Salary as Predictive Metrics for Customer Lifetime Value (CLV). A Case of Meikles Departmental Store in Zimbabwe

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The hallmark of Relationship Marketing is to maximize customer lifetime value, which is future customer contribution to the firm against the firm's investment in their relationship. The organization needs to retain and invest in profitable customers. This is premised on the view that customers are different and their contribution to the organization is different. The organization needs to determine which customers to include and build a long- term relationship with, what marketing effort it should direct to each group. This will guard against the firm wasting resources on unprofitable customer. Customer life value thus greatly influences firm's profitability margins.

ABSTRACT: *Customer life value has greater impact on company profitability, (Hogan et al.2002), and the firm needs to select the right customer, to include in its CRM scheme. Customer selection entail a rigorous process of properly analyzing customer segments and putting them into appropriate tiers, so as to differentiate their marketing efforts directed towards each customer tier identified. The purpose of this research is to evaluate usefulness of salary as a predictive metric for customer life value, as applied in the Zimbabwean Departmental stores. Gross and net salary and the buying power will be used as independent variables to determine whether net salary is a reliable metric in identifying future valuable customers to the firm. Research seeks to determine the influence of buying power (as marketing effort) on customer contribution and profitability. Customer contribution and profitability will be used as dependent variable.*
To achieve this, three hundred (300) Meikles Departmental store account holders from 2009 to 2012 will be analyzed through random sampling of client's lists. The samples are drawn from Harare (the capital city), Mutare (fourth largest city) and Masvingo (fifth largest city) branches. Secondary data from the organization's customer purchase records will be used.

KEYWORDS: *Customer life Time Value; customer contribution; , salary scale*

I.   BACKGROUND TO THE STUDY

Most of the formal clothing retailers have suffered a decline in their businesses, mostly as result of market liberalization of the market that saw an influx of cheap imported clothes from Europe and China. It has also seen the sprouting of indigenous players, some getting their wares from as far Dubai, South Africa, Zambia and the mabhero from Europe via Mozambique, resulting in the birth of so called flea markets for clothing, with the popular ones being Mupedzanhamo of Mbare musika in Harare. Consumers jokingly call them "Kotamai Boutiques," because their wares are usually displayed on the ground or on low tables so you have to bend down to evaluate their quality. There is fierce tussle for clients between the SMEs players and the formal markets. Workers' disposable income is very low and usually consumers prefer the informal market which is cheaper but of average quality. The informal players do not have account facilities, but may offer lay buys, or credit purchases to well known clients. The formal markets offer credit purchases usually to working class with regular income and payslips. The clients are drawn from both the public and private sector. The retailers use salary ranges to tier customers and as a metrics to predict future customer profitability. Buying power is given on the bases of salary range and payment history. Customer relationship starts when the customer opens an account with the Departmental store.

Very few if any research has been carried out on Zimbabwean Relationship Marketing practices by Zimbabwean firms, to evaluate their feasibility locally, and the general practices and   the strategies used. The approaches for customer selection by the Departmental stores do not emphasize customer previous purchase history. The emphasis is on pressuring the customer to open an account first, which is the beginning of the

customer life cycle for this organization. The account and the latter buying power and marketing effort, is believed, will influence the consumer into buying. As these organization compete for the market with other new entrants particularly the international players, the adoption of CRM approach require that they evaluate these approaches to ascertain their reliability as tools for predicting future customer profitability and decisions for their marketing effort.

The CLV enable the firm to rank order the customers on the basis of their contribution to the firm's profits. This will make the firm to focus attention on the most valuable customers and allow efficient allocation of the resources. Thus it enables the organization to adopt a customer view and implement strategies that will enhance customer value. Customer tiers mean that customers are to be treated differently basing on their contribution. Another essential value of CLV to the firm is that it enables the firm to estimate accurately how much it must invest to retain its customers and to obtain a high rate of retain from each customer. So the CLV guides the firm in its resource allocation. (Kumar. V, 2003).

