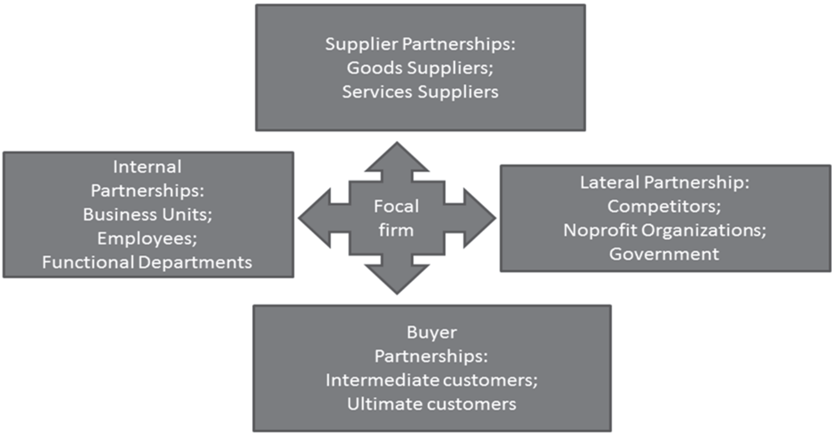
Relationship has gained a central role in the creation of value for companies. As a result, Relationship Marketing, focusing on the optimal management of the business and enhancing the relationship role with stakeholders, emphasizes its potential but also the issues to be addressed.

Relational marketing can be defined as an integrated effort to identify, maintain, and build a network with individual customers, and continuously strengthen the network for the mutual benefit of both sides through interactive, individualized and value added contacts over a long period of time (Shani and Chalasani, 1992).

To achieve important results in terms of competitive advantage and superior financial performance, firms should identify, develop and nurture a relationship portfolio (Madhavaram, Hunt, 2008). This draws the attention to the relational marketing, not only because of the relationship between companies and their customers (e.g. Berry, 1982; Berry, Parasuraman, 1991) but also because of the relationship network (e.g. Gummesson, 1994; Gronroos,

1996) as already mentioned above. In other terms, "relational marketing refers to all marketing activities directed towards establishing, developing and maintaining successful relational exchanges" (Morgan, Hunt, 1994, p. 22) with or without the presence of customers. Furthermore, the authors themselves have identified ten forms of relational marketing with reference to a Focal firm and its relational exchanges with suppliers, lateral, buyer and internal partnerships (Figure 1.3).

Figure 1.3 – Forms of relationship marketing



Source: Adapted from Morgan, Hunt, 1994.

All these forms of relational marketing activities must be managed within a unique and overall strategy (RM Strategy) to generate the maximum value from all the parties involved. Furthermore, this is essential to transform an isolated transaction, which has a "distinct beginning, short duration, and sharp ending by performance" to a relational exchange, which "traces to previous agreements [and] … is longer in duration, reflecting an ongoing process" (Dwyer *et al.*, 1987, p. 13).

To obtain important results from a RM strategy Hunt *et al.* (2006, p. 77) has identified a set of eight types of factors (Figure 1.4).

Figure 1.4 – Factors accounting for relationship marketing success

Source: Adapted by Hunt *et al.*, 2006.

Relational Factors

The relational factor point of view suggests that successful relational marketing is linked to some aspects of relationships that characterize successful relational exchanges. There are several elements that can influence the success of relational exchanges but some of these seem to be particularly critical:

1. Trust (Dwyer *et al.*, 1987; Morgan and Hunt, 1994; Sividas and Dwyer, 2000; Smith and Barclay, 1997; Wilson, 1995).
2. Commitment (Anderson and Weitz, 1992; Day, 1995; Geyskens *et al.*, 1999; Moorman *et al.*, 1992).
3. Cooperation (Anderson and Narus, 1990; Morgan and Hunt, 1994).
4. Keeping promises (Groonroos, 1990, 1994).
5. Shared values (Brashear *et al.*, 2003; Morgan and Hunt, 1994; Yilmaz and Hunt, 2001).
6. Communication (Mohr and Nevin, 1990; Mohr *et al.*, 1996).

Based on the elements above, it seems essential for the success of the relationship that all subjects involved adopt a correct, collaborative, and trustworthy behaviour.

These considerations are important to produce good~~s~~ results. Nowadays, it is a topic of great interest because companies are increasingly looking to become potential business partners for various business' networks and collaborative arrangements (Achrol and Kotler, 1999). Collaborative groups of small – and medium – sized enterprises (SME) may include a variety of relationships, horizontal networks, vertical networks, share of emerging science and technology networks (Tuusjärvi, Möller, 2009). These are generally characterized by flexibility and demand fewer resources than, for example, strategic alliances (Roy, 1998). The conditions of SME cooperation are expected to favour norms as guiding mechanisms, in particular "relational norms" (Nevin, 1995). These norms are based on the reciprocity of interests of the parties. Accordingly, the theoretical research concerning norms, highlights the parties' willingness to create benefits for all, their pursuit of continuity and well-being of the cooperative constellation. However, as the parties usually cooperate to benefit their own companies, this emphasis provides a unilateral view of cooperation. A strong emphasis in relational norms may even contribute to the dissolution of the relationship (Tuusja¨rvi, 2000).

Resource factors

Resources are defined as "any tangible or intangible entity available to enable the firm to produce efficiently and/or effectively and offer desirable value for specific market segment(s)" (Hunt and Morgan, 1995, p. 11). As already mentioned, the Resource-based View (RBV) suggests that a firm has a unique set of tangible and intangible resources growing over time, and these resources explain the performance diversity (Connor, 1991). The RBV states that key resources exhibiting particular characteristics, enable the firm to implement strategies to meet customers' needs, thereby enhancing the firm's ability to secure and sustain its competitive advantage (Clulow V. *et al.*, 2007). Not all these resources have the potential to provide such result. Early supporters of the RBV, identified characteristics of "advantage-creating" resources such as, value, individuality, exclusivity and non-substitutability (Barney, 1991), inimitability, durability, appropriability, substitutability and competitive superiority (Collis and Montgomery, 1995) along with the eight criteria of Amit and Shoemaker (1993): complementarity, scarcity, low tradability, inimitability, limited substitutability, appropriability, durability and overlap with strategic industry factors.

Resources are significantly heterogeneous across firms, and this situation can create the opportunity for the company to achieve better results among its competitors. Every company needs to be equipped with a set of resources that enable it to successfully accomplish its corporate strategies and targets, adding importance to its intangible components.

Competence factors

A competence is "an ability to sustain the coordinated deployment of assets in a way that helps a firm to achieve its goals" (Sanchez *et al.*, 1996, p. 8). Competences play an essential role in enabling companies to use resources efficiently and/or effectively. For this reason, competences represent a logical extension of the resource-based view (Lado *et al.*, 1992; Reed and DeFilippi, 1990). In fact, it is growing increasingly the belief that says that although a competitive advantage can be achieved by luck, a sustainable advantage requires a resource and a competency-based strategy process (Barney, 1986; Mills *et al.*, 2003). Companies must have a long-term idea and manage today the resources and competences that can create value in the future.

Competences have specific characteristics that allow firms to reach a sustainable advantage because they are tacit, complex, and specific to them (Reed and DeFillippi, 1990). This makes it difficult, if not impossible, for competitors to share their competencies, ensuring the continuity of the competitive advantage they have acquired.

Internal marketing factors

Internal market orientation is the process of gathering and disseminating intelligence towards employees' needs and then responding to them (Lings and Greenley, 2005). It's based on the exchanges between managers and employees (Carter and Gray, 2007) and stresses in them marketing beliefs and behaviours (Gounaris, 2006).

Employees must be considered an essential source of knowledge, able to produce effects on customer satisfaction. In the service industry, employees who contact customers play an important role on the perception that customers have of quality (Yang, Coates, 2010) and customer satisfaction s positively and significantly influenced by the satisfaction on these employees (Berry, 1981; Chen *et al.*, 2006). For these reasons, the company must have an internal marketing orientation (Lings, 2004). It creates common vision and shared standards that increase internal expectations of performance (e.g. employee satisfaction). Therefore, the internal marketing explanation of RM-based strategy success, urges marketers to ensure the participation of all employees in developing intra-firm relationships and consequently, promoting relationship marketing success (Hunt *et al.*, 2006). After all, without pleasant and functional internal relationships, external relations with clients will not develop successfully (Groonroos, 2000, p. 330).

Information technology factors

To create a correct marketing strategy and generate value for customers and firms, the manager needs to analyse and coordinate a lot of information. This must be collected, classified and processed so it can be used efficiently and effectively. Moreover, the information (in particular, the most relevant one) must be disseminated to the various departments and, in the most appropriate form, to managers in order to enhance its use (Menon, Varadarajan, 1992, p. 53). To this end, it is essential to adopt an inter-organizational information system and create organizational processes for the use and share of knowledge. This also means a good communication system linked to the inter-organizational information system. In other words, an IT infrastructure facilitates knowledge use and knowledge sharing through better internal communication flow. Therefore, to achieve customer satisfaction, efficiency and market share, it is important to invest a great amount in IT solutions and connect the information structure with the internal communication system. Only if there is a link between the IT structure and the internal communication plan, the manager can quickly find and use the necessary information.

Market offering factors

A strong relationship between 2 parties (for example a retailer and a supplier) can be important for both in terms of innovation capability, flexibility and, thus, competitive advantage. For example, a retailer may create a long-term relationship with a supplier because it allows privileged access to the valuable market offerings of the supplier. On the other hand, the supplier's market offerings can be considered a resource, because these offerings can provide more value to the retailer's customers (Hunt *et al.*, 2006). A long-term relationship based on trust can be used to increase the quality of products/services offered by the firms and individualize market offerings. In this way, firms can have more *chances* to meet the individual needs, provide more value to consumers and occupy marketplace positions of competitive advantage (Hunt, Morgan, 1995). Moreover, innovative solutions (products and services) allow firms to achieve other important goals such as higher profitability, greater participation in internal and external market, opening of new opportunities and achievement of sales and profit targets (Kleinschmidt, Cooper, 1991). The relationship with strategic partners is, therefore, a source of knowledge and an opportunity to improve the market offerings, which is essential to the company's success, especially in a very competitive market like the current one.

Historical factors

A long-term relationship has, by definition, a history that influences the present and the future relationship. So, the inter-firm relationship is influenced by historical factors and these factors include opportunistic behaviour, past relationships benefits, and the build-up of high termination costs (Morgan and Hunt, 1994). As for the latter, a relationship between parties often requires specific investment in resources that could be used in case of break of the collaboration relationship. For this reason, the harder it is to break the relationship, the higher should be the amount of investment. The purpose of the firms is therefore, to monitor the termination cost and, at the same time, minimize opportunistic behaviours distributing benefits in an equitable way (Hunt *et al.*, 2006).

Public policy factors

Relationships, both quantitatively and in content, are to some extent related to rules and regulations. So, changes in these legislative aspects can have significant effects on inter-firm relationships and, the cooperation between the parties. Regulations related to antitrust, property and contracts seem to have been particularly impacted.

For this reason, the public policy definition of successful RM strategies, urge marketers to understand the current status of antitrust, property and contract legislations and use rules that inhibit the adoption and implementation of interactions that are socially beneficial (Hunt *et al.*, 2006).

All the efforts mentioned above are made towards a precise goal: the production and development of value for the firms and the various stakeholders. Focusing on the customer is useful for managing the 4Cs (Table 1.3), emphasizing the customer's point of view, and combining them with the 4Ps, oriented to the company's point of view.

Table 1.3 – Marketing mix: the point of view of firms and customers

4P	4C
Product	Customer
Price	Costs
Point of sales	Convenience
Promotion	Communication

Source: Kotler *et al.*, 2014, p. 77.

The 4Cs model requires the analysis of the following variables:

• **Costumers' needs**: deepen the knowledge of the needs, desires and characteristics of the target to offer products/services that fully meet the customer's expectations. The costumers' needs are mainly used in the launch of new products/services, but also to differentiate a product from its competitors;

• **Cost to the consumer** (monetary and non-monetary): identify the price that the consumer is willing to pay to produce value from the customer point of view. Also, the non-monetary costs are included to have the total consideration of the costs weighing on the customer;

• **Convenience:** select distribution channels that allow the target to access quickly, easily and economically the product/service offered;

• **Communication:** allow customers to understand the value of products/services, using an appropriate communication-channel. Increasingly, this requires the use of online tools and interaction with its customers.

1.5. The moments of interaction between customers and companies

As highlighted before, the main objective sought out by companies with the use of relationship marketing is to build and maintain a faithful customer base that will be profitable for the organization that uses it [11]. Therefore, the focus is on loyalty, even if it means improving the attractiveness of the customer base. Improving the relationship with customers also positively influences the knowledge of the customer base, which means the ability to offer a more personalized service based on specific tastes and preferences of the clients.

In the field of services, relationship management takes on a strategic relevance especially because of the simultaneity between production and consumption which characterizes the offer of services [12]. Effectively, every single relationship represents a moment of truth, that is, a moment of contact between the company and the customer giving the supplier the chance to prove how much the quality of their services is worth [13]. In short, it's possible to say that the service process is made up from a certain number of moments of truth [14], thus highlighting the importance of every single moment of contact between the company and the customer for the formulation of a

[11] Angelini A. (2005), Customer relationship management e customer satisfaction, Franco Angeli, Milano, p. 105.

[12] As well as contextuality services have another four distinct characteristics that are intangibility, variability, inseparability and perishability.

[13] Grőnroos C. (1990), Service Management and Marketing, Lexington Books, Lexington, Ma.

[14] Raimondi M. (2005) Marketing del prodotto-servizio, HOEPLI, Milano, p. 39.

global evaluation regarding the service received. That is, the consequence is that in the service industry, the customer is, by definition, part of the production process [15]. In addition, by adopting service logic and creating customer interactions, companies can provide suppliers with an expanded role in value creation (not just value enhancer). *The suppliers become a co-creator of value with its customers* [16]. The moments of truth shared by companies and customers can imply direct contact between the parties inside the supplier's organization or the contact can take place outside of the organization using technology. To ensure that every moment of truth is managed in a correct way it is important that the company has previously arranged a punctual and coordinated organization of the various activities which involve a contact between customer and company.

If the contact takes place in the supplier's premises, the following will assume a central role: front-line personnel (professionalism, speed of response, competence, etc.), facilities and spaces used by the client whilst using the service (cleanliness, interior design, attention to detail, etc.) and information material, which must be clear and pleasant (regarding, for example, graphics, colours, materials used, etc.).

The purpose of the company in organizing and distributing the information material, is to educate the customer in other words, it acts in advance on the customer, so that when he/she approaches the offer he/she is ready for interaction and most importantly has developed correct expectations regarding the service that he or she is about to try. This is very important in order to reach high levels of satisfaction, which are strictly connected to the existing gap between expected and experienced quality [17].

The information material on the service written and communicated by the company represents one of the possible factors that produce customer expectations. In addition, we can remember the brand image, which is also connected to the communication policies created by the company, Word Of

[15] Wikstrőm S. (1996), Value Creation by Company-Consumer Interaction, Journal of Marketing Management, 12, pp. 359-374.

[16] Grőnroos C. (2008), Service logic revisited: who creates value? And who co-creates? European Business Review, vol. 20, n. 4, pp. 298-314; Grőnroos C. (2000), Service Management and Marketing: A Customer Relationship Approach, 2nd ed., Wiley, Chichester. Payne A.F., Storbacka K., Frow P. (2008) Managing the co-creation value, Journal of the Academy of Marketing Science, vol. 36, n. 1, pp. 83-96.

[17] Cuomo M.T. (2000), La customer satisfaction vantaggio competitivo e creazione di valore, CEDAM, Padova; Fournier S., Glenmick D., Rediscovering Satisfaction (1999), Journal of Marketing, pp. 5-23.

Mouth (WOM), past experiences and customer needs. In services, the word of mouth, i.e. recommendations from other clients, represents a particularly effective way of communication especially if the risk taken in the purchase is high. WOM can even be key in the process of choosing the service [18], taking suggestions and opinions from friends, acquaintances and the so-called expert consumers into special consideration [19]. The actuation of the word of mouth phenomenon is therefore a sought-after objective by service suppliers, and according to some, it represents one of the most important elements for the growth and success of a firm [20]. In the era of the Internet, it is impossible not to take into account the diffusion of information through the web. Viral marketing is now a successful and growing phenomenon. It takes advantage of the connection between existing and potential customers to create trends and behaviours [21]. Through the web, customers can communicate their experience to others, revealing information that will attract, if satisfied, or put off, if dissatisfied, potential customers to the service offered by a specific company [22]. The diffusion of information online increasingly takes place through blogs, which are online journals continuously updated where users can write and modify comments. They are a very important medium of word of mouth because they bring together people who share the same interests [23]. Also "social network" are a continuously growing reality [24]. Through the use of these information-technology instruments, customer experiences and opinions are spread at an exponential rate, much faster than that of tradi-

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[18] Havier S. Bansal e Peter A. Voyer, (2000) Word of Mouth Processes Within a Service Purchase Decision Context, Journal of Service Research, 3, n. 2, pp. 166-177.

[19] Anna S. Mattila, Jochen Wirtz (2002), The Impact of Knowledge Types on the Consumer Search Process – An Investigation in the Context of Credence Services, International Journal of Research in Service Industry Management, 13, n. 3, pp. 214-230.

[20] Frederick F. Reicheld (2003), The One Number You Need to Grow, Harvard Business Review, 81, n. 12, pp. 46-55.

[21] Lovelock C., Wirtz J. (2007), Marketing dei servizi, Pearson, Prentice Hall, p. 217.

[22] Viral marketing is a word of mouth form which stimulates users to pass on companies' products, services, sounds, videos and written information through the internet. Kotler P., Keller K.L. (2010), Marketing in the new millennium, second edition Pearson, PrenticeHall, p.415; Silverman G. (2001), The Secrets of Word-of-Mouth Marketing, New York, Amacom.

[23] Kotler P., Keller K.L. (2010), op. cit, p. 417.

[24] Van Den Bulte C. e Wuyts S. (2007), Social Networks and Marketing, Marketing Science Institute Relevant Knowledge Series, Cambridge, MA.

tional word of mouth, producing sensational effects on company's reputation and prospective results.

