INCENTIVE (A)

Dr. Frantoni, Head of Relationship Marketing INCENTIVE, having to formulate the marketing strategy for the next year, decided to carefully analyze the information in the Customer Information File company.
An analysis of recent data showed that:

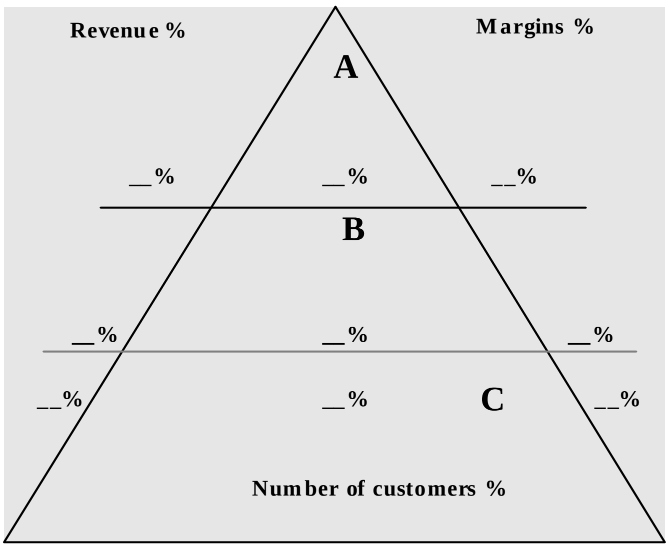
- The company had a portfolio of approximately 1,000 dealers;
- Achieved a total turnover of over EUR 11 million;
- Achieved an average 14% profit margin by customers (Top), a 16% customer B (Medium) and 12% from customers C (Marginal).

He believed, however, to can obtain more information, he then asked for his assistant to prepare a brief analysis on key data customer base.
The assistant classified initially customers by the volume of expenditure and assigning Code “A” customer with greater unit volume of spending, Code B average volume customers and code C to low spending customers (see table 1); moreover he was considered for each class of customers, in addition to spending average, the level of loyalty and any difference in terms of life time value. At the end of his work, the assistant would have submitted to Frantoni, an overview of the corporate customer portfolio based:

Customer Portfolio

	A	B	C	Total
Nr customers	180	320	540	1.040
Revenue (000)	7000	2900	1200	11.100
Customer revenue (000)	38,8	9	2,2	10,6
Loyalty rate	88%	75%	80%	80%
Customer Life cycle (average, years)	8,3	4	5	5
Customer life time value (000)				

Portfolio Analisys



INCENTIVE (B)

The data showed that the primary clients (A) and secondary (B) accounted for just under half (48%) of the total portfolio but generates 90% of turnover.

Taking into consideration the information of the analysis, Frantoni, reducing the available options, had to assess which of the following assumptions have generated a greater increase in value for the company:

1. to increase 5% in the number of customers A. Greater incentives to sales force (as the acquisition premium) would cost about 400.000 in the first year and a total of 2 million over the medium term (5 years ago);

2. to convert 20% of secondary clients (B) in primary (A). To migrate customers of Class B to A was necessary to organize an initiative with prizes for customers (increasing gifts in relation to the volume of purchase). Such action would cost about 1.7 million in the first year and a total of 13.7 million over the medium term;

3. to promote C customers to buy higher-priced products. To increase the unit value of purchases of 20% was necessary to spend on gifts and efforts of so-called cross-selling approximately 200 thousand in the first year and a total of 140,000 over the medium term;

4. reduce the rate of total defection from 20% to 10% per year. To increase loyalty was necessary to organize a special internal structure (retention team) that would generate costs for about 1.3 million in the first year and a total of 7 million over the medium term.

Course in carrying out the analysis (from the data of Table 1) had decided to analyze the costs and benefits related to:

- short term (in this case would consider the unit sales figures for individual customers);
- long term (in this case took into account data on the customer value).

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