II. LITERATURE REVIEW

Customer Life Value (CLV) is defined as the present value of all future net cash flows (margins) attributed to the customer in a relationship, (Buttle, F. 2009). Krafft, (2000) see it as the economic value of customer relations during the whole period of relationship between customer and the firm. Customer lifetime value (CLV) is defined as the sum of cumulated cash flows discounted using the Weighted Average Cost of Capital (WACC) of a customer over his or her entire lifetime with the firm, (Kumar, Ramani, and Bohling, 2004; Arker Kunar V 2003). IT is a measure of the worthiness of a customer to a firm. Calculation of CLV for all the customers helps the firms to rank order the customers on the basis of their contribution to the firm's profits, (Buttle, F., 2004;   Dhruv and Levy, 2010; Mudie and Pirrie, 2006; Zeithaml, 2011).

The salient points from the CLV definition:

- Customers are not the same. Their contribution varies from customer to customer (Gronroose, 1984).
- The whole mark of relationship marketing is maximizing customer wallet.
- Customer is viewed as an asset, where the firm invests in today, in anticipation of feature cash inflows from the invested customer.
- Customer analysis, profiling and tiring is critical for correctly predicting future customer buying behavior and correctly predicting future customer value and profitability.
- Customer equity is crucial to determine the cohort profitability and value.

Customer profitability which is usually used interchangeably with Customer Lifetime Value is defined by Kottler and Armstrong (1996) as "a person, household , or company, whose revenue over time exceed, by an acceptable amount, the company costs of attracting, selling and serving that customer". Life time value or life time profitability of a customer is largely influenced by the longevity of the relationship, frequency and amounts purchased by customer (customer wallet,) during the relationship period, cross-selling and up-selling value generated; and the referrals generated by the customer during his /her relationship with the firm. The cost-to-serve must be factored in to get the exact lifetime profitability (Zeithaml and Bitner, 2011; Buttle, 2009; Reinartz and Kumar, 2003). Reinartz and Kumar, 2003 identified the drivers of customer lifetime value as exchange characteristics and customer heterogeneity. According to the two these two factors explain why customer lifetime value varies between individual customers. They define the exchange characteristics elements, as customer spending levels during the customer life cycle, customer cross-buying behavior and customer loyalty level; and finally the organization retention strategies and customer buy-in into those loyalty programs. Customer heterogeneity is the varied customer cohorts the firm is marketing to. The firm should make consented effort to move customers in the lower tier to top tiers. In the case of Meikles it has three main customer groups, the VIP class comprise A-class (salary range of $500 and above) and B-class (salary range between $250 and $500). The third group is the non-account holders who do not have credit facilities, but buy cash. Meikles should focus on moving customers in lower tiers to the top tier, A- class. Usually the top tier is the class that has the highest retain.

Customer Life Time Value is believed to be important in relationship marketing by many authors. It is seen to be important for customer selection. That is identifying and selecting the customers with potential for high contribution, with whom to establish a long term relationship with and invest in them to optimize the marketing effort, (Farris et al 2006; Fader, Hardie and Lee 2005; Reinartz and Kumar, 2003; Berger and Nasr, 1998). CLV is used to identify contributions of customer segments and impact of new channels of distribution on customer value. In relationship marketing customer is viewed as an asset not as a cost. We invest in a customer today to reap future economic benefits; this is the reason why CLV is defined as the net present value of a customer's future potential cash-flows. CLV is important for resource allocation. The firm should direct its marketing effort on those customers that are valuable and profitable. Investment in a customer should be commensurate to the retain. Marketing effort is also directed towards maximizing customer wallet, (Reinartz, Thomas and Kumar 2005; Venkatesan and Kumar, 2004). CLV can be useful in supporting marketing decisions, (Pfeifer, et al, 2005). With the emergency of financial aspect of marketing, CLV is also useful for corporate evaluation, particularly using customer equity, which is the aggregated CLVs of all customers in a cohort, (Baner et al 2003).