Some studies have also stressed that there is a positive link between the level of satisfaction and the extension and content of the word of mouth [25]. Reaching high levels of customer satisfaction, also allows the phenomenon of word of mouth to be exploited in the best possible way, also using the online spread of word of mouth through the web, contributing to the consolidation of the brand and of the company image with unquestionable advantages in terms of loyalty of current customers and attractiveness to potential customers. As previously mentioned, improvement of quality of interaction between company and customer also depends on good staff management, especially in regard to front-line staff. According to some this kind of improvement represent a real strategy which aims to stimulate positive word of mouth, thus generating the above-mentioned effects.

1.6. Costs and benefits of a relationship

A relationship is initiated and developed over time, if both parties receive benefits from it. It has been suggested that companies will commit themselves to establishing, developing and maintaining relationships with partners who provide substantial benefits (Morgan and Hunt, 1994). Focusing the attention on the relationship between firms and customers, it's possible to identify several benefits that customers and firms receive from it. From the customers' point view, these benefits should add value to their service experience beyond the core product (Zineldin, 2006). A study indicates that to enhance customer commitment, companies must focus on providing confidence, social and special treatment. Specifically, service managers must ensure that customers feel secure, that they perceive minimal risk and are comfortable in the service relationship (Dagger T.S *et al.*, 2011). Moreover, it's essential to ensure a long-term relationship to build *trust*. Customers have relationship with a trusted partner because this reduces the risks associated with relational exchange. Trust is associated with a partner's reliability, integrity, and competence and allows the share of values (Morgant, Hunt, 1994). Customers select firms and their proposals considering also the general feeling with the firms in terms of corporate be-

[25] Anderson W.E. (1998), Customer Satisfaction and Word of Mouth, Journal of Service Research, pp. 5-17.

haviour and operating choices. In this regard, corporate social responsibility (CSR) and the commitment of the company to operate in full respect of the rules and rights of the partner may be considered. CSR generally links business decision-making with ethical values, compliance with legal requirements with respect for people, communities and the environment. (Kärnä *et al.*, 2003). The World Business Council for Sustainable Development (WBCSD) defines CSR as "the commitment of businesses to contribute to a sustainable economic development, working with employees, their families, the local community and society to improve the quality of life" (WBCSD, 2000).

Nowadays, Corporate Social Responsibility (CSR) is considered an important goal for companies. It is related to the changes that have affected the environment and the competitive framework, such as globalisation of markets, increasing intensity of competition, rapid technological changes and the shift from an industrial economy to an economy based on knowledge, human capital, information, demographical changes, environmental challenges and changes in value systems and consumer preferences (Kärnä *et al.*, 2003). This new scenario has convinced enterprises to have good relations with various stakeholders to keep them and strengthen them over time. This strategy is considered valid to achieve and maintain a position of competitive advantage and it is also for these reasons, that Relationship Marketing has gained a central role in the discipline of Marketing Management.

For this reason, Vargo and Lusch (2004) have considered relational exchange a contributor to the production of goods and services that are customized to consumers' individual needs, desires, tastes, and preferences. They elaborated a new marketing approach called Service Dominant Logic, differing in a substantial way from Good Dominant Logic (Table 1.4).

Table 1.4 – Main implications of Service Dominant Logic for entrepreneurship

Good dominant logic*	Service dominant logic*	Implications for entrepreneurship**
Goods	Services	To create value for the firm and the customer the focus is on customer benefit rather than product features
Tangible	Intangible	The business proposal is based on customer solution and meaning, rather than a physical asset
Standardization ***	Personalization ***	With the correct interaction between the company and the customer the offer can be adapted and personalized to maximize satisfaction and loyalty, starting the word of mouth phenomenon
Value added	Value proposition	The customer is an important part of opportunity, discovery and assessment. The value is co-created with the customer
Propaganda	Conversation	The company aims to adopt a bi-directional communication with its various stakeholders
Transactional	Relational	Firm and customer engage i[illegible]ic and sturdy relationship. Systems of Customer Relationship Management are required and used in a strategic way
Operand resources	Operant resources	The attention is on dynamic knowledge resources that transform rather than static resources that require action to create value
Retention ***	Loyalty ***	The purpose is to increase customer loyalty through the transition from behavioural loyalty to satisfaction, trust and cognitive loyalty
Profit	Business value	If the business value increases, it means that the customer is getting what he wants and needs

* Kasouf J.C., Darroch J., Hultman M.C., Miles P.M (2009) adapted from Lusch *et al.* (2006).

** Kasouf J.C., Darroch J., Hultman M.C., Miles P.M (2009) adapted from Shane and Venkataraman (2000).

*** Our consideration Angelini A. (2011).

They have noted consumers engaging in relational exchanges with firms interested in customizing offerings. Moreover, "the consumer is always a co-producer, and (the firms) strive to maximize consumer involvement in the customization to better fit his or her needs" (Vargo and Lush, 2004, p.

12). By adopting the SDL, customers can get a product/service with higher value compared to a standard offer. This is an important condition for firms to generate customer satisfaction and maintain their competitive advantage. Customers link high-value with benefits and costs to relational exchanges, where the first exceed the second.

The benefits include (Hunt *et al.*, 2006):

• the belief that a partner can be trusted to reliably, competently, and non-opportunistically provide quality market offerings;
• the partnering firm shares values with the consumer;
• the customer's experiences decrease in search costs;
• the customer perceives that the risk associated with the market offering is lessened;
• the exchange is consistent with moral obligation;
• and the exchange allows customization resulting in better satisfying the customer's needs, wants, tastes, and preferences.

The costs include:

• the premature exclusion of market offerings from other firms that might potentially be superior;
• the monetary and time costs of co-production;
• the decreased prices that might result from accepting standardized market offerings;
• and the increased potential vulnerability of the consumer to the partner's opportunistic behaviour.

From the business point of view, a relational exchange have benefits and costs. The adoption of a relationship strategy will be started if the rewards outweigh the costs. The costs could be generated by investments in organizational, technological and communicational contexts. Moreover, investments on human resources must be considered. Coaching employees, especially those directly involved in external relations, is required to better manage relationships and reward systems. Furthermore, employees must have the proper facility (and software) to allow them to interact with external parties in an easy and timely manner.

Although this involves investment and cost, the results can be very important, such as (Hunt *et al.*, 2006):

• improvement in competitive advantages in the marketplace;
• superior financial performance;
• increased levels of customer satisfaction;
• organizational learning;
• partners' propensity to stay;

• acquiescence by partners;
• decrease in uncertainty.

All these elements must be analysed to obtain the predefined goals in terms of profitability and market share and in terms of customers satisfaction, reputation, image, etc. which are important determinants of economic and market performance.

1.7. Monitoring the results

In order to understand whether the actions taken have produced, or are producing, the expected results companies are making continuous monitoring of a large set of data/information related to their company and their competitors (all or a small number of the same, often the main direct competitors). In this regard, for informational purposes, monitoring and decision-making is helpful to understand the opinion that customers (current and potential) associate with certain variables related to the company compared to those of the main competitors. For this purpose, it may be useful to proceed with the construction of a Kiviat diagram, or radar chart or even a spider web chart, which shows data on multiple variables in the form of a two-dimensional graph of three or more variables, represented on axes with the same origin. In other words, it is a graphical representation that recalls the shape of a spider's web because it is formed by a sequence of rays that originate from the centre forming angles that are the same; each ray is associated with a specific variable and the distance from the centre point marked on the radius is proportional to the value of the variable with respect to the maximum attainable value. The points on the spokes are joined with segments, so that the graph has the shape of a spider's web. This chart is often used for the speed with which can make comparisons of n-variables, making such comparisons simple and intuitive. Moreover, they often take into account different variables referring to different companies operating in competition with each other. The information flow contained in the aforementioned graphs can therefore be very significant and extremely useful for monitoring these variables both in terms of time and in terms of comparison. The following is a possible application of this graph.

Figure 1.5 – **Spider Chart**

Source: Our elaboration.

The graph represents the scores obtained from 8 variables taken into account in the analysis relative to 3 players on the market. The comparison of data is immediate and particularly useful for deciding on future actions aimed at strengthening their positions and, consequently, obtaining a higher score of the variables and consequent enlargement of the "spider web". These actions will focus on various areas and provide for a different amount of resources. This is obviously linked to the company objectives and also to the availability of these resources (financial and human) by the companies involved in this effort. This commitment will also be particularly intense as a result of critical events affecting the company that may have significantly compromised the credibility and corporate image. In this case, a crisis management plan must be implemented to recover lost positions, which generally involves a considerable expenditure of energy and resources over a short period of time.

Crisis management is defined as an ordered process of activity, which ranges from forecasting the crisis to its management in the event the forecasting activity fails to prevent the conclusion of the crisis itself. The goal of the crisis management process is to overcome the crisis that has come to manifest itself (sometimes in a spontaneous and unpredictable way) and establish a mechanism of continuous learning to respond more effectively to future crises.

Conducting the analysis over several years, will keep under control the dynamics of the variables taken into account. Trend analysis can be very useful to understand the validity and effectiveness of the actions taken and understand whether it is appropriate to take a change of course in one or more fronts.

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Chapter II

The creation and management of customer experience and relationships

2.1. Introduction

In order to create and keep valuable relationships with customers, the management has to operate in different areas concerning, among others, organizational, IT, marketing and financial aspects. The steps needed for this purpose have to be identified, planned and well coordinated in order to achieve the aim set. In this context, the enterprise – customer relationship plays a central role, both face to face and through the use of electronic devices and specific IT solutions. In fact, today the relationship between these parts is not limited to those moments when the parts are physically present, but often takes place though the use of the Internet and virtual spaces. This is the reason why, in addition to traditional Customer relationship management initiatives, enterprises have started using Internet-based ones, such as social networks, as they allow long-term personalized relationships to be kept with customers in a highly effective and efficient way. The customer relationship can therefore be steadily maintained, thus trying to strengthen the trust and the emotional bond, as well as the knowledge level about customers' needs and preferences. These customers, on their part, share information about the enterprise and their purchasing experience, thus generating an increasing interest in the enterprise activities. In fact, the word-of-mouth is one of the main and most effective forms of communication, as it is able to spread opinions about the customers' direct experience without any interference from the enterprise. This is the reason why we normally associate a high truthfulness to these opinions, albeit coming from individuals we don't know.

Indeed, more than 90 per cent of customers identify word-of-mouth as the best, most reliable and relevant source of ideas and information about products and services (Lowenstein, 2004). This is about the same percentage that finds it the most trustworthy and objective source of information (Lawer, Knox, 2006). Thanks to the creation of physical and virtual relationships, individuals have become true "co-creators and opinion leaders. Certainly they are no longer passive." (Rosenbaum, 2011).

The first chapter aims to analyse these themes, considering their strategic importance and their current relevance, which makes them particularly interesting from the point of view of both the enterprises and the customers. In this regard, the aim is understanding the dynamics at work and trying to take advantage of them in order to improve the value generated for the individuals involved in this relationship.

2.2. How to create and manage Customer experiences and relationships

Possessing market sensing (the ability to understand customers' expressed and latent needs) and customer linking (the ability to create and manage customer relationships) is essential in understanding and satisfying customers (Day, 1994). So, if the company wants to generate customer satisfaction, and in this way achieve good economic and market performances, they have to activate a relationship of trust with their customers on the basis of a sound knowledge of the customers themselves. In order to set up and manage successful individual customer relationships, it is useful to refer to a process, called IDIC (Peppers and Rogers, 2017) and composed of four steps. Each step allows to acquire important elements for improve the value proposition in a personalized way. The steps are the following:

- Identify;
- Differentiate;
- Interact;
- Customize.

With the first step the enterprise Identifies the customers and recognizes them when they come back, in person, by phone, online or in any other way (Peppers and Rogers, p. 79). Each contact is monitored and all the information about the contact is registered, providing as many details as possible.

Each individual is different from any other, each individual is unique, and for the enterprise it is crucial to have accurate information about every single customer, regarding their habits, preferences, needs and so on. When customers enter the Amazon website and start to use the website, they receive suggestions in line with their interests because that individual has been identified by Amazon. This requires a specific strategic orientation inside the enterprise, which seems to be fundamental in order to define and take specific organizational steps and to plan specific investments in the hardware and software equipment needed to profile a high number of customers and quickly propose interesting solutions for them.

The second step is to Differentiate customers. The enterprise observes the customer behaviour in order to estimate the value generated by the individual customer. Aware of this information, the company can dedicate more resources to those customers who produce more value for the enterprise itself and decide on strategic initiatives able to individually satisfy different customer needs. In this way, the aim is to improve each customer's experience and produce positive effects on business performance. Thus, the customer differentiation takes into account the value produced by customers for the firm and identifies the needs they have.

The third step is to Interact with customers. All the moments of the interaction must be well managed by the enterprise and the last conversation must also take into account the previous conversations with that specific customer. For this reason, a company should never ask the same question more than once. It is also essential that the company uses appropriate Information Technology solutions that allow it to collect, organize and timely use customer information.

The fourth and last step of this process is to customize the treatment. The enterprise has to constantly know its customers' individual needs in order to adapt some aspects of its behaviour to the customers and generate positive effects on the customer's experience. The customer value can grow as well and this creates the conditions to acquire a position of competitive advantage.

The company that uses IDIC process should be able to earn, in time, its customers' trust, by becoming more and more trustworthy in the eyes of its customers. In this regard, it may be useful to take into account the Trust Equation:

$$T = (C + R + I) / S$$

Legend:
C = Credibility
S = Reliability
I = Intimacy
S = Self-orientation

From what has been said above, we can deduce that, in order to improve the trust relationship with its customers, the enterprise has to "address all four components of it in the customer's mind" (Peppers and Rogers, p. 88). Therefore, it is necessary to pay particular attention to all these comp onents and make sure that the staff can work at their best, so that such "service dimensions" can be identified and appreciated by the customers.

The enterprise personnel, especially the contact personnel, play a crucial role in this respect. The personnel needs to have the possibility to use cutting-edge IT solutions in order to best manage the interaction with the customers, and any other situation. The allocation of technological devices is important, but not sufficient in order to achieve the above mentioned objectives. Today the front line personnel is required to give a contribution towards the achievement of the personalization objective, by managing the relationship: this requires skills, competences and, above all, the ability to tune with customers and establish with them a personal relationship, based on their specific needs and requirements. This obviously requires the enterprise to adopt effective organizational solutions directed towards achieving this specific aim. In this respect, it seems useful to refer to the empowerment, i.e. the involvement of employees in the decision making process (Cole *et al.*, 1993), inviting the members of the organisation to think strategically and to be personally responsible for the quality of their tasks (Bowen and Lawler, 1995). For this purpose the company has to animate and reward employees for always behaving in a way they consider more suitable to satisfy customers (Bowen and Lawler, 1992), which is an essential aspect to achieve positive performances.

2.3. Customer Relationship Management (CRM)

Maintaining lasting relationships with customers is a goal pursued by businesses. For this reason Customer Relationship Management (CRM) systems, as well as Relationship marketing, have been developed and disseminated within the company. Relationship marketing focuses on building long-term relationships with customers and other parties (Tareq, 2012), whereas CRM regards the strategic management of relationships with customers, involving appropriate use of technology (Frow and Payne 2009, Berry 1983). "The Customer Relationship Management is the approach through which a company acquires, maintains and develops the relationship with the customer in order to obtain an increase in turnover and profitability. The CRM is based on a model involving processes, technologies and contact channels, and is led by clear objectives and a reference organization able to create a distinctive customer experience, thus creating value for the company."[1] The CRM is concerned with the collection, analysis and use of the datas related to consumers, in order to create stable relationships with customers. The information can be obtained in different ways, such as loyalty cards which enable the enterprise to monitor its customers' purchases, the information conveyed though social networks, where people express their tastes, preferences and opinions, the access and browsing of the web page of current and potential customers, the contents of active interactions between the enterprise and the customer via e-mail, telephone or face-to-face, etc.

One of the main goals of these systems is to positively affect the quantity and quality of the relationships between enterprise and customer, thanks to the usage of new technological solutions and in customized modes. Therefore, the adoption of CRM systems can generate some important benefits for the customers and the possibility to offer them a higher level of quality and customization by an increasing use of technology (Table 2.1).

Table 2.1 – CRM effects

Customer data sharing throughout the organization resulting in:	CRM innovative technology:
Superior levels of customer service	Extends capability to the customer for self-service and Internet applications
Opportunities for cross-selling and up-selling	Attracts existing and new customers through personalized communications and improved targeting
Wide range of information about customers' habits and preferences	Integrates customers and supplier relationships
Integrated and complete view of the customers	Constructs metrics to analyse common and unique customer patterns
Improved targeting to segments and individual customers	Allow a rapid, effective and constant interaction between the company and customers
Efficient call centres/service centres	

Source: Adapted from Chen, Popovich (2003).

[1] Magnaghi M. (2014), *SOCIAL CRM*, Milano, HOEPLI, p. 28.

Customer Management is an even narrower field of CRM as it relates the implementation and tactical management of customer interactions. Managing customer relationships is nowadays a strategic activity for the impact it can generate in terms of customer satisfaction, loyalty, trust, turnover, etc. Another desired effect, which is sought after by businesses, is the customer engagement. By involving customers more in the production and delivery of products and services, it is possible to reach a higher level of commitment, with the customers becoming advocates of the company/brand. Customers provide proper endorsements and referrals with a deep impact on the reputation and performance of the firms. In order to establish relationships with customers, the company must acquire a lot of information about them. To this end, many companies have invested in CRM systems. CRM is a way to manage customer knowledge so that a company can understand and serve customers better (Beijerse, 1999). Customer knowledge is an important asset for a company, as it enables its business to provide quick responses to customer needs, to adapt to the dynamic markets (Shi, Yip, 2007), thus allowing the firm to be more competitive.

Although there is evidence of an increasing interest in the CRM field due to its "relative novelty and growth" (Chikweche, Fletcher, 2013), there is no consensus on a universally accepted definition of CRM and there are different interpretations of what CRM means (Buttle, 2009, Zablah *et al.*, 2003). In an article by Harker (1999) on Relationship Marketing (RM) in general, 26 different definitions by a pantheon of authors were uncovered. Yet, the term customer relationship marketing (CRM) has become a buzzword, with the concept being used to reflect a number of differing perspectives (Luck, Lanaster, 2003). Among the most significant prospects, the following ones are included:

- database marketing (Sandoe *et al.*, 2001; Khalil and Harcar, 1999);
- quality management (Zineldin, 1999);
- services marketing (Grönroos, 1994);
- customer partnering (Kamdampully and Duddy, 1999a);

CRM is sometimes defined in terms of marketing objectives such as customer retention (Zineldin, 2000), customer share (Rich, 2000) and customer loyalty (Reichheld and Schefter, 2000). And Gummesson (1994; 1999) offers the 30Rs (30 relationships), which he deems fundamental for every business in dealing with internal and external customers.

