COMPETATIVE ADVANTAGES ISSUES ON CUSTOMER LIFETIME VALUE ON RETAILERS PROFITABILITY'S

Abdul Manaf Bohari (PhD Candidates)
Professor Dr Ruslan Rainis
Dr Malliga Marimuthu
Universiti Sains Malaysia
amb.hd08@student.usm.my; manafdr@uum.edu.my ;
rruslan@usm.my
malliga@usm.my

ABSTRACT

In today's competitive environment, it is critical to a retailer's survival to understand and monitor their business profitability, which is mainly containing various types of customer in the marketplace. Managing relationship with customer is one of important initiatives to enhance Customer Lifetime Value of customer, then for ensure the consistent profitability of firms, both short and long run of business operation. In fact, customer lifetime value is strategic issues in the world wide of business competition because it has major influence on retailer's profitability. On the one hand, managing relationship with customer is one of important initiatives to ensure the consistent profitability of firms. However, on the others hand, it is not easy to manages the customer profitability because retailer need to struggle with the key issues regarding their customers. Thus, these papers highlight the competitive advantages issues on customer lifetime values, with specific reference to retailing sectors. The important of understanding this issue is because of emerging of economic meltdown all over the world that has grate impacts toward competitive advantages levels. At the end, suggestion was made on how to strengthening the retailing position by utilizing spatial information technology. Spatial information technology has ability in creating benefits to retailers that is for enhancing the business strategic advantages to bring new dimension on lifetime value management of retailers.

Keywords: Contemporary Issues, Customer Lifetime Value, Retailers Profitability

INTRODUCTION

In today's competitive environment, it is critical to a retailer's survival to understand and monitor their business profitability, which is mainly containing various types of customer. On the one hand, managing relationship with customer is one of important initiatives to ensure the consistent profitability of firms. Fabel, Sonnenschein, Sester and Golestan (2008) noted that consumers have great power to revolutionizing their relationships to the business. The empowered consumer is no longer a vague concept, but a reality is that changing the face of commerce. Thus, the smartest companies try to figuring out on how to build relationship with customer to increase their revenues and in future to spurs growth. On the others hand, it is not easy to manages the customer profitability because retailer need to struggle with the key issues regarding their customers. Similarly, issues that related to profitability are identified by Berman and Evans (2007) that are includes how the retailers can best serve the customers while retaining a fair profits; how the retailers stand out in a highly competitive environment where consumers have so many choices; and how the retailers grow up their business while retaining a core of loyal customers.

Plainly, profitability and customer lifetime value are highly related issues because it involved customer in the marketplace. The Marketing Guru's Peter Druckers noted customer is a King and Philip Kotler notes that customer is important stakeholders for every business. Managing customers is important for retails store because of many reasons, especially to the business performance. Researchers as well as Carrie Yu (2009); Fader (2009); Epstein, Friedl and Yuthas (2008); Fabel, Sonnenschein, Sester and Golestan (2008); Gilbert (2007); Berger, Eechambadi, George, Lehmann, Rizley and Venkatesan (2006); Adams (2005); Ching, Ng, Wong and Altman (2004); Bell, Deighton, Reinartz, Rust and Swartz (2002); and Berger and Nasr (1998) that doing their research on customer value and business profitability, believe that customer is important factor in determine lifetime vale and profitability of business. In fact, customer is an asset to the business (Gupta & Lehmann, 2003) and retailers must now how to valuing their customers that contributes the business performance (Gupta, Lehmann, & Stuart, 2004). However, understanding customer in the environment of marketplace is a basic step for cope with customer lifetime values, as well as retailer maintaining their profitability.