The informal market is viewed as a non-contractual market and as such, the concern of management is on predicting customers' future activeness, such as customer share of wallet. This is premised on the assumption that the customer will always buy in future. Thus the focuses will be on future individual customer contribution to the firm, which will be measured by individual customer profitability, (Venkatesan and Kumar, 2004)In contractual arrangements, management focuses more attention on predicting customer retention, which is the longevity of the relationship, because customer revenue can be determined with accuracy, (Reinartz and Kumar 2000). Meikles market is a non contractual market, thus the focus is on customer contribution. Selecting and tiering customers on the bases of salary is an assumption that one's income level greatly influence one's future purchases. Thus it can further be argued that one's salary grade has an impact on their future contribution and profitability to the firm.The use of net salary as predictive metrics in CLV is premised on the thinking that one's salary range is a good predictor of future customer expenditures or profitability. Meikles uses salary range as predictive metrics for customer attractiveness, which is using it to select customers the firm wants to forge a long-term relationship with. The retailers that use salary range to select customers for their CRM programs are more concerned on whether the customer will be able to pay back the credit offered or not. The risk analysis carried out concern checking the prospective client's banking record and credit reports from other retailers and signatures of guarantors and next of kin. From the day of successfully opening of the account, one is given buying power that matches their salary, which match their capability to payback the credit without suffocation. Buying power will be used to lure more customer purchases.

Fig. 1: Metrics for customer selection.

The metrics uses salary as proxies for future customer contribution and profitability. The thinking is that, the higher the salary range, the higher the potential for high contribution, the lower the salary scale, the lower potential for contribution. Customer tiring is based on salary grades. Those in high salary grades are put in class A ($500 and above) and those in the lower grades are in B-Class ($250 to $499). Those in category (A) are given high buying power that matches their salaries. Those in the (B) category are given low buying power which matches their net salaries and is gradually increased if they prove to be profitable. Those customers, who show problems in paying their installments, will have their buying power maintained for a while and if it persists their buying power will be reduced and later the customer is ejected. Buying power is used to stimulate customer purchases. Customers may utilize all the buying power or part of it. Consumers with lowest salary scale may not be allowed to open accounts with the retail. They are deemed not profitable.

The metrics is mainly concerned with customer contribution and not customer potential value. A student who may not be profitable today but profitable tomorrow is not considered. The buying power is part of the marketing effort augmented by direct marketing, where the firm communicates directly to the customer new stock arriving, installments balances and due dates for bill payment.CLV metrics incorporates the probability of future customer activities and the marketing costs to retain and market to the customer, (Venkatesan, Raj Kumar and Kumar: 2004). Just like the traditional metrics, the salary metric fails to accurately predict future customer activeness. You needs past purchasing history to predict future customer buying behavior. Customer details are only captured when one opens an account with the retail shop. It assumes that if one shows willingness to open an account, and their salary is of a certain range, then the customer will be valuable. Customer activeness is seen to be determined by salary range. It is premised on the belief that if you dangle the buying power before customer, this will excite the customer to buy an equivalent or less amount of the buying power. You can increase customer wallet by increasing the buying power.

Some recent studies (Reinartz & Kumar, 2003) have shown that past contributions from a customer may not always reflect his or her future worthiness to the firm. Hence, there is a need for a metric which will be an objective measure of future profitability of the customer to the firm (Berger & Nasr, 1998). Most of the retail clothing shops and furniture shops in Zimbabwe use one's salary as a metrics for future customer contribution, and profitability.CLV as a predictive model should be able to predict customer future activeness that is the purchase frequency and the amounts anticipated to be purchased. It must also show the firm's investments to the customer in terms of the marketing effort directed to each individual customer.