Here are some definitions of CRM that underline each of the key features of these systems:

Parvatiyar and Sheth (2001): CRM is "a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer.” This definition highlights the importance of integrating the various functions within an organization, in order to enhance “efficiencies and effectiveness in delivering customer value”.

Kincaid (2003, p. 41): CRM concerns “the strategic use of information, processes, technology and people to manage the relationship with customers across the whole customer cycle”. The organizations should create interaction and communication processes that facilitate relationship (Tareq, 2012) through the integration of these important components (Panda, 2003).

Gebert *et al.*, 2003: CRM is an interactive process that achieves an optimum balance between corporate investments and the satisfaction of customer needs to generate the maximum profit.

Buttle (2009, p. 15) defines CRM as “the core business strategy that integrates both internal processes and functions, and external networks. In the process, it creates and delivers value to targeted customers at a profit. It is grounded on high quality customer related data and enabled by information technology”.

Although there are differences in defining the concept, the various definitions consider the CRM systems as “a comprehensive set of strategies for managing those relationships with customers that relate to the overall process of marketing, sales, service and support within the organisation”, rather than as an initiative isolated and unconnected with the company’s overall strategy (Kotorov, 2003; Ngai, 2005). In other words, “CRM is a complex combination of business and technological factors, and thus strategies should be formulated accordingly” (Zineldin 2006).

Taking into account the above, the following activities have been identified within the CRM initiatives (Gebert *et al.*, 2003):

• Measuring both inputs across all functions – including marketing, sales and service costs – and outputs in terms of customer revenue, profit and value; the CRM therefore involves several business areas and only if shared and supported by everyone (from top management to the front line staff), it can manage to achieve the desired results;

• acquiring and continuously updating knowledge on customer needs, motivations and behaviours over the lifetime of the relationship; the aim is to have a long-term relationship with customers. This requires a constant change from the company’s proposal which needs to always adhere to the changing customer needs and this, in turn, requires the acquisition of customer information during the time of this relationship;

• applying customer knowledge to continuously improve performance through a process of learning from successes and failures; the management has the opportunity to learn from the mistakes it made, but this requires a collection and analysis of complaints in order to identify the critical areas of service. Only in this way is possible to decide recovery initiatives and reduce the risk of losing the customer;

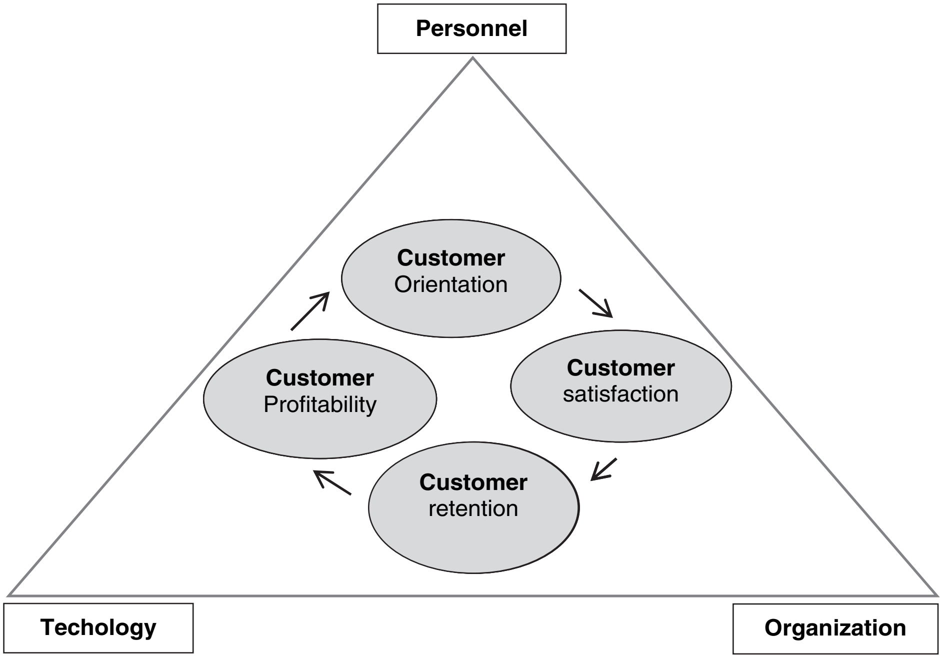
• integrating marketing, sales and service activities to achieve a common goal; in other words, it is essential to have a customer-oriented culture within the company, aimed at constantly seeking solutions to achieve high levels of customer satisfaction and loyalty. Only in this situation the various activities can be adequately coordinated and the different efforts, in the various departments, can be harmonized;

• the implementation of appropriate systems to support customer knowledge acquisition, sharing and the measurement of CRM effectiveness; and

• constantly maintaining the balance between marketing, sales, and service inputs and changing customer needs in order to maximize profit. To integrate marketing, sales, and service activities, CRM requires the strong integration of those business processes that involve customers. An organizational effort is therefore necessary, as well as a convinced involvement of all employees interested in CRM activities.

Therefore, CRM can have a positive impact on results, but it requires a common vision inside the company, where all efforts need to be centred on ensuring customer satisfaction, without neglecting the costs and the profitability goals. Figure 2.1 shows the three pillars of CRM solutions, which summarize what has been said above. Personnel, Technology and Organization must be linked and well coordinated in order to generate effects on Customer satisfaction, retention and profitability.

Figure 2.1 – CRM pillars



Source: Ajami *et al.*, 2008.

Therefore several factors play a crucial role in determining CRM success or failure, such as the culture (Bohling *et al.*, 2006; Shah *et al.*, 2006), the organisational alignment (Boulding *et al.*, 2005; Roberts *et al.*, 2005), an appropriate use of customer lifetime value analysis (Ryals, 2005) and motivating employees to improve customer management (Bohling *et al.*, 2006; Zablah *et al.*, 2004). CRM systems are complex because they are cross-sectional inside the firm, requiring investments and collaboration efforts from different business areas. However, the results deriving from this type of activity could be very important and this explains the efforts made in different contexts and the attention that many companies are devoting to this issue today.

2.4. Resource based view, dynamic capabilities and CRM

The external and internal organizational capabilities of a firm are crucial to increase the value created for the customer (Martelo Landroguez *et al.*, 2011) and, ultimately, the corporate value. Thus, a firm should focus its efforts and attention on those capabilities, in order to create customer and business value in time. Examples of these capabilities are "market orientation" (MO), "knowledge management" (KM) and "customer relationship management" (CRM). The adoption of a CRM system requires an adequate and dynamic use of resources. During the 1990s, the original assumptions of the Resource Based View (RBV) changed because the business environment became highly dynamic; such assumptions were indeed static and did not consider the market dynamism (Eisenhardt and Martin, 2000; Priem and Butler, 2001a, b). Consequently, Teece *et al.* (1997) highlighted the role and the importance of dynamic capabilities as an extension of the RBV (Ambrosini and Bowman, 2009; Ambrosini *et al.*, 2009; Barreto, 2010). Dynamic capabilities have added value to the RBV arguments as they transform an essentially static view into one that combines a competitive advantage with a dynamic context (Ambrosini *et al.*, 2009; Barney, 2001a, b). Dynamic capabilities take into consideration the firm ability to rapidly face changing environments, in order to create and renew resources, and change the set of resources (Ambrosini and Bowman, 2009; Bowman and Ambrosini, 2003; Teece *et al.*, 1997). On the basis of these considerations, some authors (Maklan, Knox, 2009) have questioned the linear CRM sequence: analysis – business case – investment to acquire resources – implement CRM – change consumer behaviour – profit. In line with Treece *et al.*, 1997, they adopt dynamic capabilities since they are able to affect the ability to select, develop and deploy the CRM resources (databases, web sites, analytical tools, call centres) in an effective way. The dynamic capabilities are the antecedent organisational and strategic routine by which managers alter their resource base in order to create new strategies able to generate value (Eisenhardt, Martin, 2000, p. 1107). Therefore these capabilities enable the firm to learn from customers better than its competitors (Vargo, Lusch, 2004), to generate greater capacity to modify core business processes and routines (Winter, 2003) and to reconfigure, enhance and deploy (Rindova, Kotha, 2001) its resources. In this way, the firm can create a greater customer value and obtain better performances in the marketplace. Although the importance of dynamic capabilities is undeniable, their management and development are really difficult because they are grounded in tacit knowledge (Polanyi, 1976). This latter consideration shows that they are not easily documented or transferred internally between business units, and so they cannot be easily imitated by competitors. For this aspect they may be considered relevant to achieve and maintain a competitive advantage in the marketplace, difficult to gain for competitors. In table 2.2 there is a framework of dynamic capabilities in marketing. In the strategy literature Thomson *et al.* (1991) argue that consumers fulfil their needs for goods and services by choosing between three purchasing strategies: the market place (transactional relationship), hierarchical relationships (Malone *et al.*, 1987) or consumer networks (Hagel, Armstring, 1997). CRM investments in decision making require that firms have dynamic CRM capabilities. Otherwise the CRM investment could be a failure or, in any case, produce returns well below expectations.

Table 2.2 – A framework of dynamic capabilities in marketing

	Transactional relationship	**One-to-one relationship**	**Networked relationship**
Demand management	Selling	Lifetime value	Co-creating value
Creating marketing knowledge	Market segments	Individual consumer needs and purchasing styles	Key network participants and shapers
Building brands	Products and service brands	Company brands	Network capabilities
Customer relationship management (CRM)	Contractual, standardised customer treatment	Differentiated, customised and/or negotiated	Self-managed consumers leveraging colleagues' know-how online

Source: Maklan, Knox, 2009 from Webster (1992) and Coviello *et al.* (2002).

2.5. CRM as Knowledge-oriented processes

The continuous improvement of the value proposition needs a profound knowledge of customers' needs and wishes that, due to their continuous change, require a constant monitoring effort in order to always keep the required information up-to-date. Finding new opportunities to improve the Value proposition is more relevant in those areas where the market forces are strongly competitive. In these contexts, achieving a high level of satisfaction is essential to gaining customer loyalty (Fig. 2.2) and produce profitability. The combination of high competitiveness of the offer and high customer satisfaction identify the category of Customer loyalty. In presence of a great number of competitors, the customers will not be tempted by alternative offers if they are highly satisfied with the company, and its offerings, they have chosen so far. In the remaining combinations of the matrix, the strength of the relationship between enterprise and customers is not optimal.

Figure 2.2 – Four types of customers

High competitiveness of the offer	1. Mercenary customer	4. Loyalty customer
Low competitiveness of the offer	2. Prisoner customer	3. Precarious customer
	Low satisfaction	High satisfaction

Source: Adapted from Fedel (2012).

In the 3rd position, the high level of satisfaction could be affected by the low presence of alternatives in the market. An increase of competitors could be sufficient to decrease the level of satisfaction and the customer could become a mercenary (from number 3 to number 1) due to the presence of alternatives, which are considered to be of greater value and were absent before.

However, reaching and maintaining a high level of customer satisfaction requires a steady commitment to the design and launch of new products/services, which in turn requires a deep understanding of the preferences and needs of the target company. In this regard, CRM solutions allow the firm to obtain important information about the customers that can be used to personalize products/services and interact with them in a one-to-one way. A recent research conducted on a cross-functional sample consisting of 115 R&D and 122 Marketing managers from firms in multiple industries has estimated that CRM has a positive effect on new product performances (Ernst *et al.*, 2011). These results require significant organizational efforts and investment in equipment, software and personnel training within an overall customer-oriented strategy. The latter is fundamental for the cooperation between the different areas affected, to a certain extent, by such activities and to achieve the maximum in terms of commitment and productivity. Therefore it is necessary to avoid internal conflicts that can compromise the success of the activities.

With regard to information and customer data collection potential, the knowledge flows of the CRM systems can be classified in three categories (Gebert *et al.*, 2003):

1. Knowledge for customers is required in CRM processes to transfer useful information to the customers and satisfy their knowledge needs. This information may refer to products, markets and suppliers (Garcia, Murillo and Annabi, 2002). A deep knowledge of customers is essential in order to provide them with useful information and allow them to optimize their time. In other words, the value of time must be considered in order to avoid wasting time and resources from both the parties;

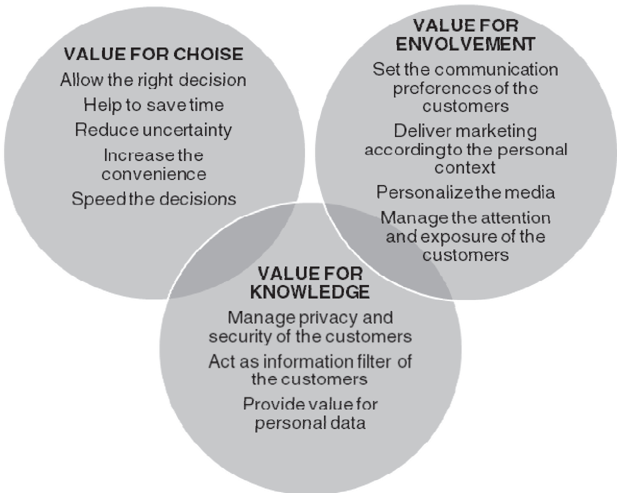
2. Knowledge about customers in order to understand customers' behaviour and motivations and to address them in a personalized way. This includes customer histories, connections, requirements, expectations, and their purchasing activity (Day, 2000; Davenport *et al.*, 2001).

3. Knowledge from customers is customers' knowledge of products, suppliers and markets. These activities require an interaction with customers, in order to acquire important inputs that can be useful to improve the Value proposition and develop new products/services (Garcia Murillo and Annabi, 2002). Thanks to the Internet and the digital revolution, the possibility to interact with customers has increased at an exponential rate. This new scenario has created new opportunities for the companies, generating, if well managed, positive effects in terms of customer satisfaction, image, word-of-mouth, etc. However, there is the risk of producing adverse effects in case the process is not conducted in a planned and well-organized way, dedicating insufficient resources and means to it.

2.6. Empowered consumer value

Today customers can access powerful new media and information tools to compare brands, products and services (Pitt *et al.*, 2002; Hagel and Singer, 1999; Wind and Rangaswamy, 2001) and companies tend to use this trend, adopting advocacy-based strategies (Achrol and Kotler, 1999; Sawhney and Kotler, 2001; Baker, 2003; Urban, 2004). The core strategy of customer advocacy is to assist consumers in finding and carrying out their best solution in a given market (Urban, 2004). In this way, it is easier for a company to earn consumers' long-term trust, purchases and loyalty. Customer advocacy can be defined as an advanced form of market orientation driving consumer choices, involvements and knowledge (Lawer, Knox, 2006). Customer choice means to let customers make their own purchasing choices easily and quickly way, despite the growing number of alternatives on the market, which may confuse consumers and make their purchasing processes more complicated. Customer involvement refers to the fact that more and more customers take into account the word-of-mouth in their purchasing processes. Therefore, enterprises have to try and activate a positive word-of-mouth, focusing on the product/service personalization and on the customer relationship, thanks to a sound knowledge of their customers and the needs those have. Moreover, the increasing availability of information about products motivates customers to connect and communicate with firms and with each other (Sawhney, Prandelli, 2000). For companies this is a very important source of datas, news, and information about their customers. This information needs to be managed with great care and respect for the privacy, in order to create value for the customer and, consequently, value for the enterprise (Value for Knowledge) (Figure 2.3).

Figure 2.3 – New drivers of empowered consumer value



Source: Adapted from Lawer, Knox (2006).

Customer advocacy aims to build deeper customer relationships. This result can be achieved by focusing on some elements, which are useful to improve the interaction quality and create a growing value. These elements can be summarized as follows:

• Pay attention to customer success. To this end, it is necessary to set up a support system for the customers, in order to allow them to make the best purchase and/or give them the nest service experience, thus achieving important results in terms of customer satisfaction and loyalty. It suffices to consider, as an example, the figure of the personal advisor in the financial field. This figure supports customers, helping them in every single phase of the process, so that they can best understand the various solutions proposed and identify the most suitable one for them, taking into account their goals, resources, risk appetite, etc.

• Improve marketing context and customer involvement. The goal is to encourage the spread of the customer's positive experience to friends, colleagues, acquaintances, thus trying to improve the popularity and reputation of the company. It's important to integrate new marketing techniques into the overall customer experience by creating and facilitating communities, environments and contexts for customers to become involved with the brand (Lawer, Knox, 2006).

• Foster knowledge-creating partnerships. Through a high volume of interactions and relationship exchanges, it is possible to enact a process of customer knowledge co-creation and management: thanks to this, firms distribute their knowledge assets in order to generate mutual knowledge value.

• Enable choice transparency. The enterprise has to advise its customers in the best possible way, in order to achieve their greatest satisfaction; in some specific cases, the enterprise may have to guide its customers towards competitors' offers, if these are considered more adequate to achieve a greater level of satisfaction. This behaviour is very appreciated by customers and can be the factor making the customer report a positive experience to friends and acquaintances (Urban, 2004). In this case, the enterprise may lose one single transaction, by creating, at the same time, the perfect conditions for a future development of its activity.

2.7. Employee advocacy (first consideration)

Creating and maintaining good enterprise-customer relationships require a sound knowledge of customers and the implementation of appropriate relationship policies. The implementation of advocacy-based strategies pursues this goal, but requires a good management of employees, in particular the front line ones. Employees, after all, are defined the internal customers to differentiate them from the external ones, i.e. from those to whom the company offer is addressed. In order to generate customer satisfaction, the first necessary step to take is satisfying the internal customers with appropriate policies of remuneration, training, career advancement, incentives (for example, by offering benefits in addition to the salary).

Employees are increasingly considered a resource to influence the customers' purchasing process and improve the brand awareness. This does not only happen through the traditional methods of interaction, but also through the Internet. The strategy called "employee advocacy" implies that the company asks its employees to collaborate and "tell brand-related stories through personal social networks, "taking advantage of" their voice in order to generate interactions with potential customers"[2]. This marketing solution can turn out very useful, as it has been found that web users are more prone to clicking and interacting with brand contents, if shared by employees. LinkedIn, for example, has found that the same content is clicked twice as much if employees post it: when it is posted on the company account, clicks are just the half.