Most of researchers such as Baum and Singh (2008); Berman and Evans (2008); Long, Trouve, and Blackmore (2005); and Accenture (2007) believe that customer is crucial part that contributes to retailer profitability for a short and long term business life cycles. Thus understanding customers will lead to the nature of customer lifetime values that is highly related to firm profitability. Baum and Singh (2008) noted that understanding crucial customer touch of point and the most important expectations of customer are first step in establishing high-quality and effective customer services. In reality, Accenture (2007) points out that today's consumers are more demanding and also more diverse. These trends have created a consumer who is also more empowered compared to before. In addition, Berman and Evans (2007) believe that loyal customers are the backbone of a business and for that, four factors must to keep when manage customers are customer base, customer services, customer satisfaction and loyalty programs and defection rates. Specifically, retailers must regularly analyze their customer's base with finally to identify the retailer's core customers or its best customers.

CUSTOMER LIFETIME VALUE AND RETAILER'S PROFITABILITY

Fundamentally, customer lifetime value and profitability can effects retailers, both short and long run of business operation. Any changing in customer value will create some impact to business performance and profitability. In fact, Glady, Baesens and Croux (2009) mention valuing customers is a central issue of any commercial activity. The value of an individual customer is important for the detection of the most valuable ones, which deserve to be closely followed, and for the detection of the less valuable ones, to which the company should pay less attention. At the aggregated level, a marketing campaign targeting a group of customers can be budgeted more efficiently when the value of this group is known. Customers are an important asset, and as such, have to be precisely valuated. Moreover, Epstein, Friedl and Yuthas in (2008) indicated by measuring the profitability of segments and managing customer relationships based on customer value, both the customer and company win. Orienting an organization around measurement and management of customer profitability can take place immediately, or it can take many periods, implementing these strategies one step at a time, and adjusting and refining along the way. Over time a company will gain invaluable knowledge and be able to put it to work for the mutual benefit of all stakeholders, including customers.

The 2009 outlook for retailers is a challenging one as many find themselves confronted by liquidity issues, reduced consumer spending, and weak credit market conditions. The retail industry is clearly feeling the effects of the consumer cash and credit crunch. While some economists believe a reasonable forecast is that the economy will be on the road to recovery by the end of 2009, many retailers (even healthy ones) have already started to reduce inventory levels and close. Consumers will be intensely value-oriented in 2009, even more so than in the recent past (Janiak, 2009). However, retailers still can gain competitive advantages and market customer segmentation if they able to differentiate themselves from competitors, possess strong brand equity, improve in their sales activity, gearing in marketing practices, and deliver high value to customers.

Managing customer value is always views as function of core concentrations that help retailers analyze business opportunities and act accordingly. Thus, retailers should maximize the value of each customer interaction because for reasons, as well as (1) to manage profitability of retailers, (2) to increase sales, and (3) to beat competitors by making strong decisions based on value facts. At the same time, retailers should alert with the common problem regarding planning their value based strategy. In Berman and Evens (2007), there are five potential pitfalls to avoid in planning a value-oriented retail strategy: (1) planning value with just a price perspective, (2) providing value-enhancing service that customers do not want or will not pay extra for, (3) competing in the wrong value/price segment, (4) believing augmented elements alone create value, and (5) paying lip service to customer service. So, it is important to understand and apply the best practice on servicing the customer because customers are the backbone of business. Further more, Long, Trouve and Blackmore (2005) stated profitable performance tomorrow, then, depends on providing the right product mix at the right time to customers. Retailer must investigate what customers want before they even know they want it. That kind of customer knowledge is more insight and it is a fact-based foundation of successful customer-centric retailing.

There are four (4) important question regarding retailer profitability. First, can retailers better manage their customer portfolio to improve profitability? Second, do retailers understand who the most profitable customers are? Third, do retailers have a large number of unprofitable customers? Four, can retailers renegotiate prices and service levels to improve profitability? Actually, factors that impact customer profitability include sales time and effort, trade terms, order frequency, special/bespoke products, production runs and special logistic and packaging arrangements. Understanding customer profitability lets retailers develop alternate models which are possibly new pricing, logistics or service levels with final aim to reduce the cost to serve for unprofitable customers (Lucas, 2009). Although the retailer are be able to used customer lifetime value (CLV) based model for prospecting their valuable customers, but they still have problem in getting better understanding in-sight of customers profitability, especially analyze it from geographical perspectives. For examples, factors that effecting the retailer profitability is not limited to pricing, logistics or services, but the most important factors is customer it's self and the environment of market.