III.   RESEARCH METHODOLOGY

A descriptive survey was used to evaluate the usefulness of net- salary as a CLV metrics in predicting customer contribution and profitability. The study was a survey on Meikles Departmental Stores' three branches in Zimbabwe, Masvingo, Mutare and Harare branches, basing on secondary data. The Meikles group has got seven branches all together in Zimbabwe .The branches include Meikles- Masvingo, Meikles-Mutare, Meikles-Harare, Meikles Bulawayo, Meikles- Gweru, Greatermans and Barbour's. From all the above- mentioned three Meikles branches, the targeted population is (16439), and is distributed as follows 3100, 5089 and 8250 respectively. A sample size of three hundred (300) account holders with the departmental store was used. From each departmental store a sample of hundred (100) account holders was selected. The customers are classified into two categories (tires) that is A class and B class and non-account holders. The A class comprises of customers with a net salary of $500 and above and class B are those with a net salary of $250 but below $500.

The data gathered spanned from March 2009 to April 2013 for each customer. The collected data showed customer class/tire, net salary, buying power, marketing costs, customer contribution (sales) and customer profit. SPSS was used to analyze the data. Pearson Product Moment Correlations and regression were used to test the hypothesis.

Table 1: Target population and sample size

Customer Category		Target population	Sample Size
Branches		7	3
Masvingo	**A class**	1100	50
	B class	2000	50
Mutare	**A class**	2050	50
	B class	3039	50
Harare	**A class**	3150	50
	B class	5100	50
Totals		**16439**	**300**

Customer behavior and characteristics

From the secondary data gathered, out of 300 account holders about 70% of the company's debtors are employed by the government and the remaining 30% are from private sector. This is largely because Government is the biggest employer and generally because industry is currently operating roughly at 40% capacity, and they have downsized operations and number of employees. The civil service group comprised of teachers, police officers, nurses' soldiers and many other civil servants dominate Meikles cliental. Most firms prefer to do business with government employees because they have consistent income, and that they are a low risk group (easy to trace) and stop order facility through salary bureau (SSB) can be effected.

Figure 2 below shows the propositions of employees and different people who have VIP credit cards from the company.
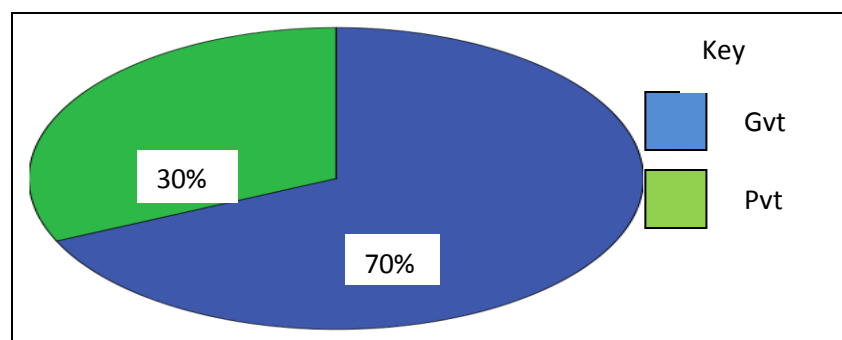
Fig 2

Table 2: Aggregated Class Profiles 2009 March to April 2013

Year		2009 - 2010				2010 - 2011				2011 - 2012				2012 - 2013			
Branch	Customer Class	Sales $	Buying Power $	Marketing costs $	Profit $	Sales $	Buying Power $	Marketing costs $	Profit	Sales	Buying Power	marketing costs	profit	Sales	Buying Power	marketing cost	Profit
Masvingo	A CLASS	29062.00	4649.92	8343.00	20719.00	36340.20	5014.43	15740.00	20600.20	36407.00	5825.12	6455.00	29952.00	36400.00	6024.00	2900.00	33500.00
	B CLASS	27571.00	4411.36	5083.00	22488.00	31067.80	4670.84	12875.00	18192.80	30323.00	5051.68	4890.00	25433.00	25868.00	5138.88	3100.00	22768.00
Mutare	A CLASS	32318.40	5170.94	11231.00	21087.40	38998.00	6239.68	14346.00	24652.00	38642.20	6382.75	9807.00	28835.20	31642.00	6522.72	3678.00	27964.00
	B CLASS	30545.60	4887.29	7768.00	22777.60	32904.00	5264.64	12456.00	20448.00	30094.80	5315.16	7680.00	22414.80	30094.00	5399.00	3059.00	27035.00
Harare	A CLASS	33901.56	5424.24	11432.00	22469.56	41036.46	6565.83	11754.60	29281.86	43936.46	7029.83	10045.00	33891.46	44731.60	7157.05	3178.00	41553.60
	B CLASS	32740.00	5238.4	9876.00	22864.00	38196.50	6111.44	12600.00	25596.50	37896.54	6263.44	7500.25	30396.29	41190.36	6590.45	3215.00	37975.36
Totals		186138.5	76928.15	53733.00	132405.56	218542.96	34966.76	79771.60	138771.36	217300.00	34767.98	46377.25	170922.75	209925.96	33588.10	19130.00	190795.96