This topic is currently being discussed and debated. On the one hand, a strong usage of this policy is being suggested for the positive effects it can have for the company, on the other hand companies need to be sure of the validity and relevance of this activity, investing in human resources and envisaging appropriate policies and rules about the use of social media by its employees.

2.8. Relational intellectual capital

Knowledge for customers and knowledge from customers are part of the relational intellectual capital of a firm (Ordóñez de Pablos, 2002). The expression intellectual capital identifies "the system of intangible resources that the company must leverage to create value" (D'Egidio, 2003). The term system emphasizes the fundamental role played by relationships to feed and increase over time the size of this capital and, at the same time, the corporate value (Angelini, Lanzara, 2017). Therefore the strategic value of the knowledge management process is crucial to increase the competitive advantage in the marketplace where the activities of the firm are concentrated.

One of the main issues to iron out is how to collect, store, and distribute knowledge which is needed and not to waste time and efforts on collecting and storing useless knowledge (Davenport *et al.*, 2001). Therefore, the process must be accurately and professionally organized, with a correct use of resources and competences.

As mentioned above, these initiatives must be planned within customer-oriented businesses, where the interaction with customers and the knowledge of them are fully encompassed within a clear and shared compa-

[2] https://www.eventreport.it/stories/mercato/134481_se_i_dipendenti_sono_ambasciatori_di_brand_come_le_aziende_possono_utilizzarne_la_voce/ 20 January 2018.

ny's strategy. About the rest, Buttle (2009) has identified four types of CRM: strategic, operational, analytical and collaborative (Table 2.3). In order to achieve the best result with the CRM system, all these types must be present and well managed, assigning each one the appropriate human and financial resources.

The greatest value for the customers can only be produced with a unique and global vision inside the company, based on the aim to generate customer satisfaction better than the competitors. This result is a first step in order to obtain other important goals, first the customer loyalty that has a great impact on the possibility to generate business value in the medium-long term. It was found that:

- loyal customers are more inexpensive to serve;
- they will pay more for a set of products; and
- they will act as word-of-mouth marketing agents for the company (Reichheld, 2002, 1993; Zeithaml, 2000).

Therefore, for the company it is important to distinguish between transaction customers and relationship customers. The first ones are highly volatile and their loyalty is rather poor, while the second ones have a greater potential loyalty as they are often willing to pay a premium price for a range of reliable goods or services (Newell, 2000). Therefore, RM and CRM can be considered useful solutions in order to identify the potential loyal customer groups and constantly address high-value offers to them.

Table 2.3 – Types of CRM

Type of CRM	Main characteristics
Strategic	Presence of a customer oriented business culture within the company aimed to reach a high level of customer satisfaction. Moreover, the goal is to transform satisfaction into loyalty and acquire a customer portfolio largely formed by loyal customers
Operational	Access to served customer segments data that allows the management to design targeted and customized marketing actions (communications, promotions, etc.)
Analytical	Acquisition and management of essential customer data for the operating CRM
Collaborative	Use of appropriate technologies to establish a collaborative relationship between the various business functions involved and between the company and the outside (customers and other companies)

Indeed, a better knowledge of the customers' needs and the target audience purchasing behaviour allow the company to propose an offer (products and services) as personalized as possible by increasingly focusing on the service component. A targeted communication, which is also responsive to customers' interests, allows the firm to decide how to communicate and interact with the target, by minimizing the risk that the customer will subtract exposure of the message conveyed.

For example, a Tour operator can address different kinds of communication to their customers who made more than one purchase in the past, due to different interests and/or different periods in which they can make the purchase. A careful monitoring of the acquisitions made (type, period, cost, etc.), which obviously requires a preliminary data collection phase, can allow value communication for both parties. It is for this reason that Tour operators, but also other figures, have been investing in CRM systems and making internal organizational and cultural interventions to maximize returns from these activities.

From what said above, it is possible to deduce that the CRM system is a means of innovative technology to facilitate the process of acquiring, developing, and maintaining customer relationships in a more efficient and effective way (Hung *et al.*, 2010). Siriprasoetsin *et. al.* (2011) provided a definition of CRM as a concept based on the philosophy of combining customers and marketing for relationship building.

Therefore, CRM does not only concern the mere application of technology to marketing, sales and service, but is rather a cross-functional, customer-driven, technology-integrated business process management strategy that maximizes relationships and encompasses the entire organization (Goldenberg, 2000). A CRM business strategy leverages marketing, operations, sales, customer service, human resources, R&D and finance, as well as information technology and the Internet to maximize profitability of customer interactions (Chen, Popovich, 2003).

It is crucial for a company to maintain its enthusiasm, participation and interaction with its customers and to continuously integrate sales, marketing, and customer care: this will lead to an enhancement of customer loyalty and an expansion of customer lifetime value (Chalmeta, 2006; Ozgener and Iraz, 2006). This also means that customers can generate profit for the company, not only from the transactions they have made, but also during the whole period when the firm is having a relationship with them (Ekinci *et al.*, 2014). Due to the fact that customer demands are dynamic, the continuous improvement of CRM systems should be a priority, in order to provide customers with satisfying products and services, which is the key to customer retention (Birch *et al.*, 1999).

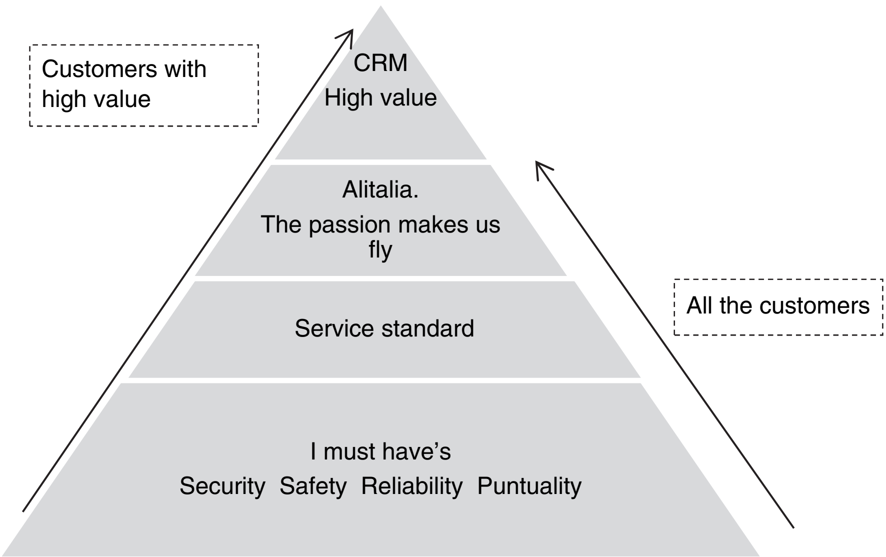
Box 1 – CRM in Alitalia

Alitalia – Italian Airline Company S.p.A – is an Italian airline, the second one for the number of its passengers in Italy. In recent years, the company has undergone heavy losses (600 mln euros in 2016) that led to apply for admission to the extraordinary administration procedure in 2017. In 2016 Aubrey Tiedt, responsible for customer sectors in Alitalia, announced that the company was engaged in a relaunch of its activity in order to try to return to a profit situation after a long period of negative outcomes. The company approved a project of CRM in which the aim was to "offer an excellent service that is consistent at every point of contact with the customer, customized for high-value customers, inspired by the "Italian passion", which is our strong point and sets us apart from all the others" (Intini companies, 2012). This was the message of the company addressed to both customers and its employees, especially to the front-end areas that directly manage customers and therefore represent the company's section to be continuously improved and monitored.

Alitalia was one of the first companies to implement CRM across all points of contact with customers. The service is designed by the company as a pyramid structure. At the base of the Alitalia pyramid service there are four essential requirements: a) Safety b) Security c) Reliability d) Punctuality (see fig. 2.4). These four requirements are indispensable, and represent the "must have" of Alitalia service. Nevertheless, after the construction of the Alitalia pyramid of service as to these four principles, the so-called service standards are added, i.e. those characteristics that correspond to expectations and customer perceptions, and are essential to ensure excellent service resulting in high satisfaction. These constituent components of the service are mainly directed to the staff who come into close contact with the customer and rely on: to make the customer feel welcomed through behaviours such as courtesy and hospitality, getting in touch with the customer anticipating their needs, being professional, efficient and always delivering a reliable service, always providing the customer with important information making them feel comfortable and in no way intimidated when asking the company for clarification. In addition to this, Alitalia requires its employees to be elegant, fashionable and to wear the uniform in an impeccable manner, as, according to the company, the tidiness of the uniform transmits an image of precision, which is unconsciously linked to the image of the company and its service.

Continuing in the rise of the pyramid Alitalia has not neglected to qualify its service with distinctive features to differentiate it from the competitors. In a way, it has branded its service by marking it through the distinctive features of the brand such as Italianity, credibility and concreteness, the competence that comes from the company's experience, accessibility, closeness to the customer and the company's passion in any initiative you undertake. However, the company also has high value customers that need to match something more. Alitalia has to customize its offer, which is why Alitalia's service pyramid is complemented with customized services and facilities such as priority access, franchisees to provide something more to those customers who are fundamental to the company. The service called Sky Priority is an example of customized service offered by Alitalia. It was recently launched by companies that are part of the SkyTeam alliance, addressed to premium customers of both Alitalia and high-value customers traveling with the companies that are part of the alliance. The purpose of this service is to continuously assist and facilitate the journey by providing a preferential lane both in check-in, baggage delivery, security control and passports with dedicated fast track and dedicated desks for boarding and Ticket.

Figure 2.4 – The Alitalia pyramid service



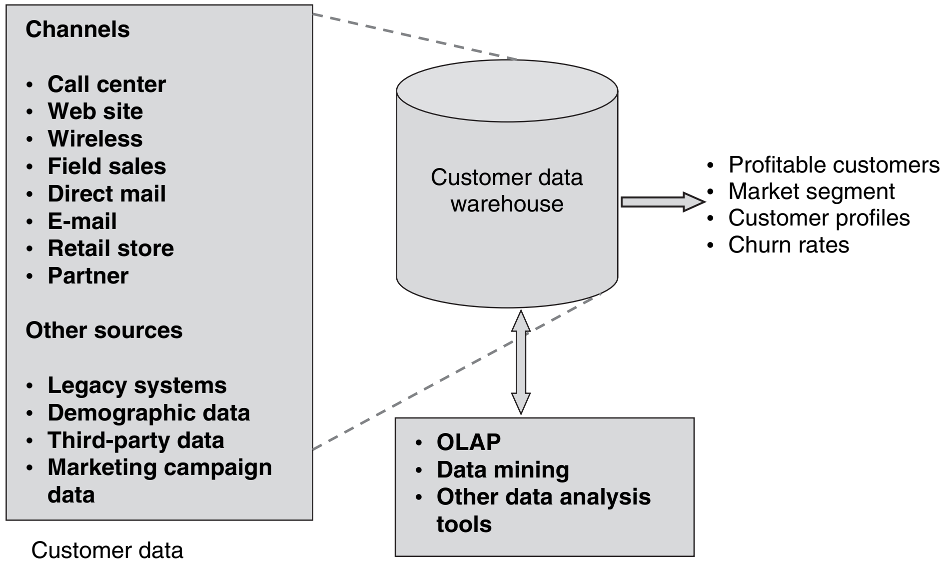
Source: Alitalia.

2.9. Data warehouse and data mining

The adoption of specific policies for different categories of customers often requires the creation of data warehouse/data mining, especially in companies that have a large number of customers. The data warehouse is the depository for relevant business data. The data warehouse consolidates data from multiple operational and external sources (contact at the point of sale or on the website, customer call at the call centre, online requests, email exchanges) to attain an accurate and consolidated view of customers and the business (Evans, 2002).

There may be a lot of data in a data warehouse, for this reason, the data mining software comes in. Data mining can be defined as a system that automates the detection of relevant patterns in a database (Figure 2.5).

Figure 2.5 – Customer data warehouse and data mining[3]



Source: https://paginas.fe.up.pt/~als/mis10e/ch9/chpt9-3bullettext.htm.

Using these systems, the user, for example, the marketing manager or one of his employees, can extract strictly necessary data to analyse a given situation and thus make timely decisions with high potential for effectiveness. For example, it might be useful to identify customers who purchased a particular service in order to offer them special promotions or drive specific initiatives for up-selling or cross-selling towards that target. Certain data could instead be useful for the detection of performance trends and assume certain trends of turnover, divided by reference target, geographical area or other.

If you wish to classify the purposes sought by companies using the databases, you can list the following (Kotler *et al.*, 2014):

Identify potential customers: through the adoption of appropriate adver-

[3] OLAP: Online Analytical Processing.

tising initiatives, these customers could be asked to fill out a feedback form (to be sent, for example, by email or via a web link) so the company could identify the most profitable potential prospects. This would allow us to plan specific initiatives aimed at this group to turn them into real customers;

Define targeted marketing actions for specific customer segments: this action allows customers to interact in a different manner based on the current and expected importance of customers, calibrating and customizing the actions to achieve high efficiency and effectiveness;

Positively influence customer loyalty: by proposing personalized promotions based on specific customer needs, it is possible to transform satisfaction into loyalty;

Promote the renewal of purchases: the use of the database can allow you to send messages, information and best wishes to customers at the right time. With the aim of making the customer feel considered and "known" by the company and at the same time, encourages the adoption of sales techniques;

Avoid making serious mistakes to customers: the use of the database could allow you to avoid contacting the same customer several times to offer the same initiative, highlighting major issues of coordination. In addition, by registering the various contacts and offers made to the client, it is possible to avoid proposing different conditions, even if the employees are placed in different locations. In other words, the creation and correct use of a customer database allows you to avoid serious mistakes regarding customers, that could result in losing them.

Moreover, data mining systems allow you to use the client activity template in an appropriate set of data and information previously entered and stored. This can be very useful to answer some questions, whose answers may be essential to decide certain operational marketing actions. Some of these questions can be the following:

- Which customers seem more willing to accept promotions?
- Which customers show interest in new solutions proposed to the market?
- How much is the turnover generated by loyal customers?
- Which products/services do loyal customers prefer?
- What are the contents of the interactions triggered by customers through the call center?

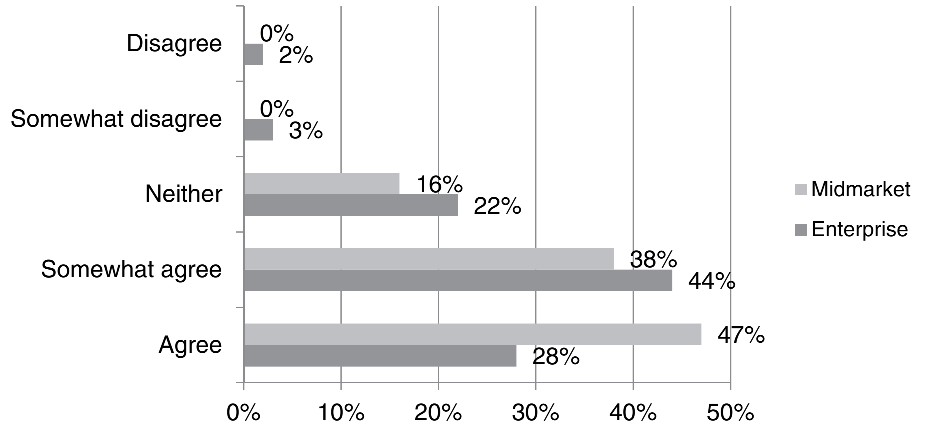
Therefore, the use of a data mining system makes it possible to better understand the behaviour of existing and potential customers.

Armed with this deeper understanding, the marketing manager may decide to target campaigns that consider the needs of consumers and therefore achieve the goal of customer loyalty, improving business performances.

2.10. Successful implementation of CRM

Despite the recognized strategic importance of CRM initiatives and the fact that many companies have invested in such initiatives during the last two decades, the failure rate is quite high. In a report named, Answers To Five Frequently Asked Questions About CRM Projects, Forrester's Vice-President and Principal Analyst, Bill Band, offers evidence that under 50% of CRM projects fully meet the expectations (Fig. 2.6).

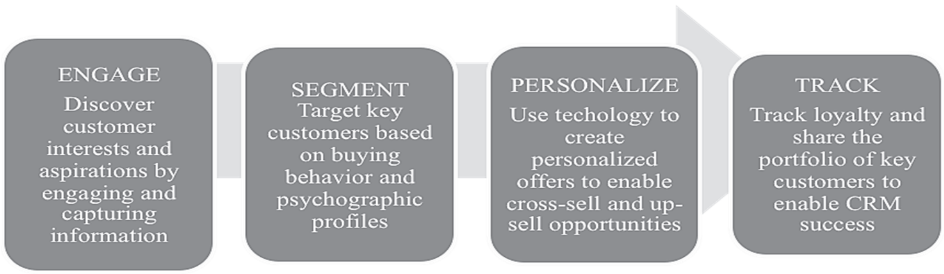
Figure 2.6 – Please agree or disagree with the following statement "Expected business results from implementation were met or exceeded"



Base: CRM decision makers from 80 large companies and 45 medium-sized companies.
Source: Forrester Research, 2009; http://www.zdnet.com/article/crm-failure-rates-2001-2009/.

In order to reduce the CRM failure rate and capture the relevant benefits linked to these initiatives, it is necessary to adopt a process to map out strategies for CRM. This process is composed of four steps as showed in figure 2.7. The first phase of the process, plans the customer engagement strategy. The concept of engagement describes a customer's experience of active connection or participation with a marketing entity (such as a brand, a firm, a website, an online community) (Demangeot, Broderick, 2016). From the company point of view, managers are ever more committed to improve the capacity to engage with customers that requires adaptation of the marketing mix to the advantage of new technologies and tools to better understand and serve customers (Sashi, 2012). Along these lines, the use of multiple channels may be necessary because different customers prefer different media to interact with the company. Nowadays, there is a growing interest on the part of social media because they provide the opportunity for the company to interact with its customers easily and economically.

Figure 2.7 – Process of elaborating a strategy of CRM initiatives



Source: Mukerjee K. (2013).