COMPETATIVE ADVANTAGES ISSUES ON CUSTOMER LIFETIME VALUE

Conceptually, competitive advantage is a significant and has long-term benefits that retailer's enjoys over its competition. Competitive advantages will lead the companies to bring themselves into the right way forward and requires retailer to scan and follow the current change of external and internal environment of business, in order to generate new knowledge to them (Porter, 2001). In other word, competitive advantage is anything a retailer does especially well compared to rival firms either in international operations or local operations of businesses. When a retailer can do something that rival retailer cannot do, we say these retailer have gained their competitive advantages. Similarly, if a retailer owns something that a rival firm desires, that also will represent a competitive advantage. Here, competitive advantages bring meaning that the retailer are one step ahead and to maintain their position, the managers must get and keep the competitive advantage from time to time for the long-term success of an retailer. In addition, a retailer must strive to achieve a sustained competitive advantage, initially by continually adapting to changes in external trends and events and internal capabilities, competencies and resources. A retailer should try effectively in formulating, implementing and evaluating strategies that capitalize upon those factors. Overall, maintaining competitive advantages means that retailer need to manage their customers, as well as customer lifetime value, for continuously survive and strive for long term performance. In fact, a retailer should learn more about customers because it can create defections on business profitability, as note by Reichheld in 1996.

The issues of customer management have grown rapidly in recent years, with highly consideration on how the firms manage customers as key assets. Regarding customer value management, there are some key challenges that firms and researchers face in understanding, managing, and implementing successful customer strategic advantages. Kumar, Lemon, and Parasuraman (2006) noted there eight key challenges for managing customer, such as (1) Managing customers across multiple channels, (2) Achieving customer centricity, (3) Managing brand equity versus managing customer equity, (4) Developing and operationalizing appropriate customer lifetime value (CLV) models, (5) Understanding the link between CLV and shareholder value, (6) Developing forward-looking customer metrics, (7) Successfully implementing customer relationship management (CRM) strategies and (8) Implementing CRM in global environments. Strategically, managing customer is one of factors for success in managing retail profitability, as indicated in Janiak (2009); Fabel, Sonnenschein, Sester and Golestan (2008); Hoffman, Wildman, Rebollo, Clarke and Simoes (2008); Moriarty, Ben-Shabat, Gurski, Padmanabhan, Kuppuswamy, Prasad and Groeber (2007); Baum and Singh (2008); Berman and Evans (2008); and Long *et. al.* (2005).

Competitive advantages are always putting in top priority issues by the business because it will effecting the profitability of firms, both in short and long run of business operations. But, mainly focus is on customer and how the customer contributes CLV to ensure the retailer gained competitive advantages. Dramatically important is how the retailer managing the CLC performance and strategic advantages within the geographical manner. So far, competitive advantages and CLV always not projected under the real location of customer on the geographical area. With intelligent matching CLV and competitive advantages to specific location of customer frankly, never bring high meaning to competitive analyses of CLV. Janiak (2009) rise that competition is thorny issue faced by many retailers where is the lack of differentiation among competitors, which leads consumers to view stores as commodities and actually this is a dangerous situation for retailers to be in when the competition for consumers' discretionary dollars is especially fierce. One way retailers can tackle this problem is to focus on improving consumers' in-store and multi-channel experiences. There are some factors related to customer in relation with competitive advantages, includes exceptional customer service, available of desired items are in stock, store layout, pricing, inventory management, land the ease and speed of the checkout process across all shopping channels.

In today's globalizing economy competition is getting more fierce and sophisticated. That means it becomes more difficult for products and services to differentiate themselves from other offerings than ever before. Many products and services face new competition from substitutes and from completely new offerings industry outsiders. Since product differences are closed at an increasing speed and many companies try to win the battle for customers by price reductions, products and services tend to become commodities (Recklies, 2006). However, although customer values based oriented are become more important, retailers can gain market share and thrive in a difficult economy if they clearly differentiate themselves from competitors (Janiak, 2009). This competition will lead in difficulty of analyze the location of customers because so far not many researcher try to mapping the competitive advantages and CLV on the spatial appearances and format.