1)
2)

Retention Rate for A class (75%) and above B- Class below (60%), Discount Rate (10%). The acquisition cost per customer across tiers is $4.

Table 3: Sales/ Revenue summary for the two Classes A and B from 2009 to 2013

Year	Total sales for class A $	Percentage Changes	Total sales for class B $	Percentage changes
2009- 2010	95281.96		90856.60	
2010- 2011	116374.66	18%	102168.30	11%
2011 -2012	118985.66	2%	98314.34	-4%
2012 -2013	112773.60	- 6%	97152.36	-1.2%
	443415.88		**388491.60**	

Generally revenue from each customer group has been steadily increasing, this could be in response to improving economic conditions, from the 2008 economic melt- down. Salaries improved steadily from 2009, thus it's very difficult to attribute the increase to response to the induced buying power. Between 2011 and 2013 we witness a fall in sales for both classes as can be noted in the Table 3. The percentage changes show that in the period between 2009 and 2011 there has been a high percentage change in sales for both the A and B tiers. In 2009 to 2010 period, A class experienced a percentage change of about 18% for the three centers and B class a percentage change of 11%. This is proof that sales were on the rise side. But in the subsequent periods sales began to decline as noted in the percentage changes , period between 2010 and 2011, for A class 2% (a fall by 16%) and B class -4% (a fall by 15%). In the 2012 to 2013 period further decline is noted for the two classes, A class a decline by -6% and B class a decline by -1%. The decline could be attributed to intense competition in the industry, which has an influx of new entrants both formal and formal players. The cheap Chinese goods, is causing much damage to existing players. The inflation rate remains below 5% in the research period. Incomes are very depressed especially the civil service group, leaving the groups with low disposable income. Class A

which is the high income group has generated more revenue than group B which is a low income group ($443415.55 and $388491.60 respectively), a difference of about $54924.28. This indicates a relationship between customer salary ranges and its contribution to the firm. The higher salary scale A-class contributing more than the low salaried B-class. Thus salary range is a factor when predicting future customer contribution. The results also show that, salary metrics can be reliable within short periods of about five years. When customers open new accounts they tend to spend more, but after begin to modify their behavior.

Table 4: Percentage (%) changes in sales, costs, and profits with time.

Year		2009-2010				2010-2011				2011 to 2012				2012 to 2013			
Branch	Customer Class	Sales %	Buying Power %	Mktng costs %	Profit %	Sales %	Buying Power	Mktng costs %	Profit %	Sales %	Buying Power	mktng costs %	Profit %	Sales %	Buying power	mktng cost %	Profit %
Masvingo	A CLASS					25 %	7.8 %	88.7 %	-0.57 %	4.8 %	0.2 %	-58 %	45 %	1.9 %	3 %	-55 %	11.8 %
	B CLASS					12.6%	5 %	153.2 %	-1.9 %	82.2 %	1 %	-62 %	39.9 %	-14.6 %	1.7 %	-36.6 %	-10 %
Mutare	A CLASS					20 %	20 %	27.7 %	16.9 %	-0.91 %	1.5 %	-32 %	16.9 %	14.6 %	2.2 %	-62.4 %	-3.0 %
	B CLASS					7.7 %	7 %	60.4 %	-10.2 %	-8.5 %	0.1 %	-38 %	9.6 %	0.003 %	1.5 %	-60 %	20.6 %
Harare	A CLASS					21 %	21 %	2.8 %	30.3 %	7 %	7 %	-14.5 %	15.7 %	1.8 %	1.8 %	-68 %	22.6 %
	B CLASS					1.6 %	16.6 %	27.6 %	11.9 %	-0.8 %	2 %	-40 %	18.7 %	8.7 %	5.2 %	-5.7%	24.9 %

