Analysis of business models for the mobile supported loyalty scheme

The foundation for a business model for the provisioning of the elements defined in the reference model for the mobile supported loyalty schemes can only be the economic return that can be achieved through the successful implementation of such a scheme. The economic return on the application is therefore based on the results of higher rates of customer retention and better customer service supported via the program. The first chapter of this section provides an overview on the economic impact of loyalty and the management of customer relations. Based on these findings, an appropriate business model for the provisioning of services around the framework can be constructed.

In the second section of this chapter, business model design fundamentals are discussed and a definition of the term for use in the present context is given. The elements that need to be described in order to define a specific business model are presented and will be used throughout the construction of different business models to be applied in the context of the reference model. Based on the common business models in mobile and the common business models in the loyalty domain business models for the application of the reference model will be developed.

5.1 The business case for mobile supported loyalty

For the design of a business model behind a technological innovation that is constructed as to support reaching goals of customer loyalty management, it is utterly important to understand the economic impact of customer loyalty and an increase therein on the company’s financial results. An increasingly important measure that companies make use of when evaluating new technology investments is the measure of return on investment (Rai et al. 1997). Return on Investment (ROI) gives information, beside others, on the time span that is required in order to refinance the investment through the gains leveraged by the investment. In order to achieve this, it is required to understand the gains from higher levels of customer loyalty in terms of financial value. This section introduces the concepts on which a valuation of customer relationships can be based. The following sections draw on these concepts in order to develop a business
model for the technical implementation of the reference model for the mobile supported loyalty schemes that provides value through rapid ROI to potential users of the system.

In today’s standard financial representation of a company’s assets as evaluated by accounting standards, there is no means as to express the value of customers or to differentiate between customers depending on relationship state. Accounting standards do not differentiate between revenue generated by new customers or existing customers and investments in customer acquisition is often treated as a current expense in accounting rather than being assigned to the specific customer account and amortised over the lifetime of the customer relationship with the revenues and margins generated by that respective customer (Reichheld 1996).

A clear increase of customer present value can be identified among a whole range of industries when the company achieves to increase the customer retention rate. Figure 30 illustrates the findings from a cross industry study that examines the impact of a five percent rise in customer retention on the net present customer value. It shows that an auto service company can increase the profits from an average customer by 81 percent if the company can manage to retain another 5 percent of its customers from the previous year. Two specific elements drive this respectable increase in customer value. The first effect is the pure growth of the company that follows the lower defection rates. The second effect is due to the higher margins that customers that remain with the company generate over time.

The first effect, growth through fewer defections, is very intuitive. If a company can reduce customer defection while adding new customers, its total customer base will grow faster than that of a comparable company that adds new customers at the same rate but looses more customers each period. The second effect, higher margins over time, is a more complex component of customer relationship gains. It is based on the assumption that profits gained from customers that are acquainted to the company are higher than the profits gained from new customers. Figure 30 shows an analysis of a customer’s profits over a lifetime period of five years in different industries.