Hoffman, Wildman, Rebollo, Clarke and Simoes (2008) notes that to gain competitive advantage, retailers need to place an increased focus on powering their customer-centric strategies by building analytical capabilities in customer relationship capabilities and need to shape talent programs that fit their particular strategic priorities and address key objectives of driving top-line sales, getting more profitability from the business and improving the customer experience. In the one hand, competitive advantages have close relation with the issues customer-centric strategies. However, issues of competitive advantages and customer centric have directly relation with CLV because both impacting the retailer profitability.

Issues of retail profitability are of continuing interest to managers, academic researchers and public policy makers. Managers are interested in maximizing the returns to the firms and to that end increase in retail long term operation is a necessary means. Here, based on some study conducted by selected researchers, issues regarding retailer and profitability will continuously important to future growth. Overall, interestingly, beside that study conducted by Lucas (2009), Carrie Yu (2009), Kompil and Çelik (2006), Cicekoglu (2005), and Carminati and Trouvé (2004), clearly, estimating retail profitable will become more critical issues especially when realizing that prospecting the profitability customer actually not enough without utilizing spatial based information. Ultimately, the new approaches mush be used for enabling the retailer to prospecting more insight and accurate of profitability, compared to statistical and mathematical previously used by others researchers before.

In fact, organizations are continuously searching for new ways to obtain and defend competitive advantage in order to survive and prosper in the increasingly competitive market. Woodruff (1997) has suggested that companies switch from product quality to customer value as the next source of competitive advantage. Before that, Lai (1995) also highlight the important of CLV in helps firms for get better standing on the market forces and then, aimed CLV as new sources for competitive advantages. Thus, based on in-ability of managing the competitive advantages using CLV in the spatial based views, new models of CLV with highly concentration on spatial based are required by the business.

SUGGESTIONS

In perspective of retailing management, Spatial Information Technology (SIT) has to be at the core of business sustainable efforts. Researchers as well as Berman and Evans (2007); ESRI (2007); Zhao (2000) and Beaumont (1991) noted that SIT has capabilities in managing customers with specific initiatives for:

(a) Organizing integrated spatial and non-spatial database using the SIT tools. By this ways, spatial and non-spatial data will handle and managing using on database platform, and then, this will integrates two types of data into meaningful view.

(b) The synthesis of the spatial and non-spatial information by utilizing the specific framework of a coherent data model. It also able to linkage between the different datasets and then reduce variations within database. So, data redundancy will decrease and accuracy will increase for used in predicting and estimating purposes.

(c) The SIT platform bringing together variety of information, from a variety of sources, location, and format. But, it’s still fulfilled the qualifications of effective matching of similar or un-similar entities and demands for information consistency within the database design.

(d) Generation of spatial outputs with highly supported by tables, charts, and any others data presentation technique, and these never found in any kind of information systems. However, SIT finally aimed to enhance the development of planning, decision-making, and execution of critical tasks in organizations.

(e) The SIT package will be the workhorse and surely, it’s always considers both spatial and non-spatial database sets. The SIT package offers tools and technique for handling spatial and non-spatial datasets of organization. In addition, non-spatial datasets organisation is important to prospecting future look of organization because it mainly identified as important attributes of the spatial elements where as plays important roles in spatial based analysis.

Peak (2008) noted that SIT emerged as an important factor in the business world over the past ten years. The SIT trends are towards smaller devices, coupling of SIT with associated technologies, web platforms, and enterprise wide applications. Some huge firms have adopted SIT across their enterprise. Strategically, SIT and spatial technologies can be strategic and advance firms versus their competitors, including the strategic IT grid and web services strategy. The strategic importance of SIT is linked to use of enterprise-web platforms versus traditional client-server.