Thanks to Engagement, the company can acquire important information about customers and improve their knowledge of their needs. This information should not be captured but shared across the company's departments to enable a single view of customers. Only in this way, it is possible to define a global strategy to exploit synergies between the different business areas (call centre, marketing, sales, etc.) and obtain maximum results from these initiatives.

The second step is Segment. This operation is fundamental to identify key customers and, different groups of customers based on different purchase behaviour, attitude, demographic and psychographic profiles (Cao, Gruca, 2005). With this information, companies can personalize the offers to increase the possibility to better satisfy the demand and create the opportunity for cross-selling and up-selling actions. Moreover, the communication activity can be differentiated, using specific tools and messages based on the characteristics of the served target/targets. The online environment has increased the opportunity and convenience to do so, using personalized emails addressed to specific customers or organize the website in specific areas of interest addressed to different groups of customers.

The third step is Personalize. With a deep knowledge of the customers, the personalization of the offers can be possible. This action requires a careful, constant and convincing involvement of employees who must believe in the cause of CRM. Their role is fundamental in the phase of data collection and in the next phase of product service customization. The effectiveness of these actions is on the actions of cross-sell and up-selling that can produce positive and significant impact on revenues and profitability.

The last step is Track. Without appreciable results, the initiative fails and management must take action to understand the issues and eliminate them in a timely and effective manner, if not then change the strategy. There are numerous parameters to be tracked. Among them, the sharing of the customer portfolio, profitability, lifetime value and loyalty are particularly important [4]. The efforts done to get to know customers and personalize the offers should lead to an improvement in the values of these parameters to reinforce the competitive advantage of the company, creating the conditions to remain competitive in the market in the medium/long term.

Box 2 – Tesco [5]

Today, Tesco is a diversified company operating in multiple businesses. The first Tesco store was opened in 1929 in the United Kingdom by Jack Cohen, who subsequently visited the United States and remained impressed by the self-service sales system, so much so that he opened one in St. Albans in 1947, inspired by a store of that philosophy. In the following decades, the company grew to have its own shopping centre in 1977. It was 1995 that the first loyalty card was introduced for Tesco customers and two years later, thanks to an agreement with Esso, the sale of fuel at the Tesco brand services began. The company is also active as a telephone operator and in the financial field. The purpose of Tesco is "creating value for customers, to earn their lifetime loyalty". Useful to achieving this goal, is the Tesco service philosophy: "treating people as you would like to be treated". In 1995 Tesco launched the loyalty card, Clubcard, and by the end of 1990s over 10 million households in the UK carried 14 million Clubcards and 85 per cent the revenue of Tesco accounted for by these cards. In 2010, a new Clubcard app was launched in the UK, which gave customers a new way to swipe their cards in stores. Thanks to the information obtained from loyalty cards, Tesco has segmented its customers using psychographic profiles. Tesco's store brands were developed to cater the needs of these segments. At the same time, Tesco intervened on employee policy, asking them to spend time in the stores in contact with customers. The deep knowledge of customers has prompted Tesco to launch some clubs that customers could join based on their interest and aspirations: Wine Club, Baby and Toddler Clubs, Healthy Food Club and the Christmas Savers Club. Also, the communication solution was personalized and set based on the psychographic profiles of the customers. Loyal customers were rewarded in an original and effective way, and this has contributed to the great success of loyalty cards. To female customers the scheme called "Me Time" and offered free sessions at leading health spas, luxury gyms and beauty salons apart from discounts on designer's clothes, perfumes

[4] Refer to chapter 3 for a discussion of these indicators and measuring methodologies.

[5] This business case is from Kaushik M. (2013), "Strategizing for CRM to leverage its benefits", Business Strategy Series, vol. 14 Issue: 4, pp. 118-122 and www.wikipedia.it; https://www.tescoplc.com/about-us/history/.

and cosmetics. In addition, the possibility to attach the loyalty card to a key ring and the presence of the bar code on it, made the use of the loyalty cards free of issues. In the past years, many initiatives have been launched to create value for customers. Among these, Tesco launched in 2013 Tesco 7-inch Hudl tablets. The tablet aims to open a world of entertainment and connectivity to all. Hudl was designed and built from scratch, tailored around customer's needs and ease of use. Tesco has also launched actions for specific categories of consumers with a focus on their well-being and health. For example, Tesco has launched a partnership with Diabetes UK. In 2012, Tesco launched the new Everyday Value range to replace Tesco Value. The new products focused on three main areas: quality, healthier options for customers and packaging improvements that help customers identify products on the shelves.

Box 3 – Boots [6]

Boots UK[1] (formerly Boots the Chemists Ltd.), trading as Boots, is a pharmacy chain in the United Kingdom, Ireland, Norway, Thailand and other territories. It was founded in 1849 by John Boot and the headquarters is in Beeston, Nottingham, UK. Boots sells medicines, health and beauty products. It has a food and drink variety in the form of lunchtime meal deals. Over the years, Boots has achieved very positive results thanks to the increasing interest they shown towards their customers and the desire to develop a relationship with them. For this purpose, Boots launched several strategies of retention and loyalty and their loyalty cards are the main tools used to this end. The purposes of the Advantage cards are:

- Provide unique insights into how Boots customers shop
- Enable targeted marketing and one-to-one communication
- Drive sales through rewarding loyalty.

Thanks to the points obtained with purchases, customers can obtain not only discounts but also the possibility to treat themselves to a lunch or a day in a spa. To Boots, the card is not a simple reward program. With the data obtained, Boots can deepen the knowledge of its customers and this way, improve its products and services in a useful way. In this way, it is also possible to customise the offer that today is considered very important for business success. Boots tries to improve its competitive advantage using loyalty cards and high-level techniques of customer service. The perceived quality of the service is constantly monitored with weekly questionnaires for surveys in over 20,000 customers inside the store. Regarding the rest, the most important thing is to stand out for the quality of service and Boots knows this very well!

2.11. From CRM to Social CRM

There is no doubt that with the advent of the Internet, there has been a

[6] This business case is from Wilson *et al.* (2016), pp. 133-134.

real revolution in the possibilities of interaction between companies and customers. Among the various new media, social networks are of great importance as a result of their development and diffusion among individuals. Among the various social network definitions, we report that of Kaplan and Haenlein (2010), which summarizes the main features of these tools. For them the social network are "a group of Internet-based applications that build on the ideological technological foundations of Web 2.0 and that allow the creation and exchange of User Generated Content". Considering the relational aspect, social media have been defined as a collection of online services that support social interactions among users and that allow them to co-create, find, share, and evaluate the online information depository (Chua & Banerjee, 2013). Social media provide the opportunity to connect with customer using a more developed media with greater range (see e.g. Thackeray *et al.*, 2008). The interactive nature of these digital media allows sellers to share and exchange information with their customers and, at the same time, allows customers to share and exchange information with one another as well. Using social media, organizations can forge relationships with new and existing customers and form communities that interactively collaborate to identify and understand problems and develop solutions for them. These interactions change the traditional roles of sellers and customers in exchange relationships. Indeed customers often add value by generating content and even become advocates for the seller's products and can influence purchase decisions of others in peer-to-peer interactions. Through social networks, blogs and videos, consumers are entrenched in the dissemination of information. "Consumers are now the individuals broadcasting personal or second-hand stories to their social networks and the world. They are a brand's storytellers and the new brand ambassadors" (Booth, Matic, 2011).

Social CRM is articulated in a transactional and dynamic way. The first element is characteristic of CRM and consists in acquiring information on individuals freely released by subjects (personal data and e-mail address) or through studies conducted on loyalty cards (used for customer profiling and for creation of customized and customized offers) or through e-commerce (to make purchases it is necessary to register on the various sites) or finally, analyzing the sites and pages used. The second element is the dynamic aspect connected to social media: analyzing communities of people who express preferences regarding the company page or following the profiles on the various social medias. In the latter cases, they are aggregated entities that do not make visible the information released, for this reason they have recently developed the Social Login, which allow access to data uploaded during registration, to the “Likes” and “Friendships” of users. With the adoption of Social CRM initiatives, the company therefore intends to bring its customers closer and try to make them loyal to the company itself. Among the goals, will include the expansion of the base of contacts, followers, and fans to transform into future customers, encourage participation and collaboration of the latter to the creation of new products and the improvement of products and services. The contact channels are not only structured through sales points, branches, sites and apps, but also unstructured as the “buzz” through blog, social and Web. Data analysis is carried out using traditional methods and in addition we also examine desires opinions, preferences, judgments, conversations, comments and posts, that is, any trace left by the user and useful for the company. The results of this analysis can be synthesized in special graphics that make understandable in a clear, simple and straightforward way this *sentiment* on the network regarding a particular topic. Among the topics mostly used for this purpose, we mention the word *clouds*. This graph is “an electronic image that shows the word in a particular piece of electronic text or series of texts”. The word has different sizes according to the frequency used in the text [7]. As an example, it is possible to observe an application in figure 2.8.

From an operational point of view, Social CRM happens in the form of planning and management of actions: newsletters, offers, discounts that can be spent through e-commerce, contests, prizes, show new products to a limited number of customers (in particular, strategic customers and Influencers).

[7] https://dictionary.cambridge.org/dictionary/english/word-cloud.

Figure 2.8 – **Word clouds**

Source: Our elaboration.

These trends have been determined by several factors. First, the development of technology and the spread of digital tools, such as the Smartphone, make it possible for people to be always in touch with each other. Over time, the use of these devices creates and develops a real virtual world, a network that connects the entire globe. People can post images, videos and, in general, any information, thoughts, personal moves they wish to share with others in real time and in an extremely quick and simple way. This phenomenon did not go unnoticed by companies that have tried to exploit the potential of it considering that consumers are looking for the advice of others (friends, acquaintances but also unknown people) before making a purchase of a certain product and/or service. Especially for services characterized by a high presence of credence qualities for which the opinion of customers who have already acquired and used such service is deemed particularly useful to formulate an opinion based on the quality of the service provided. Moreover, in this context, public opinion about the person who expresses the feelings of esteem and admiration has a particular value. That is why in the digital world, the figure of bloggers has become increasingly viral and important to guide the choices of a large number of potential buyers.

The most charismatic and knowledgeable bloggers have managed to become real influencer, directing consumer choice. Precisely because of this capacity for inflation, these subjects are recognized as having an increasing importance in the context of marketing initiatives. Companies can no longer afford to ignore them or even underestimate their ability to influence, but to the counter, they must consider them within their communication initiatives in order to achieve the desired results, because they cannot control their conversations in social media, but they can influence them.

Box 4 – Mirabilandia [8]

Mirabilandia is an amusement park, conceived since its creation (year 1992) as a large area that caters to a predominantly young audience. The park is located in Emilia Romagna, a few steps from Ravenna and Rimini, and is a thematic and aquatic park, with a total area of 850,000 m².

The management team of Mirabilandia has tried to exploit the potential of the network and that is why the Park has invested resources on the website even when the Internet still had little diffusion on national territory. Of course, over the years the resources invested in the web have been exponentially increased, considering it to be a fundamental and indispensable sector for those working in tourism and today it represents one of the main methods of communication and interaction with customers. The declared purpose is to improve the quality of the interaction with customers and have a continuous and involving relationship with them.

The official site of Mirabilandia on the traditional site is the Park's main showcase and the best way to communicate promotions, events and any information considered useful to the public. Over the years, web power has gradually taken on an important role in communication and transmission of park events. If before it was only an additional element, today it represents a key element to keep consumers always up to date on the latest news and offers, some of which are only accessible through the Internet. Just think, for example, a promotion offered by the Park "free for children up to ten years old" used by families only by downloading a coupon from the site www.mirabilandia.it.

The use of the Internet for communication purposes, however, requires particular attention and use of dedicated resources to make the most of the potential offered by this tool. Moreover, to create an efficient and effective communication with the use of social media requires specific experts and a team dedicated to this activity also to monitor the opinions and comments expressed by customers, in order to correct the route in case this is appropriate. In this regard it is useful to conduct a specific analysis, called sentiment analysis, which provides information on the interactions between users, established in a given context and in a defined time frame [9].

Mr. Giovanni Scafoglio, who has been in charge of the park's communication for many years, talked about the great potential of the web that allows greater dissemination of information of the park. The page of Mirabilandia on Facebook has, to date, almost 360,000 contacts. The main point of reference of the park remains the traditional web-

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[8] To write the Mirabilandia box, the information was found on the official website of the Park, on Wikipedia and on the website http://www.parchipermanenti.it/2011/10/i-parchi-e-il-social-marketing-le-esperienze-di-mirabilandia-e-rainbow- December 22, 2017.

[9] https://www.insidemarketing.it/argomento/sentiment-analysis/, 9 January 2018.

site, especially for dissemination of promotions (package entrance to the park combined with the hotel reservation), which consists of a temporary reduction in the price of a particular service or offering which allows customers to receive a subsequent discount.

Social channels are also used by the park and have become part of the company's communication strategy. "Each of them presents an accurate editorial plan and an activity consistent with the *digital strategy*. The result of this work was the transformation of social channels into a primary resource for business development" [10].

The social tools used in the Park's communication policy have allowed the same to strengthen its relationship with users, stimulate interactions with them and thus favor the customization of actions thanks to the use of dedicated promotions, *couponing* and *tab.*

Finally, the Internet was also used by the park to support the launch of initiatives to take advantage of the expectation effect through a gradual flow of information on new attractions with the approach of the launch time. With the coordinated use of Internet tools and enrichment of the value proposition, often related to the inclusion of new games and/or shows, Mirabilandia intends to convey emotions to its guests, looking for unique solutions capable of implementing a differentiation policy in relation to the main competitors.

2.12. The role of the Influencer in the virtual world: some considerations

When we talk about Influencers, we mean people who can influence the opinions of others, build or change the reputation of the brand/company/product/association. The Influencer is therefore the person who exerts a certain influence on an audience that the company is interested in achieving and which represents its target audience by virtue of their visibility and reputation. The Influencer, through its credibility, triggers mechanisms to create or change reputation, awareness and interest in products/ideas/projects. An Influencer is a user with thousands of followers spread across various social networks; may be a YouTuber, have a website, but usually almost always the Influencer has a blog on which he writes the articles he shares. Every time he shares a post, a photo, or a video, he can receive many views thanks to the confidence of his fans and the interest he brings in all his comments/videos and information in general.

Most Influencers run their own blog, which is the most effective and efficient way to communicate with their community and build a reputation online. A blog is a series of contents organized in chronological order that

[10] Riccò A., *Strategie di social media per i Parchi divertimento,* 3/11/2015 on http://www.fungomarketing.com/social-media-case-parchi-divertimento/.

appear online starting from the most recent. The blog stems from the initiative of an individual but often involves a large number of people around the initial topic and there are links to other blogs. Those blogs are often linked to social profiles that allow the community to stay in touch with the influencer, showing more interest in what he does and the topics he deals with. The distinguishing characteristic of these new opinion leaders is sincerity. They do not hide behind a screen but show every single content of their life and their behavior leads them to be seen by their community as friends with whom they exchange opinions and advices. Therefore, it is very important for companies to create a solid relationship with Influencers and look for their collaboration to reach certain performance targets.

The 5 key rules for a good "influencer marketing" elaborated by "Popular Chips" [11] start-up are:

1. *Analyse the quality of the audience*: it is necessary to study the followers in order to understand if they are active or inactive, or if they are fake. Having a good knowledge of the community is important for both companies and Influencers. For the former, knowing the actual number of followers is essential when recruiting Influencers. For the latter, if most of the followers are fake, they risk losing credibility and are no longer appreciated.

2. *Adopt a territorial approach:* important for not spending unnecessary resources with users who do not belong to the company's scope. The social platforms allow you to connect with the whole world and many Influencers have an international following. Precisely for this reason we now tend to spread the news in English in order to reduce linguistic barriers.

3. *The interaction rate is crucial*: it is a measure of the real engagement of the community and is the most important variable to evaluate the strength of an influencer. The term Engagement refers to the ability to arouse different actions by users that contribute to increasing the visibility and/or dissemination of posts (Di Fraia, 2015). It is a quantitative measurement that uses different metrics in relation to the type of source (for example, in Facebook we consider the Like, shares and comments, on Twitter the retweets and the mention, on YouTube the number of views and comments).

4. *Attention to the age and gender of followers:* important not to waste resources with targets that do not belong to the target market. Not all social networks are frequented by the same generational target. For example, Generation Z prefers Snapchat, while Millennials prefer Instagram and Facebook.

[11] www.popularchips.com.

5. *Replicating the Influencer style*: imitating the language in the most successful posts. In this way the communication activity is perceived in a uniform way and this helps to increase its sharing.

The web is full of aspiring Influencers; all expose their thoughts and/or comments on anything, but only a few manage to impose themselves on others until they are elected leaders of the community. These few are endowed with strong social and relational skills that allow them to be loved by most people belonging to their target audience. Even if they receive negative comments or criticism from some users, the community would always be ready to defend them. Bloggers, by being themselves and telling all about themselves, increased their credibility and their fan base by becoming more and more popular.

However, we must not forget that the first Influencers are those who already love the company and/or brand, who helped the company through the "user generated marketing" actions, that is people and customers who, without any order from the company, started to promote it, created positive content and made their voices heard in conversations about the brand. Obviously, the managers have to monitor the conversations that they carry out, because they could have an image of the corporate brand that is different from the one the company wants to show.

Before starting a project involving Influencers, it is necessary to identify those that are spontaneously triggered in order to reinforce the brand image and notoriety, verify that their image is in line with the image of the brand and that the target they refer to, is the same that the company intends to achieve.

In addition, there are also the "Evangelists" of the brand, people who preach on the Internet, blogs or with friends, brands that have become icons and objects of worship. Fans of the brand are among the most passionate users able to create proselytism, aggregations and positive news.

Regardless of their fame, all these individuals have strong personal branding skills, that is, the ability to promote themselves as a commercial brand. The best Influencers have the ability to adopt strategies that make their name a symbol of industry status, and this feature, along with good collaboration, can be associated with the company.

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Chapter III
Managing and measuring customer value

SUMMARY: 3.1. Introduction. – 3.2. Customers are not all the same. – 3.3. Mission and Customer satisfaction. – 3.4. Measuring satisfaction. – 3.5. Customer perceived value. – 3.6. Customer Value Analysis. – 3.7. Customer Life Time Value. – 3.8. Customer Equity. – 3.9. The use of Real Option for the strategic business analysis. – 3.10. The discount rate: some considerations about the adjustment coefficient. – 3.11. Link between Customer Value and Enterprice Value.

