

**MKT 405**  
**Relationship Value of the Customer**  
(HW1)

Date: \_\_\_\_\_

Name: \_\_\_\_\_

Team: \_\_\_\_\_

For the following questions, think of customers of \_\_\_\_\_ service industry. (You are to focus on a firm whose primary offering is a *service*; thus, customers of companies selling automobiles, Gatorade, or cigarettes, for example, should not be considered.) Your task is to calculate the relationship value of a customer over his/her “lifetime” to a typical firm in this industry. You will need to make assumptions in order to do this, and you will be asked to explicitly state those assumptions in one of the questions. You may be asked to present your calculations (and assumptions) to the class. Be prepared to defend your responses! Chapter 7 (p. 187-190) includes a brief discussion of the lifetime value of a customer as well as a couple of examples.

Service Industry: \_\_\_\_\_

1. Who is the “customer” you are focusing on? Describe the average customer using characteristics that are relevant to his/her spending habits.

2. What is the average “lifetime” of a customer in this industry? (That is, how long would such a customer be using this service?) Explain your response.

3. Does the customer’s spending patterns for this service change over this lifetime? Why or why not?

4. What would be a relevant time period to use in calculating customer revenue? That is, what period of time (hours, days, weeks, months, years, etc.) would be most appropriate in attempting to calculate customer revenue? Explain.

5. Are there costs involved in serving the *loyal* customers? If so, what are these? Should these costs be considered in the life-time value calculations? Why or why not?

6. What is the likely number of referrals that come directly as a result of the lifetime customer's recommendations? (Be realistic.) Explain your response.

7. What assumptions are you making in order to do your calculations? List *all* assumptions that are applicable. (It is very likely you will be making multiple assumptions for each number you use in your calculations.)

8. Lifetime Value Calculations:

9. Based on your calculations and assumptions, what is the relationship (lifetime) value (in dollars) of a customer to an organization in this industry?

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