4.3.3 Customer Contribution

Zeithaml and Bitner (2011), agree that for most firms, customer equity is certainly the most important determinant of long term value of the firm and that it is an important index for firm value in Financial Aspects of Marketing, for it reveals company "Good Will". The authors go on saying that, although it may seem obvious that customer equity is the key to long term success, they view the understanding of ways to grow and manage customer equity as critical although complex one. How to grow customer equity is of utmost importance, and doing it well can lead to significant competitive advantage. The profit margins for the two different cohorts have increased at a favorable rate due to a decrease in total marketing costs over a period of time. From Table 2 and 5 all the two classes (A and B) from the three branches have shown better profit margin from April 2009 to 20013 March. However, A class customers proved that they generate more revenue than B although their costs to save are higher than that of customers who are in the B class. The sales figures of the A class customers are higher because they have high retention rate than the class B customers. The graph (fig 3) shows the trend of the contributions, marketing costs and profit margin over a period of in three branches of Meikles and the performances of different cohorts in each stratum.

Table 5: Class contributions (profit) 2009 to 2013

Year	A.CLASS (profit) $	Percentage changes	B.CLASS (profit) $	Percentage changes
2009 -2010	64275.96		68129.60	
2010 -2011	74534.60	14%	64237.30	-6.1%
2011-2012	92678.66	20%	78244.09	18%
2012- 2013	103017.60	10%	87778.36	11%
Totals	334507.82		298389.35	

Table 5 shows that the aggregated contribution of the two classes for the period between 2009 and 2013 has been on rising trend. In 2009 class B although being a low income group contributed more than class A. The reason could be that in 2009 most firms were putting much effort on acquiring new customers, and this raised the acquisition costs. Acquisition costs for A class are usually higher than those for class B. and Table 6 confirms this, where we note high marketing costs at the beginning, between 2009 and 2011. At the end in 2013 the marketing costs have gone down. Generally it costs less to market to existing customers than new ones and existing customers buy bigger volumes because they trust the brand (they know the value they will drive by consuming the brand) and because they are not price sensitive. Percentage changes of profit margins for class A are much higher than those of class B, showing that class contribution was raising by bigger margins as compared to that of class B in the first period, class A had (14%) and B (-6%). The period between 2010 and 2012 B-class percentage change improved drastically, rising to about (18%) against (20%) of class A. On the last period Class B shows a better percentage change to A, (11% and 10%) respectively. Generally customer contribution in the observation period has been on the increase; possibly responding to the firm's marketing effort and the improving economic conditions. The decline at the end could be a result of increasing competition at the market. Overly class A contributed more than class B by about $36118.47. While marketing costs are declining by 2013 the expectation is that customer contribution was to correspondingly go up, but on the contrary, for the two classes, customer contribution is declining as depicted by the customer contribution percentage changes. Class A it dropped by half (20% to 10%) and that for class B it dropped from (18% to 11%). This reinforces the above assertion that salary metrics can be used for shorter periods of no more than five years.
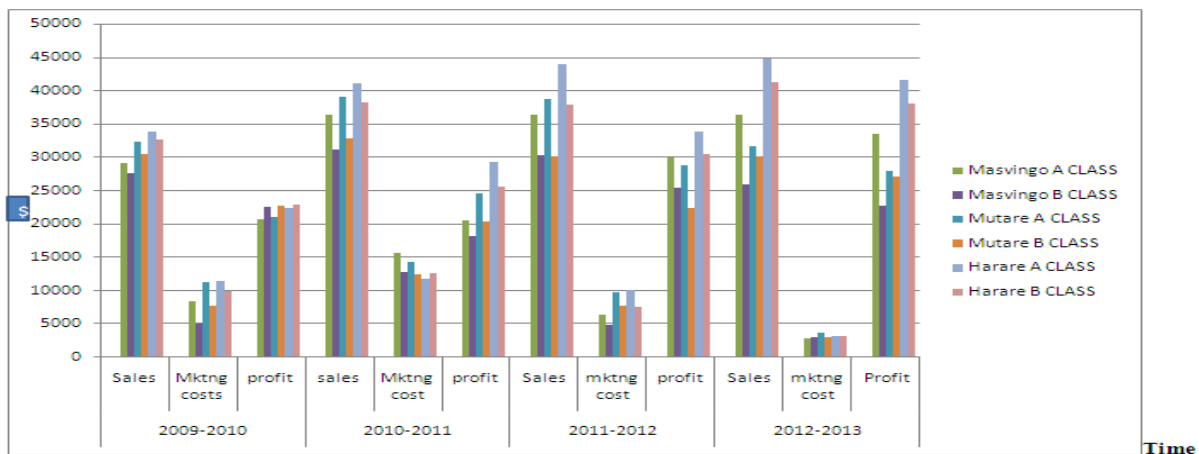