3.1. Introduction

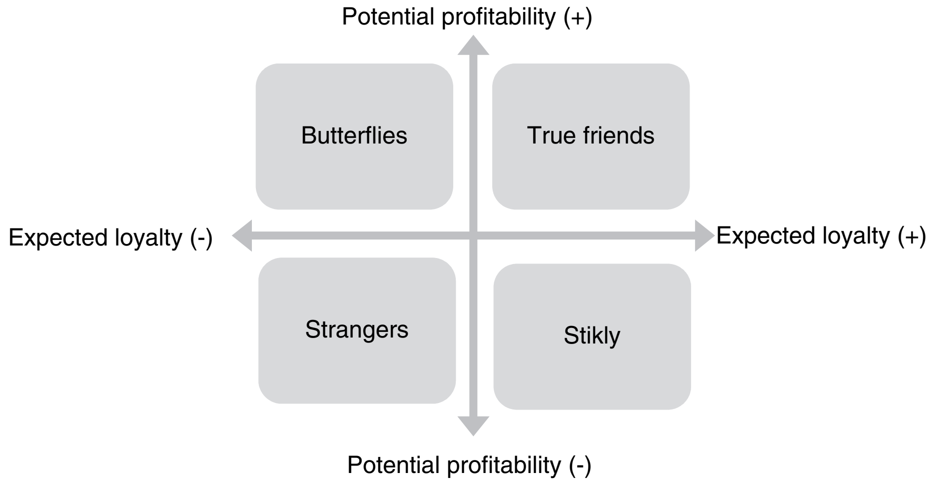
There is no doubt that in recent decades, the importance attached to customers and the relationship with them has increased in order for companies to reach and maintain a competitive edge. Many companies have been trying to build relationships with their clients, believing that strong relationships can offer lifelong loyalty, lower costs and higher profitability (Christopher *et al.*, 1991; Gummesson, 1987; Payne and Holt, 2001). Therefore, investing in the relationship seems to be a fact. However, the aforementioned objectives seem difficult to achieve, due to a number of factors, such as increased competition from companies located outside the national boarder, the crisis affecting several parts of the industrialized world, the greater ability of customers to quickly learn (and at a low cost) the options available in the market, often using the Internet, and the increasing spread of e-commerce. These changes have led companies to increasingly focus on the customer, their needs, desires and goals to make an offer as personalized as possible and therefore considered more valuable by the customer. If the value perceived by the customer is high, he is likely to make the purchase and will remain loyal to the company, as long as the value holds out over time. This reasoning also questions the actions of competitors, that is, the companies with which the company is compared and splits the market space. In fact, the demand will reward the company that delivers the highest value (from the customer's point of view). Therefore, it is necessary to know the customer, his habits and what he considers important in order to act on these elements to gain competitive advantage. If the client is convinced of the benefits of the *value proposition*, he will be less attracted to the initiatives implemented by competitors, at least in the short-term, and will tend to remain loyal to the company. It is obvious that not all customers are equally important, in terms of revenue generation, but all of them deserve attention, although they are partially conditioned by the level of strategic importance of the company as measured by their contribution to revenue generation. From the above, it is understood that the importance of systematically measuring customer profitability, allows the definition of differentiated and effective marketing actions.

These topics will be discussed in more detail, also considering the implications of value in monetary terms, both in relation to the company-client relationship and globally, in terms of business value.

3.2. Customers are not all the same

The trend to invest in this relationship and its customization is due to the value that this can generate and the important implications resulting from it. If this is true, it is equally true that not all customers are the same for the company, and this implies the level of efforts made for those customers, especially with regard to marketing initiatives. The commitment and initiatives offered to customers will, in effect, take into account their potential profitability. Taking into account this last aspect and the expected loyalty of the customers it is possible to build a useful matrix to decide on actions meant to choose, among other things, the best relational strategy for each type of customer (Fig. 3.1). Strangers are the category of clients in which the investment of time and resources are not appropriate. This category is made up of customers who are not profitable and their loyalty is limited. These are individuals for whom the company's *value proposition* is not considered appropriate to meet their needs/requirements/demands. On the other hand, the category of customers called Butterflies, are potentially profitable but unstable. These are customers who remain loyal to the company for short periods to enjoy temporary advantages.

Figure 3.1 – Customer classification based on potential profitability and expected loyalty



Source: Werner Reinartz, V. Krumar (2002).

Initiatives meant to retain these customers are hardly ever successful. In this case, it is preferable to make the most of the period in which the relationship with these customers is active (proposing, for example, personalized offers and/or promotions) and then suspend or limit the marketing initiatives when the relationship is over.

True friends are customers with whom a fiduciary and emotional relationship is established. These are customers who are willing to interact and collaborate with the company to increase the value of the offers made to meet their specific needs. The company considers the true friends an important source of information and an essential resource for the generation of income and profitability targets. In fact, by keeping the relationship over time with these customers, the company can generate a certain level of turnover and income. Moreover, even if the experience is thought of unique and special, it will initiate and feed a positive word of mouth, which can have important effects on attracting further demand to create revenue. Moreover, customers who are enthusiastic and satisfied with a given offer are classified as Ambassadors due to the positive role they play in the process of creating, disseminating and strengthening the corporate image and/or the brand.

Sticky customers are loyal customers but they generate a limited profit. These are customers who make acquisitions of small amounts and/or low-profit types of service for the company. The efforts directed towards these customers should be aimed at increasing the amount of purchases by acting on the products/services regularly acquired by those customers or trying to implement initiatives of up-selling or cross-selling towards them. In the event that these efforts do not produce good results, the company could try to lose those customers by suggesting them, for example, to try other solutions evidently more suited to their needs and requirements.

From what has been said, a very important fundamental consideration emerges: each customer is different from the other and the company must be able to identify the most suitable relationship strategy for each customer belonging to its customer portfolio. The ultimate goal is to establish the most appropriate relationship for each customer (Kotler *et al*., 2015, p. 35).

3.3. Mission and Customer satisfaction

In recent years, customer satisfaction has become a fundamental goal to be achieved, often explicitly reported in the company's mission. The business mission is the statement that identifies the purpose of a company and that distinguishes it from the others (Levens, Casarin, 2014, p. 31). In the mission it should be reported the advantage that the company offers to the target to which it is addressed that should be relevant and differentiated from that of competitors. As an example, we report some missions of established brands in the service sector, where customer satisfaction is indicated as a guide and goal to be achieved:

Avia budget group [1]

We will provide the leadership and support necessary to sustain long-term growth and customer satisfaction to our world-class brands. We will passionately promote quality and service at all levels while enhancing each brand's competitive advantage.

American Express [2]

At American Express, we have the mission to be the most respected service brand in the world. To do this, we have built a culture that supports

[1] http://www.avisbudgetgroup.com/company-information/our-purpose-mission-and-vision/.

[2] https://www.gema.it/blog/marketing-comunicazione-e-management/le-mission-aziendali-famose-5-esempi-ispirano-motivano/.

our team members, so that they can provide exceptional service to our customers.

MSC Cruises [3]

The mission of MSC Cruises is to provide a rich warm and cheerful service. The training programs we offer to our staff allow us to provide our guests a service with care and discretion. Whether it is to serve drinks, prepare food or answer any of your questions, we will do everything to help you, efficiently and promptly. You'll find one gregarious and attentive staff to everything and you can relax and enjoy every moment of your holiday, aware of being in good hands. Comfort above all.

The high number of staff per guest ensures a high-quality service on board.

Our qualified and multilingual staff is able to communicate in the main languages spoken by our guests. Our attention to detail and problem-solving approach ensure appropriate and fast solutions to any request.

Blu Hotels [4]

The hotels and villas of Blu Hotels are the ideal places to enjoy your holiday surrounded by the care of a staff that favours the most genuine hospitality in wonderful settings, enriched by the charm of the best tourist resorts in Italy. In the 30 facilities of the Blu Hotels, there is worldwide of Italian holidays, in the environments and colours, in the landscapes and flavours and in the different lines of products and accommodations that the guest can enjoy when choosing a brand that, for over 20 years, fulfils the dreams of those who are looking for a holiday in perfect Italian style.

In the mission above, the characteristics of the offer are highlighted, and more or less explicitly, the close connection between internal customer satisfaction and external customer satisfaction are especially evident in service companies. The possibility of offering exceptional service, aimed at maximizing the satisfaction of external customers, is seen as a natural consequence of teamwork carried out within an organization where there is a deep and widespread culture of service. Moreover, it has been found that a good service environment and a good organizational environment are strongly correlated with the overall perception of customers on the quality of service (Schneider, Bowen 1993).

It is for this reason that in service companies, human resources are required to

[3] https://www.msccrociere.it/it-it/Informazioni-Crociera/Staff.aspx.

[4] http://www.bluhotels.it/.

adhere to well-defined rules of conduct aimed at achieving certain service standards essential to making a great client experience.

Box 5 – Costa Cruises

Costa Cruises is the only cruise company flying the Italian flag. More than 70 years have passed since the first trip (done with Anna C on March 31, 1948 from Genoa to Buenos Aires) and from that moment the company has grown a lot, reaching today to 15 ships in service, 60 ports of embarkation, 248 destinations, 140 itineraries, 775 cruises and 2,589 excursions (https://www.costacrociere.it/B2C/I/Corporate/Pages/thecompany.aspx). By the year 2021 will be integrated to the fleet 6 new generation ships built according to criteria of responsible innovation and for this reason destined to determine the trend in the whole sector. Since April 2003 Costa Cruises is part of Carnival Corporation & plc, the largest cruise group in the world. The group Costa Cruise SpA, also include the AIDA Cruises brand, leader in the German market, which has nine ships in service and three on order, and Iberocruceros, which operates in the Spanish and Portuguese markets with 3 ships in service, for a total of 26 ships in service and 4 on order(https://www.costacrociere.it/B2C/SharedResources/Corporate/History/pdf/LaStoriaCosta.pdf).

Costa feels the responsibility, but also the privilege, of being a bearer of the Italian values in the world and representing Italy in the ports where Costa ships stop. To generate satisfaction and loyalty of its customers (external and internal) Costa has defined precise rules of behaviour, a set of behaviours as the "Costa Touch", a distinctive style which characterizes Costa and should be applied by those who have a service relationship with Guests. All employees must comply with the "Costa Touch" in order to provide the best service to external and internal clients (which are the guests and internal employees) who benefit from the results of our work. All this to keep the promise made to customers, which is "We all make our guests' dreams come true".

The Costa Touch guidelines are the follows [5]:

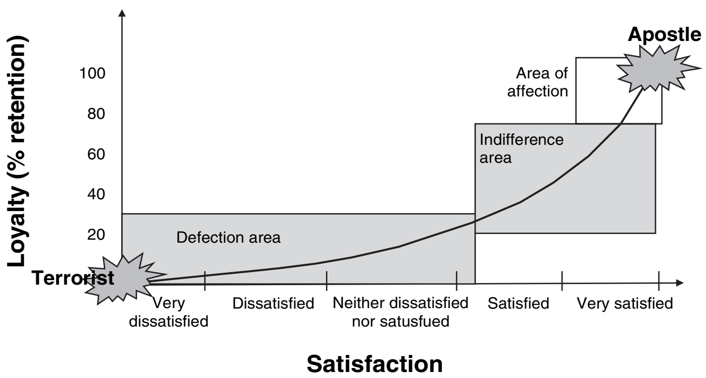
1. Our uniform and our personal appearance must be immaculate.
2. We need to know our duties and the Costa Touch contents thoroughly.
3. We must act to ensure the utmost cleanliness and the protection of Costa assets, as this is also our responsibility.
4. We must take personal care of the safety and well-being of our Guests.
5. We should greet our Guests with a friendly smile (even on the phone), with a formal greeting and with appropriate body language. Whenever possible, we should address the Guests by their name.
6. We perform the requested service impeccably.
7. We must consider any help request from our Guests as our personal concern and treat it as such.
8. Any complaint from the Guests must be our personal concern and we must do our best to fully pacify them.
9. We must always check the satisfaction of our Guests after the service has been performed.
10. We should always remember that ultimately, it is our Guest who pays our wages.

[5] https://www.costacruisesasia.com/b2c/aus/corporate/human/pages/the%20costa%20touch.aspx.

3.4. Measuring satisfaction

As part of continuous improvement is important for companies to understand and monitor over time the level of satisfaction of its customers, knowing that only the achievement of a high level of satisfaction can generate loyalty (behavioural and emotional) and positive word of mouth. Helgesen (2006) reported that customer loyalty is positively related to customer satisfaction and performance of business unit. From what has been said, it is possible to understand the importance of ensuring that customers reach high levels of satisfaction, called apostles (Figure 3.2). For this purpose companies can proceed using different methods. Some control certain parameters that indirectly can provide useful information for the purpose such as the Customer retention rate, customer complaints, the rate of loss of customers, the trend in turnover and profitability. Others, on the other hand, perform direct interviews with customers in addition to monitoring the aforementioned indicators. This solution may require significant implementation time and costs, but has the advantage of providing the company with detailed information on certain aspects of the relationship with the customer and, in general, on the perception of the experience made that can be very useful to address certain initiatives to change/improve/enrich the product and/or the service.

Figure 3.2 – The relationship between customer satisfaction and loyalty



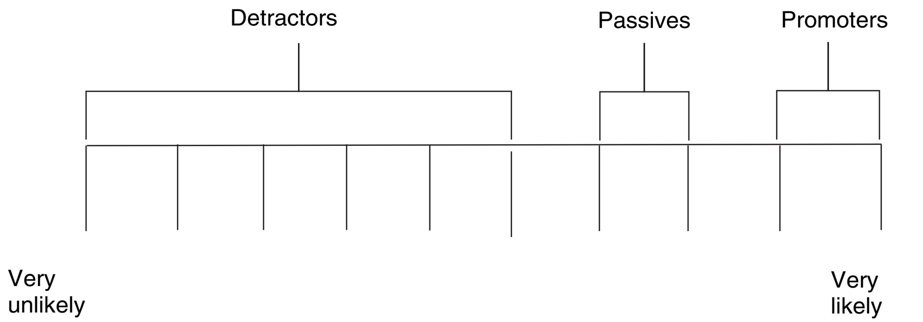
Source: Lovelock and Wirtz (2007).

Among the methods providing the administration of a customer questionnaire we can mention, the SERVQUAL model (Parasuraman, Zeithaml, Berry 1985, 1988, 1991) and its reinterpretations, the ServPerf model (Cronin, Taylor, 1992, 1994), the Kano Model (Kano, 1984) and Valdani-Busacca Model (Valdani, Busacca 1995). The SERVQUAL method is based on the calculation of the differences between expectations and perceptions on a number of pre-specified criteria, while SERVPERF investigates the relationships between service quality, consumer satisfaction and purchase intentions. It's based on the presumptions that service quality is an antecedent to consumer satisfaction, that consumer satisfaction has a significant effect on purchase intentions, and service quality has less effect on purchase intentions than does consumer satisfaction (Baggs, Kleinser, 1996). The Kano model considers three types of product/service requirements that can have a different impact on customer satisfaction: Must be, One dimensional and Attractive. It is especially the latter that, even if not expressly requested by the customer, can generate delight and exert a significant influence on the level of customer satisfaction. The Valdani-Busacca Model instead relies on the analysis of Gap that may be causing the Gap value. The latter occurs if there is a deviation between the desired quality by the customer and the quality perceived by the customer. The identification of the causes that led to this gap can allow management to address efforts towards specific directions maximizing the level of effectiveness and efficiency of the actions undertaken.

The models described above require an investment of resources (financial and human), which can also be non-negligible, and an appropriate time frame to perform the planning and the implementation of the survey. According to Frederick Reichheld of Bain, the costs, time and complexity of the analysis can be significantly reduced by addressing customers with just one simple question. Based on 1,400 customers from 14 industries he determined that the question of the survey with the strongest statistical correlation with repeat purchases or referrals in most industries was the following: How likely are you to refer Company X to a friend or colleague? (Reichheld F. 2003).

According to this author, the answer to this question provides insight into customer perception regarding the treatment reserved for him by the contact personnel, who in turn is determined by all the functional areas that affect the overall experience lived by the customer. The answer is collected as a rating on the 0-10 scale. Then customers are categorized into three groups according to the behaviour of their answers. The first group, defined promoters, is made up of those customers who have given a 9 or 10 score. The second group, called passives, is formed by customers who occupy a neutral position having provided an answer of 7 or 8. The third and final group consists of customers who declare a disappointing score between 0 and 6. These customers are the detractors or those who have not been satisfied by the experience and do not say nice things about the company and/or the product/service although they vary in terms of their own personality and attitude. The net promoter score (NPS) is calculated by subtracting the percentage of detractors from the percentage of promoters, while the percentage of passives is not used for the calculation (Hörsch, Rudinger, 2009) (Figure 3.3).

Figure 3.3 – NET Promoter Score



Source: Reichheld (2006).

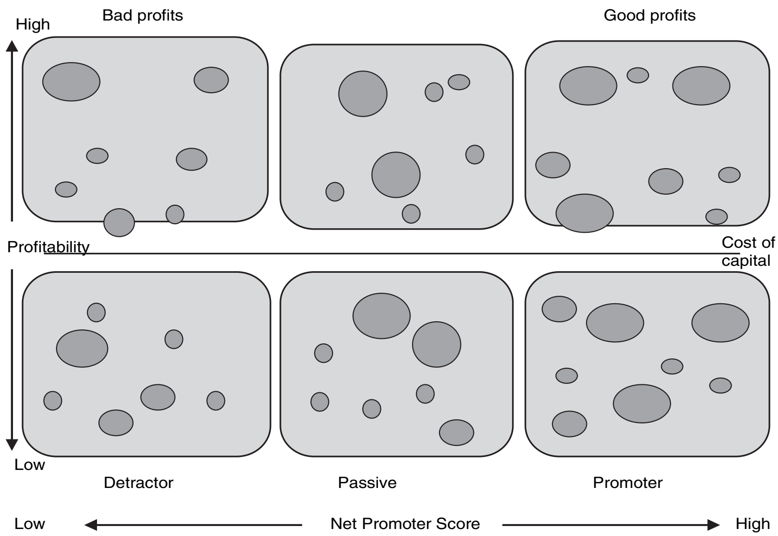
The situation improves as the value of the NPS gets higher. The higher the score, the greater the presence of satisfied and loyal customers in the company's customer portfolio. Companies that obtain the best performances at a global level have a score of over 50%. Generally, the NPS score falls in the range 10-30 (Kotler *et al.*, 2014). This method has the undeniable advantage of simplicity. It is for this reason that it has received a lot of consensus in the business environment. However, it was immediately criticized by Kristensen and Westlund (2004) and Morgan and Rego (2004) and subsequently by many others (Brandt, 2007; Grisaffe, 2007; Kieningham *et al.* 2007, 2008b, Morgan, Rego 2008; Pingitore et. to 2007; Shaw, 2008; Sharp, 2006; Hayes, 2010). Even Kristensen and Eskildesen (2014) assert that the NPS is not what it claims to be and that a company [6] would do better to use a standard customer loyalty measure such as those employed by the American Customer Satisfaction Index (ACSI) or its European counterpart (EPSI) instead of the NPS.