In addition, utilization of spatial based approaches is vital important to retailer because CLV and competitive should be appear in geographical perspectives, for get more precise and clear perspective of how to manage CLV for competitive advantages. Frankly, retailer profitability is not only depending on traditional CLV, but it must consider spatial data as a new measurements. Using SIT actually bring new perspective to business especially on how to used and manipulate CLV and competitive advantages based on real spatial surface. SIT analysis will realize the real perspective on how to utilize CLV in getting competitive advantages, ultimately for increase the firm profitability in future.

CONCLUSION

In the recent years, the application of SIT in business has grown rapidly. Major retailers, automobile dealerships, video rental companies, media organizations, and fast food corporations are just some of the many businesses around the world that have discovered the value of SIT. Thus, business strategists are finding SIT to be an ideal tool for identifying and expanding markets, and increasing profits (Zhao, 2000). More over, in high platform business operation, SIT are become more sophisticated to invest especially to small and medium sized business, because of it initial costs can be highly compared to estimates ones. Also, the tangible benefits of it capabilities can take several years to materialize in the real situations. In the one hand, the emerging of SIT software in the marketplaces actually create more competitions among software vendors, and will motivate them to make better improvement in tools and application related to SIT software. In the other hand, retailing will get the benefits in capturing and mapping their customer values, market segmentation, and any changes in the marketplaces. In the end, the retailers are be able to maximize the SIT tools in prospecting their potential customers that will contributes highly value to their profitable or annual performances. In ESRI (2007) and ESRI (2001), SIT software notes as important software that can be apply to performance business based analysis, such as site and location, business continuity plan, facilities and equipments, retail trade area, and so on.

REFERENCES

Accenture (2007). *Acccecnture 2007 global customer satisfaction survey report.* Chicago: Accenture Inc.,

Adams, A.L., (2005). *Find and keep the customers you want: The customer insight mandate.* Chicago: Accenture Inc.,

Baum, M., & Singh, I. (2008). *Winning the customer service battle.* Chicago: A.T. Kearney, Inc.

Beaumont, J.R. (1991). GIS and market analysis. In. Maguire, D.J., Goodchild, M.F., & Rhind D.W. (eds) (1991). *Geographical information systems: Principles and applications.*139 -151. Harlow: Longman Scientific & Technical.

