Reading the signs of your customer value

In this article, the author explains how to design and implement a customer equity dashboard that will serve to pinpoint exactly where the company is gaining and losing value.

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By Julián Villanueva

In their fight for readership, more and more magazines and newspapers have resorted to giving away free CDs, DVDs and other enticements as part of a desperate grab for business. For many publishers, these kinds of promotions have become a business in their own right, and yet, as a marketing strategy, they have done little to halt the relentless decline in circulation and advertising sales in Western markets.

A report in *The Wall Street Journal* once quoted a British newspaper marketing director as admitting that the cost of disc manufacturing, rights, packaging and associated advertising, just to include a free CD with the paper, was very expensive, with the entire promotional effort costing as much as $1.8 million. Meanwhile, the evidence indicates the most these promotions have succeeded in doing is slow the decline, rather than reverse it. If giving away a CD boosts sales by an estimated 500,000 copies, and the average cover price of the paper is 87 cents, has anyone actually done the math to determine the real value of these so-called freebies?

Publishers are emblematic of many companies today: They have underlying problems with their business models, insufficient financial muscle and no clear strategy. As such, they are liable to make decisions for short-term gain, without fully appreciating how those decisions will affect their customer base in the long run. Without any reliable information about consumers and what they want or need, these companies' marketing efforts will be in vain.

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Companies that don’t pay attention to *customer lifetime value* risk making some bad choices. They may spend too much on acquiring customers who are ultimately unprofitable or who do not remain loyal to the brand. They may waste money on activities that have little or no influence on consumer behavior or buying decisions. They focus exclusively on overall revenue, without considering the impact of customer acquisition and retention on the bottom line.

Executives need tools to measure how much their company’s customer relationships are worth. Many companies use financial reports or dashboards that contain relatively little marketing information, partly because the reports and metrics provided by marketing managers often omit the language that senior executives understand: the concept of value.

In this article, I advocate the use of a marketing dashboard based on the concept of customer equity, to help make the vital link between marketing and finance.

This is based on my own research into the different models available for measuring customer lifetime value, as well as my own observations of seeing customer equity dashboards being used across a wide variety of firms.

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