The NPS can also be useful to decide on which customers to invest most, trying to make the best use of resources with a view to increasing corporate value in the medium/long term. A useful work tool can be, in this regard, the

[6] Their analyses are based on business-to-consumer data and thus the results are refer to this specific area. As the authors themselves point out, it is appropriate to shed light on the performance of the NPS across cultures as well as in a business-to-business setting. Also, it would be advisable to take into account the demographic aspects and the different methods of distributing the recommendation question on which the NPS categorization is based.

Profitability Grid in which the customers are divided into clusters based on the level of Profitability and the NPS (Figure 3.4).

Figure 3.4 – Customer NPS – Profitability Grid



Source: Blasberg *et al.* (2008).

The calculation of the Profitability level of each customer segment (Promoter, Passive and Detractor) requires the quantification of revenues and costs generated by each of them, calling into question aspects such as margins, frequency of purchase, cost efficiency and the economic effects of the word of mouth. Once the grid has been built it is possible to use it to try to increase the NPS generated by satisfied customers with high profitability. Therefore, the High-promoters, in the upper right, should receive the utmost attention from management and should focus on the most important initiatives aimed at maintaining this relationship of trust over time based on high loyalty and profitability. In other words, management must not assume that this relationship will remain over time without appropriate commitment by the company personnel. Targeted marketing initiatives could be activated towards them, aimed at rewarding them for their loyalty, with customized solutions that consider the deep knowledge the company has of their demographic characteristics, needs, habits, preferences, etc. The second priority for the company is to manage in a correct way, the High-profit detractors. These customers will tend to interrupt the relationship with the company as soon as they are given the possibility, that is, when they find in the market an offer considered best. These are customers who are spreading bad publicity on offerings, with obvious negative effects in terms of image, reputation, and performance.

For these customers, the company should try to direct targeted actions defined after having investigated the causes of dissatisfaction with the implementation of specific marketing surveys. The identification and elimination of these appear to be a fundamental step to try to transform customers who are High-profit detractors into High-profit passives and, over time, possibly into High-profit promoters.

The third priority is to transform low-profit promoters into high-profit promoters. The transition to the upper right corner could occur as personalized promotions and the increasing use of digital marketing tools to strengthen the relationship and make the customer feel important and pampered.

In the lower left are the unhappy and unprofitable customers. Investing in this customer segment does not appear to be justified. It seems best, both strategically and economically, to optimize the use of resources and dedicate more resources and efforts to the best customers and to those who, in perspective, can become one of the best customers over time.

3.5. Customer perceived value

A necessary condition to have the possibility of achieving satisfactory economic performance, even if not sufficient, is the presence of a profitable customer portfolio. This portfolio will be established and developed over time if the client perceives a certain value in the offer of the company, whose level exceeds that of the competitor's proposals. From this premise, we understand the importance of the perceived value that is defined by the customer as an opinion or assessment between the benefits or advantages gained from a product, service or relationship and the perceived sacrifices or costs (Zeithaml, 1988; Monroe, 1990, Teas and Agarwal, 2000, Kotler *et al.*, 2014).

With regard to benefits, it is possible to identify different types of advantages requested by the client and evaluated by him in terms of a specific offer of their economic, social and relational interest. For services, the component would include the perceived quality of the service. This component also appears to be important because it is hard to be replicated by competitors and is able to differentiate the company's offer from that of its competitors. Regarding the cost component, several parts of the total perceived cost are recognized. The customer usually attributes the main component to the price, but non-monetary cost components such as time, energy, and effort are not to be neglected. The comparison between benefits and costs shows the amount of perceived value that will decisively impact on the customer's purchasing process. In fact, the act of purchase will be towards such offer that shows the highest perceived value and thus embodies the relationship between this value and the highest perceived value of the competitor in the market where the result is greater than one.

In the evaluation phase of the components of the perceived value comes into play a subjectivity component that cannot be eliminated, which ensures that a given offer can be judged by one individual and not by another due to the different weight assigned to the various components of the aforementioned value. Moreover, "value for the customer results from the personal comparison of the benefits obtained and the sacrifices made" (Zeithaml, 1988).

A second approach considers the theme of perceived value. According to this second approach, the perceived value can be also considered a multidimensional construct (Woodruff, 1997; Sanchez *et al.*, 2006). In this construct, the value incorporates a functional dimension (rational and economic valuations of individuals) and an affective dimension considering the emotional and social aspects of the individual. The emotional dimension relates to feelings or internal emotions, while the social dimension considers the social impact of the purchase. Factors identified in the functional dimension include value for money (Sweeney *et al.*, 1999), product quality (Sweeney *et al.*, 1999; Sweeney, Soutar, 2001), versatility (Sweeney *et al.*, 1999), quality of service (Sanchez *et al.*, 2006), non-monetary sacrifices (Sweeney *et al.*, 1999) and price (Petrick, 2002).

From the aforegoing, it is possible to understand that when management is committed to maximize the perceived value can direct their efforts towards different directions simultaneously or focus on one or a few of them. It could, for example, try to increase the level of functional benefits by enriching the offer of additional features or improving certain product/service attributes. Or it could try to reduce the weight of the components belonging to costs by acting, for example, on price or on the psychological cost by implementing solutions aimed at reducing the perceived risk (trying to understand the *value proposition* when evaluating alternatives or offering guarantees such as money back).

Box 6 – Customer perceived value in banking services

The banking sector has been affected in recent decades by significant changes both in terms of competitive dynamics and the relationship between company and client. There was an increase in the competition which made it more difficult for companies to conquer and maintain their customers. Furthermore, the development of IT has completely changed the way they interact with customers, allowing a radical change of the service package offered to the market, some of which are directly accessible by customers via Internet. The goal of customer loyalty requires careful and rigorous consideration of everything to make the most of the changes taking place, considering them an opportunity rather than a threat. After all, customer loyalty is considered a very important issue and it is with the intention of conquering it that many companies have adopted a relationship marketing approach. The literature on financial services indicates that banks should focus their efforts on three fundamental points: shareholder value (Ingo, 1997), employee value (Payne *et al.*, 1999) and customer perceived value (Reidenbach, 1996; Kelly, 1998; Marple and Zimmerman, 1999). Considering the latter component, it was observed (Roig *et al.*, 2006) that in the banking sector, the post-purchase perceived value by the customer is composed of six dimensions:

1. functional value of establishment;
2. functional value of personnel;
3. functional value of service;
4. functional value of price;
5. emotional value;
6. social value.

In order to identify the aforementioned dimensions, the authors used an adaption of the GLOVAL scale, validated by Sànchez *et al*. (2006) to the specific characteristics of the banking sector. The advantage of this model is that it considers the perceived value of the product or service acquired with the perceived value of the establishment where the purchase was made and the service provided by the staff. The results show that in the banking sector, the most important elements of perceived value by customers are the emotional value (the feelings generated in the customers) and the personnel that attend the public. Thus, bank employees play a very important role and this emphasizes the importance of the recruitment and training policies implemented by the bank. Over time, it is also important to monitor knowledge compliance among employees and their attitude towards customers (Roig *et al*., 2006).

3.6. Customer Value Analysis

The analysis of the components of the perceived value is considered essential to proceed with the Customer Value Analysis, a method known as *à la Fishbein*. This method is based on the following formula:

$$VA = \Sigma\, I_i\, P_{ia}$$

Where:

$I_i =$ Relative importance of the x-th attribute
$P_{ia} =$ Performance perceived in the offer of the profit or brand *a*, with reference to the e-th attribute

The value obtained with the application of this formula incorporates the importance that the customer attributes to the various elements that make up the offer, an aspect of undoubted weight in the process under examination.

However, the value concept takes into account not only the benefits, but also the performance and the costs. Therefore, the above formula can be extended by including the total charges the customer has to bear to acquire and enjoy the perceived benefits. Therefore, it is presented as follows:

$$VA = \Sigma\, I_i\, P_{ia} \,/\, \Sigma\, I_i\, O_{ia}$$

Where:

O_{ia} = Costs or burdens perceived by customers with reference to the x-th attribute of the brand or product/service *a*

The challenge that any business manager has to deal with is to find effective solutions to maintain the high perceived value of the offer. Successful companies, those that have managed to achieve this important goal in their target markets, have often relied on innovation, quality (in services, *in primis*, on the quality of the relationship), research and the development of strategic alliances with companies and/or organizations of excellence in their area of domain. This allowed them to re-distinguish themselves from competitors and acquire a specific identity (brand and/or product) appreciated by the target audience.

3.7. Customer Life Time Value

Putting customers and their satisfaction at the center of the company's strategic project also has important target goals. Customer satisfaction and loyalty are seen as essential steps for cash flow generation, which will be higher and will last longer as the customer builds a relationship based on trust with the company. This requires a deep knowledge of its customers and a constant commitment to continuously improve/enrich its own offer to the market. It is useful to quantify the asset value of customers to identify the so-called strategic customers, those that alone allow the company to produce the highest returns. The estimate of the LTV is not an operation of little importance, but rather a useful solution for acquiring information on customers that can be useful to break them apart and define specific operational marketing actions for each segment identified. According to the law of Pareto[7], 80% of a company's profits are generated by 20% of its customers, the most loyal ones. These customers therefore take on a particular importance for the company not only for returns that can be generated immediately but also for the action of word of mouth, conveyed face to face or via Internet/social media, which usually they activate and feed over time. This fact impacts on Customer Retention Rate and on the attractiveness of new customers, with obvious consequences in terms of the ability to generate resources in the short and medium/long term.

From what has been said, it is possible to understand that customers should be considered a resource and managed in the best possible way. Initiatives focused on their loyalty should be considered an investment to maintain this valuable relationship over time. However, the commitment and resources dedicated to this activity can change in relation to the importance assigned to customers, as we have already seen in paragraph 3.1. Furthermore, the overall effects on corporate value, the primary goal of profit-oriented companies, must not be neglected. Moreover, a customer portfolio consisting of a significant share of loyal customers, represents an important business asset which, being intangible, also appears to be difficult to be acquired by the competition and therefore, this advantage acquires the character of durability.

Consequently, the concept of managing customer retention (Reichheld *et al.*, 2000) has contributed to the emergence of the concept of Customer Lifetime Value (CLV) (Reinartz, Kumar, 2002). Kumar emphasized there are eight specific CLV-based strategies: selecting the best customers, making loyal customers profitable, optimally allocating resources, pitching right products to the rights customers at the right time, linking acquisition and retentions resources to profitability, preventing customer attrition, encouraging multi-channel shopping behaviour and maximizing brand value (Kumar *et al.*, 2008). In the recent past, the adoption of CLV-based strategy at IBM produced positive effects in terms of revenue without any change in the level of marketing investment.

In the formula, the CLV can be calculated as follows:

$$CLV = \sum_{t=0}^{T} \cdot \frac{(pt - ct)}{(1+K)^t} - AC$$

[7] Pareto's law is also known as the 20/80 law. It states that in almost all phenomena, around 20% of the causes determine the 80%, or a very similar percentage of the effects.

Where:

pt = price paid at time t
ct = direct costs incurred to serve the customer at time t
pt – ct = customer contribution margin at time t
i = discount rate
T = expected duration of the relationship with the customer
AC = cost of customer acquisition

In calculating the LFT it is possible to use the customer contribution margin expressed in economic terms or in monetary terms. In the latter case, the cash flows are entered in the numerator of the aforesaid formula and the measure of the indicator takes the name of Net Present Customer Lifetime Value (NPCLV).

The formula shows that the value of a specific customer is linked to the duration of the relationship, the size of the contribution margins (economic or monetary) that the customer generates each year in favour of the company and the discounting rate. Considering the elements taken into consideration in the calculation, it is possible to understand how the levers raise the aforementioned value. These levers are the following:

Price: a price increase has the effect, under the same conditions, of an increase in the contribution margin of the customer. An increase in price, if applied, must be understood by the target, otherwise the risk is to reduce the competitiveness of the proposal for the benefit of competitors. For example, the price increase could be linked to the addition of services deemed important by the customer that can make this increase accepted without reducing the perceived value;

Direct cost incurred to serve the customer. If management, with appropriate interventions in organizational and operational areas manages to reach better productivity levels, it is possible to envisage a reduction of this cost component. All the solutions aimed at achieving this result must be considered, and possibly introduced. As an example, a different / better organization of human resources and the additional investment in new IT equipment and software capable of responding faster to customers following a customer service contact can be considered important for this purpose. Moreover, an increasing use of social media and, in general, of the network for communication purposes can allow a reduction in the cost in question, with positive effects on the extent of the contribution margin of the customer;

Customer acquisition costs. This is a cost component similar to the investments necessary to activate the relationship with a new client (communication, promotional, structural, etc.). The magnitude of these costs is related to the level of competition in this sector. However, these costs are also influenced by the degree of competitiveness of the company and its ability to attract new customers thanks, above all, to the effect of word of mouth of satisfied and loyal customers.

Discount rate: in financial evaluations, this rate expresses the average cost of funding sources used by the company (WACC) and is linked to the financing choices defined by the finance area. It is possible to correct this rate to take into account the specific level of risk of margins or, in general, of the company [8].

Duration of the relationship: the longer the duration of the relationship, the greater the number of years considered in the formula and, therefore, the greater the CLV will be. Customer loyalty appears, even under this aspect, an important goal to achieve. In the case of true loyalty, the limited time horizon could be considered unlimited, assuming a perpetual duration of the relationship [9]. It is also necessary to keep in mind that a loyal customer tends to spend more than an occasional [10] one, with evident effects on the extent of

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[8] For more details, refer to paragraph 3.10.

[9] Dick and Basu (1994) cross classified customer loyalty into four dimensions that consider the relative attitudinal and behavioral relationship: true loyalty; latent loyalty, spurious loyalty and low loyalty. A positive attitude to a positive attitude towards a brand, a product and/or a service. Customers who hold a positive attitude towards the brand but do not purchase the brand frequently. Spurious customers are customers who make repeated purchases not so much because they consider the best choice but for habits, conveniences or financial intentives. Finally, customers who exhibit a low level of likelihood of repeat purchase and attachment are called low-fidelity customers. Taking this classification into account, it is possible to understand how to proceed. With a correct measurement of loyalty it is appropriate to take into account behavioral and attitudinal measurements. A further loyalty measurement approach considers, in addition to the aforementioned aspects, the customers' preferred products, propensity to change brands, frequency of purchase, purchases made recently and the total amount of purchase (Pritchard, Howard, 1997; Kiyani *et al.*, 2012). Loyalty can also be considered a period in the evolutionary process of the relationship as perceived over time by the customer. Loyalty can also be considered a phase in the evolutionary process of the relationship as perceived over time by the customer. From the state of satisfaction, in case the customer realizes the value expected by the company has been obtained, he will move on to the trust phase, which is a condition where the client believes that in the future, the company will keep what has been promised. When this conviction consolidates the transition to the next phase, the loyalty phase (behavioral and mental) (Costabile, 2001), comes to manifest itself. In this situation, customers are not very sensitive to competitors' initiatives. The last phase, that of loyalty, is characterized by the production of an extra value. Customers understand that the company is getting good income performance thanks to the relationship established and maintained with them. This situation is also known as a result of initiatives target at loyal customers to reward them for the lasting relationship kept with the company.

[10] A study conducted with Casino visitors (Baloglu, 2002) showed that there is significant differences among different types customer loyalty. In terms of attitude, trully loyal cus-

the margins. The latter will remain at a good level thanks to the deep knowledge of customer habits and preferences that allows you to customize the product/service with very interesting measure and therefore able to reach high levels of customer satisfaction and loyalty and achieve overall positive performances (Bakanauskas, Jakutis, 2010). After all, "It is believed, that companies exist to create value to the customers" (Bick, Alexander, Bendixen, Abratt, 2009).

Table 3.1 shows an example of the CLV calculation. It assumes an annual increase of 5% revenue per customer and a discount rate of 10%. Also in the calculation have been inserted synergistic effects linked to up-selling and cross-selling, using for calculating a percentage equal to 30% for the quantification of the incremental revenue (percentage applied on annual revenue per customer) and 43% for the incremental costs (percentage applied on annual operating costs per customer).

The formula is susceptible to changes that may concern the time horizon, which can be considered infinite, and the inclusion of the probability of maintaining the relationship with the customer. If we consider both and we assume the use of a retention rate and constant margins the formula is simplified a lot and is presented in the following way (Gupta, Zeithaml, 2006):

Table 3.1 – CLV calculation (with up-selling and cross-selling effects)

		year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10
Revenue per customer		500,0	525,0	551,3	578,8	607,8	638,1	670,0	703,6	738,7	775,7
Higher operating revenues (30%)		150,0	157,5	165,4	173,6	182,3	191,4	201,0	211,1	221,6	232,7
Total revenues (A)		**650,0**	**682,5**	**716,6**	**752,5**	**790,1**	**829,6**	**871,1**	**914,6**	**960,3**	**1008,4**
Operating costs per customer (55%)		275,0	288,8	303,2	318,3	334,3	351,0	368,5	387,0	406,3	426,6
Higher operating costs (43%)		64,5	67,7	71,1	74,7	78,4	82,3	86,4	90,8	95,3	100,1

Segue

tomers display stronger emotional commitment and trust regarding casinos than spurius and low-loyalty customers. In terms of behavior, the time spent in the casino and the number of visits among trully loyal customers is significantly higher than those of other types of loyalty customers.