Bell, D., Deighton, J., Reinartz, W.J., Rust, R.T., & Swartz, G. (2002). Seven barriers to customer equity management. *Journal of Service Research*, 5(1), 77 - 85.
Berger, P.D. & Nasr, N.I. (1998). Customer lifetime value: Marketing models and applications. *Journal of Interactive Marketing*, 12(1), 17 - 30.
Berman, B. & Evans, J.R., (2007). *Retail management: A strategic approach.* New Jersey: Pearson Prentice Hall.
Berger, P.D., Eechambadi, N., George, M., Lehmann, D.R., Rizley, R., & Venkatesan, R. (2006). From customer lifetime value to shareholder value. *Journal of Serv Res,* 9(2),156 -167.
Carrie Yu (2009a). *12th Annual global CEO survey: Consumer goods industry summary*. Hong Kong: PriceWaterHouseCooper.
Carrie Yu (2009b). *12th Annual global CEO survey: Retail industry summary*. Hong Kong: PriceWaterHouseCooper.
Carminati, A., & Trouvé, O. (2004). *The CIES marketing study leveraging customer insight to achieve high performance.* Chicago: Accenture & CIES.
Ching, W.K., Ng, M.K., Wong, K.K., & Altman, E. (2004). Customer lifetime value: Stochastic optimization approach. *Journal of Operational Research Society,* 55, 860-868.
Cicekoglu, S. (2005). *Supply chain management viewpoint: The case for product life cycle management.* Chicago: Accenture Inc.,
Environmental System Research Institute (ESRI) (2007). *GIS for retail business.* GIS Best Practice (Febuary 2007). California: ESRI.
Environmental System Research Institute (ESRI) (2002). *ArcView business analyst: The value added.* An ESRI White Paper June 2002. California: ESRI.
Epstein, M.J., Friedl., M. & Yuthas, K. (2008). Managing customer profitability: Determine which customers are most valuable to your organization. *Journal of Accountancy (Business and Industry).* Harvard Business School: December, 2008.
Fabel, M., Sonnenschein, M., Sester, A. & Golestan, L. (2008). *Customer energy: The empowered consumer is revolutionizing customer relationships.* Chicago: A.T. Kearney Inc. (Marketing and Communications).
Fader, P. (2009). Understanding customer lifetime value: Conceptual overview and implementation in excel. *Pre-Conference Workshops. Forecating Summit 2009*. Hilton in the Walt Disney World Resort, Orlando, Florida. Febuary 23-25 2009. Retrived on March 30, 2009 from http://www.forecasting-summit.com/pre
Gilbert, S.J. (2007). How do you value a "free" customer?. *Research & Ideas*. Boston: Harvard Business School
Glady, N., Baesens, B., & Croux, C. (2009). A modified pareto/NBD approach for predicting customer lifetime value. *Expert Systems with Applications,* 36, 2062–2071.
Gupta, S., & Lehmann, D.R. (2003). Customer as assets. *Journal of Interactive Marketing,* 17(1), 9 - 24.
Gupta, S. & Lehmann, D.R. (2006). Customer lifetime value and firm valuation. *Journal of Relationship Marketing,* 5(2/3), pp. 87-110.
Gupta, S., Lehmann, D.R., & Stuart, J.A. (2004). Valuing customers. *Journal of Marketing Research,* 41(1), 7–18.

Hoffman, J.L., Wildman, R., Rebollo, J.M., Clarke, A., & Simoes, V. (2008). *Retailing in a global marketplace to achieve high performance.* Chicago: Accenture Inc.,

Janiak, S. (2009). *The age of transformation: A retail outlook for 2009 and beyond.* New York: Deloitte Touche Tohmatsu.

Kompil, M. & Çelik, H.M, (2006). Modeling the spatial consequences of retail structure change of izmirturkey: A quasi-empirical application of spatial interaction model. *International Conference on Regional and Urban Modelling: EcoMod (Global Economic Modelling Network).* Free University of Brussels,1-2 June 2006, Brussels.

Kumar, V., Lemon, K.N. & Parasuraman, A. (2006). Managing customers for value: An overview and research agenda. *Journal of Service Research.* 9, 87.

Lai, A.W. (1995). Consumers values, product benefits and customer value: A consumption behavior approach. *Advances in Consumer Research*, 22, 381-88.

Long, J., Trouve, O., & Blackmore, K. (2005). *Finding and keeping your best customer through customer-centric retailing.* Chicago: Accenture Inc.

Lucas, A., (2009). Improve your business focus to survive a downturn. In. Carrie Yu, Susan Eggleton, Denis Smith, & Esther Mak (2009). *Retail and Consumer Worlds.* Hong Kong: PriceWaterHouseCooper.

Moriarty, M., Ben-Shabat, H., Gurski, L., Padmanabhan, V., Kuppuswamy, R., Prasad, P., & Groeber, M., (2007). *Growth opportunities for global retailers: The A.T. Kearney 2007 global retailers development index.* Chicago: A.T. Kearney Inc.

Porter, M. (2001). Strategy and the internet. *Harvard Business Review,* 79(3), pp. 63-78.

Reichheld, F. (1996). Learning from customer defections. *Harvard Business Review,* 74(2), pp. 56-69.

Recklies, D. (2006). *Effective executive.* Tripura: ICFAI University Press.

Woodruff, R.B. (1997). Customer value: The next source for competitive advantage. *Journal of the Academy of Marketing Science*, 25 (2), 139-53.

Zhao, L. (2000). Integrating rank correlation techniques with GIS for marketing analysis. *Geo Computation 2000 Sydney*. School of Geography, The University of New South Wales.