Total costs (B)		**339,5**	**356,5**	**374,3**	**393,0**	**412,7**	**433,3**	**455,0**	**477,7**	**501,6**	**526,7**
Gross contribution margin (A-B)		310,5	326,0	342,3	359,4	377,4	396,3	416,1	436,9	458,7	481,7
Acquisition cost per customer	– 400										
Present value		**282,3**	**269,4**	**257,2**	**245,5**	**234,3**	**223,7**	**213,5**	**203,8**	**194,6**	**185,7**
Total current value	2310,1										
CLV	**1910,1**										

$$CLV = \sum_{t=0}^{\infty} \frac{(pt - ct)r^t}{(1+K)^t} = m \frac{r}{(1+i-r)}$$

With

r^t = probability that the customer repeats the purchase or that it is still "alive" at t time

m = contribution margin (p – c)

From the formula, it is evident that the CLV becomes a multiple of m. The final value of the calculation will be: the higher the r is (retention rate) the lower the i will be (discount rate).

Inside the formula it is also possible to consider any growth over time of m or margins produced by the customer. In this case, we introduce g (annual margin growth rate) to the denominator as follows:

$$CLV = m \frac{r}{\left[1+i-r(1-g)\right]}$$

Being a growth margins, g is set to rectify i. Therefore, with the same conditions, the higher the estimate of g, the greater the result of the CLV.

The formulas described above are based on a series of hypotheses regarding the parameters used. By modifying these hypotheses, it is possible to make simulations that can also be useful to evaluate in advance any interventions aimed at improving the extent of the CLV. Such simulations can therefore be very useful in choosing alternative actions.

Such interventions may be considered as those aimed at increasing purchases made by existing clients, pursuing a policy of market penetration and/or product development. These policies, as reported in Ansoff's matrix (Figure 3.5), are aimed at existing customers/markets with existing or new products respectively.

Figure 3.5 – Ansoff Matrix

Increasing risk →

Market \ Product	Existing products	New products
Existing markets	Market penetration	Product development
New markets	Market development	Diversification

Increasing risk ↓

The market penetration strategy could be implemented by providing a change in the communication strategy, using innovative tools, more suited to reach the target audience or by modifying the message conveyed to the target to better understand the distinctive features of the value proposition. Another area of intervention could be the distributive one. Interventions could be implemented in existing points of sale (pdv) and/or to increase the pdv to "bring" the offer closer to the target and thus facilitate the meeting between supply and demand. Furthermore, cross-selling and up-selling could be planned, with obvious involvement of the company's product policy. In fact, these activities could generate additional revenues and operating profits. They can be framed as synergistic effects produced by the relationship with the client and, in particular, by the bond of trust that has been created between the client and the company itself (Angelini, 2016).

3.8. Customer Equity

The calculation of the monetary value of the customer can be extended to all customers. By adding all customer CLVS, you can calculate another indicator called Customer Equity (CE). It quantifies the overall profit the firm may obtain from its customer base. Take a look at the formula below (Wayland and Cole, 1997): sistemare formula

$$CE = \sum_{t=1}^{n} \frac{Q_t M_t}{(1+i)^t} - \sum_{t=1}^{n} \frac{(S_t + F_t)}{(1+i)^t} - A_t$$

Where:

Q = volume of purchases in the years taken into consideration
M = value of margin per unit of purchase net of tax
S = costs of developing the relationship

F = costs incurred to increase the rate of customer loyalty, which is the duration of the relationship and the extent of the volumes purchased

A = Customer acquisition costs

Also, for the calculation of the CE, it is possible to introduce corrections such as the probability of repurchase (Wayland and Cole, 1997) in the calculation of revenues. Therefore, (QtMt) is multiplied by Pt by eliminating the initial condition of a continuous relation over time. Other authors have considered the Retention Rate in the formula.

To apply the methodologies described above, it is necessary to have a wide range of information and data, some of which are difficult to estimate. Since these are perspective values, it is clear that a component of uncertainty will always remain, but it can be reduced with a good knowledge of the dynamics of the company's sector, reference target of the competitors (tastes, preferences, purchasing behaviour, etc.) and an efficient accounting organization. In fact, the quantification of margins requires the use of revenues and costs at the individual and/or total customer level, which assumes the maintenance of a proper and up to date cost accounting structure to provide Management the required inputs to carry out the calculation in question. This presupposes the adoption of a strategic direction based on the client and his utmost satisfaction, with evident effects in several areas of the business called to operate in a coordinated and efficient way to reach the established purpose.

3.9. The use of Real Option for the strategic business analysis

In a rapidly changing competitive environment, it is important to be endowed with high flexibility. Therefore, inside the company, the concept of managerial flexibility has become increasingly important. This term means "the right of Management to adjust its future actions to changes in market conditions, competitive response or results obtained during previous stages of the project" (Leshchiy, 2015). To take into account the managerial flexibility within the financial analysis, a specific technique called Real Option was developed. It comes from the theory of financial options, from which the underlying logic takes over. Yet, real options analysis (ROA) is based on real assets and depends on future events. Thus, the real options give managers the flexibility that increases the Net Present Value (NPV) of the investment project (Roger, 2002). If we consider the relationship with the customer or a group of customers, a company asset and the activities designed to create and improve this relationship over time, a project, whose objective is the creation of value in the medium/long term, the real option method can be considered the managerial flexibility. The methodology of real options calculates the NPV including the amount that Management can generate intervening on the project after it was initiated, in light of new information that becomes available gradually. This will happen if the current behaviour of the Management can generate a greater value than the alternative of not intervening in the project. From what has been said, the link between the logic of financial options (put and call) and real options is highlighted as they give the holder of the option the right (but not the obligation) to make certain decisions.

Therefore, from what has been said, the extended NPV (which in the context of the evaluation of the relationship with the client, could be called extended CLV) will be calculated as follows:

Expanded Value = Expected NPV + Value of Real Options

In theory, as we have already noted, the actions (and associated investment) undertaken by management to take action on a given relationship enabled by the company to a customer or a group of customers can be assimilated to the exercise of an option. These interventions may be aimed at strengthening the relationship itself by providing, for example, an increase in the moments of company-customer interaction (**Option to expand or grow)** with the launch of specific initiatives, more or less demanding from an economic and organizational point of view. The purpose often sought is to create jointly value through a close collaboration between the parties involved. In fact, in these cases, the suppliers become co-creators of the value with their customers (Gronroos C., 2008, Payne A.F., Storbacka K., Frow P., 2008). This interaction becomes, therefore, a source of value opportunities; and overall, such moments of interaction can be considered true value options to be practised if they can positively influence the value obtained by both parties (suppliers and clients). Another possible option is for the outage of a relationship already in place. In this situation the relationship is interrupted earlier than expected, believing that this solution is preferable to the continuation of the relationship itself (**Option to abandon**). This is evidently a negative evolution of the relationship caused by the events occurred at a time after the start of the relationship. This is the case, for example, of an insurance company that decides to terminate the relationship with a customer deemed not profitable because of the numerous claims reported or because of the ongoing complaints to the organization that slow down the activity and create a potential damage to the company itself[11].

[11] In the Real Option Analysis (ROA) literature there are several classifications or group-

There are two methods of assessing the value of the real options:

- the Black-Scholes model;
- the Binomial model.

The second methodology is undoubtedly the most widespread, also due to the lower complexity compared to the first, above all from the mathematical point of view. The binomial model proceeds to the construction of a Decision Tree based on the information available to managers regarding the possible evolution of the project (in our case, the report). This method assumes that the value of the project can only take two values in each sub-interval in which the reference time horizon is divided:

UP, (S^+), that is $u = e^{\sigma}$

DOWN, (S^-), that is 1/u

With σ equal to the standard deviation of the relevant variable. The volatility is estimated through the SQM (for an example see Box 6). Subsequently, by carrying out the Contingent Claim Analysis, the conditions for exercising the identified option are verified, in the moment in which it can be exercised. In fact, at each point (node) managers strive to make the best decision that, in short, can generate the greatest value. In this way it is possible to proceed with the calculation of the NPV of the project including the value of the option (and possibly also calculate the value of the single option [12]). The main difficulty of using this model is in the calculation of the relative increase or decrease in the value of business in each period and the probability of positive and negative scenarios.

The application of ROA is still limited. However, it is considered that it

ings of real options. In addition to those mentioned in the text you can identify the Option to defer, Option to change scales, Option to switch, Option for staged investment (Compound options). For further information, please refer to Copeland T.E (1998), Making real option real, The McKinsey Quarterly, 3, McKinsey & Company, New York.

[12] It is appropriate to clarify that there may be several options within the same project. In this case it is a question of taking into consideration the interactions between the options identified (compound option or compoundness). It is a duty to carry out this operation as it has been shown that the combined value of the options arising from the same project diverges from the algebraic sum of the value of individual options. The authors who first emphasized this problem are Brennan and Schwartz analysing the decision-making process related to mining. Brennan M., Schwartz E. (1985), Midland Corporate Finance Journal, pp. 37-47, "A new approach to evaluating natural resource investments". Brennan M. and Schwartz E., "Evaluating Natural Resources Investments", Journal of Business, 1985 n. 58, pp. 13-15-157. Later, this concept was taken and analysed by Trigeorgis. Trigeorgis L. (1993) "The Nature of Option Interactions and the Evaluation of Investments with Multiple Real Options", Journal of Financial and Quantitative Analysis, 28, n. 1: pp. 1-19.

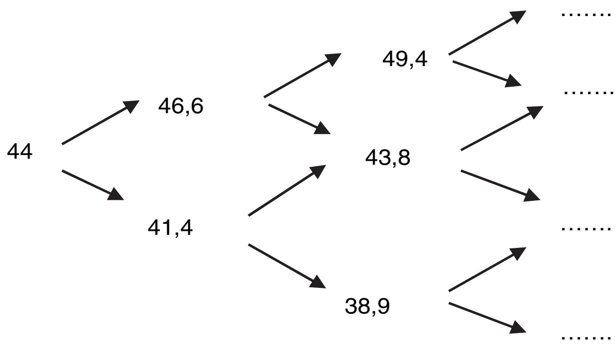
can be a valid methodology for evaluating strategic initiatives aimed at generating value over time. According to some scholars, the Real options analysis "will become one of the common tools managers and accounting professionals use to evaluate long-term investment projects. Thus, management accountants need to learn as much as they can about real options so they can use them in their decision making (Stout *et al.*, 2008).

Box 6 – Example of approximation of the expected values of the project using the binomial model of Cox Rubinstein

$\sigma = 6{,}2\%$

$u = e^{0{,}062} = 1{,}06$

$d = 1/1{,}06 = 0{,}94$



Moreover, as has been observed, real option can be viewed as a bridge between corporate finance and corporate strategy (Leshchiy, 2015). This is because the real option framework allows the manager to bring the rigors of financial analysis to corporate strategic analysis and link it up with value creation and maximization. The strategic orientation aimed at maximizing the value by leveraging the intensification and the improvement of relations with customers has, in our opinion, the features to assume a correct use of the examined methodology, albeit with appropriate adaptations.

3.10. The discount rate: some considerations about the adjustment coefficient

The procedures for calculating the CLV and the EC provide for discounting of margins (economic or monetary) using an appropriate discount rate for this purpose. In evaluations in the financial field the most commonly used rate is the weighted average cost of capital (WACC), which expresses the average burden of funding sources used by the company to finance the assets being evaluated. In the formula:

$$WACC = Ke * [S/(B+S)] + ki * [B/(B+S)]$$

Legend:

Ke = Cost of equity
Ki = Cost of debt
S = Entity of equity
B = Debt Entity

In the case where it is intended to consider the tax advantage on financial charges, the above formula is presented in the following way:

$$WACC = Ke * [S/(B+S)] + ki (1-t) * [B/(B+S)]$$

with t = tax rate

Using the WACC to discount the margins generated by customers, or by the customer portfolio, requires an adjustment to consider the different risk profiles of these margins strictly linked to the risk profile of the relationship activated with these subjects. In financial terms, this "correction" is made by acting on B. B is a measure of the systematic risk used in the Capital Asset Pricing model. This model quantifies the performance of action j (Rj) (and therefore, the cost of equity for the company j) adding a risk premium to the risk-free rate. The latter is obtained as follows:

$$P = (Rm – i) * B$$

Legend:

P = risk premium for action j
Rm = Expected return on the equity portfolio
i = Free risk rate
(Rm – i) = general risk premium
B = systematic risk

Systematic risk is the risk that cannot be eliminated by the investor, not even by a prudent portfolio diversification policy. Therefore, Beta provides a summary estimate of the sensitivity of an investment to market[13] movements. In the formula:

[13] For further information, see, among others, Brealey R., Myers S., Allen F., Sandri S. (2015), Principles of corporate finance, McGraw Hill, Milan.

Beta of Asset i = (*Covariance of the asset with the market portfolio)/(variance of the market portfolio*)

In analogy to the aforementioned Beta coefficient, the adjustment coefficient to be used for calculating the discount rate of customer margins should consider the volatility of the purchases of a specific customer compared to the average of customers (company or another reference carrier). See the formula below (Costabile, 2005):

Beta (customer or customer group) =
(*Covariance of customer purchases (or customer group) compared to the average)/(Variance of customer purchases (or a group of customers) in the average of all customers*)

From what has been said, we understand how customer loyalty, exerting a positive influence on the risk profile of the relationship (in the sense that it reduces it), is inversely related to B, because the higher the level of loyalty, the lower the volatility of returns and therefore, the lower the B. The lower volatility of prospective acquisitions means that the flows generated by loyal customers are discounted with a lower discount rate. From this, it follows that, under the same conditions, the current value of the smaller flows will be greater than the value of the customer itself. Loyalty acts both at the company level and the duration of flows, albeit indirectly, on the discount rate. Also in this respect the purpose of customer loyalty comes to assume a priority importance since it is essential in the process of increasing value over time at the customer portfolio level and, lastly, at the business value level.

3.11. Link between Customer Value and Enterprice Value

From what has been said in previous paragraphs, it is clear that the improvement in the relationship with the customer has an impact of great value. This relates to the concept of customer loyalty seen as "loyal relationship" (Busacca, Bertoli, 2009, p. 325) that is, a relationship between customer and company (or brand or teaches) characterized by attitudes and cooperative behaviour. If the relationship comes to assume such a connotation it means that it is based on a high perception of fairness and correctness and therefore has preconditions to persist over time. This situation is an essential factor for producing adequate cash flow over time and, therefore, value.

This occurs if we consider the financial methods to determine the value of the company, which is the estimate of the sum of future cash flows (updated to the present) that the company will be able to obtain in the future (Guatri L, 1990, p. 235). Later, it is considered the financial method in the version proposed by A. Rappaport and was called 'Unlevered DCF Analysis'. These calculations use the value of the expected cash flow, and are calculated as follows:

*FCFF = EBIT * (1 – T) + Depreciation – CAPEX – increase in NCWC*

Legend:

FCFF = Expected free cash flows to firm in t-period
EBIT = Earning Before Interest and Income Tax
T = Income tax rate, %
CAPEX = capital expenditures
Increase in NCWC = increase in other assets (non-cash working capital – inventory, raw materials, semi finished goods, credits, etc.).

By quantifying the FCFF, it is possible to arrive at an estimate of the Enterprise Value using the following:

$$V\ firm = \Sigma\ FCFF_t / (1 + WACC)^t$$

With:

WACC = Weighted average cost of capital, %
t = projection period

For completeness, Enterprise Value should also consider the Terminal Value. The latter takes into consideration the "post-forecasted" period and is calculated by discounting the cash flows that the company estimates to produce in the "post-forecast" period. For the quantification of these flows we can refer to the method of steady growth which suggests that the flows will continue to grow at a stable growth rate that can be determined by an expert opinion involving the competent vision of the company's management (Bilych A.V., 2013). In the formula:

$$TV_n = \Sigma\ FCFFn/WACC – g$$

With g equal to the growth rate

Therefore, the entire formula of Enterprise Value will be:

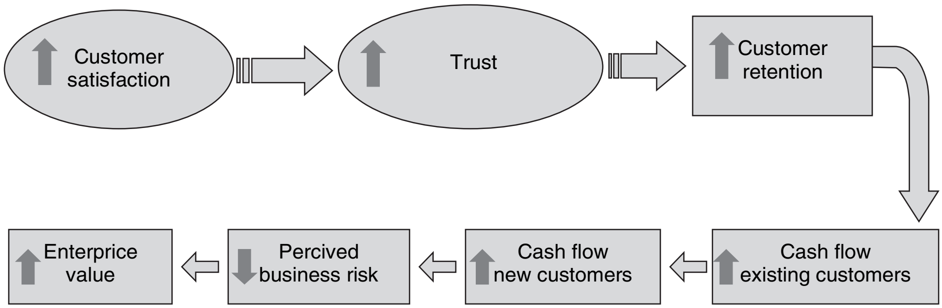
$$V\ firm = \Sigma\ FCFF_t / (1 + WACC)^t + TV_n$$

The procedure for calculating the Enterprise Value is not complex *per se*. However, it can be difficult to estimate the parameters to be used in the formula. Among these, the estimate of future cash flows is undoubtedly the most difficult one to estimate, especially in the event of strong demand instability and the presence of strong competitors on the reference market (s). In general, the forecasting of cash flow takes into consideration (Bilych A.V., 2013):

• period of the forecast;
• strategic objectives of the future development of the company
• size of the enterprise;
• existing growth rates and life cycle of the company;
• availability of competitive advantage and current market share of the company.

The capacity of the company to improve the relationship with the customer is included in this evaluation. From the point of view of the customer, customer relationships influence in the value of the company, and determine the satisfaction of those who financed the company (Figure 3.5) with advantages for all stakeholders. Therefore, a positive situation is created, a sort of "virtuous circle" capable of being self-feeding and generating value effects. In order for this situation to continue to exist and, possibly, improve over time, the company must maintain a constant commitment to everything that can improve the relationship with its customers, and in general, with the various stakeholders, acting on tangible that intangible elements.

Figure 3.6 – The relationship between the value of the Company and its factors in the client-based perspectives



Source: Our elaboration.

This requires a strict control of the results obtained, by acting promptly in case of deviations from the expected results, changing any strategies and/or specific activities deemed potentially valid that are not producing the desired returns. In this context, the analysis of competitors (strategies adopted, results obtained, etc.), as well as the environmental sector, must to have an essential benchmark for interpreting the performance (market, income, relationships, etc.) reached and define the effective strategic and operational plans.

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