Fig 3: Customer contribution and costs for serving the customer

The formula for computing life time value is as follows

CLV $=\sum_{t-1}^{T}$[GC $-$ M] r $-$ A
(1 + i) t^{-1}

Where CLV	=	Customer lifetime value
GC	=	Gross contribution
M	=	Marketing costs
r	=	retention rate [t-1]
i	=	discount rate
t	=	time period
A	=	Acquisition Costs

Computed CLV for Meikles sample

CLV $\qquad = \qquad \sum_{t-1}^{T} \dfrac{(GC-M)^{r} -A}{(Hi)^{t-1}}$

Computed CLV for A -class

n^{1}
$$\frac{(95281.96 - 31006.06) \times 0.75}{(1+10\%)^{2}}$$

$$\frac{(64275.9)0.75}{}$$

$$\left(\frac{48206.93}{(1+0.1)^{1}}\right) - 200$$
$$43824.8 - 200$$
$$\$ \underline{43624.48}$$

n^{2}
$$\frac{(116374.66 - 41840.60)75}{(1+0.1)^{2}}$$
$$\frac{55900.50}{(1.1)^{2}}$$
$$\underline{46198.80}$$

n^{3}
$$\frac{(118985.66 - 26307.00)751}{(1+0.1)^{3}}$$
$$\frac{69509.00}{(1+1)^{3}}$$
$$\underline{52223.34}$$

n^{4}
$$\frac{(112773.60 - 9756.00) x 0.75}{(1+0.1)^{4}}$$

$$\frac{77263.2}{(1.1)^4}$$

$$\underline{\$\ 52771.81}$$

CLV for A-class = 43624.48 + 46198.80 + 52223.34 + 52771.81 $\qquad$ = $\underline{\$194818.90}$

Computed CLV for B-class

n^1
$$\frac{(90856.60 - 22727)\ X\ 0.60}{(1+0.1)^1}$$

$$\frac{40877.76}{(1.1)^1}$$

$$\underline{\$37161.6}$$

n^2
$$\frac{(102168.30 - 37931)\ x0.60}{(1+0.1)^2}$$

$$\frac{38542.38}{(1.1)^2}$$

$$\underline{\$31853.21}$$

n^3
$$\frac{(98314.34 - 20070.25)\ x0.60}{(1+0.1)^3}$$

$$\frac{46946.45}{(1.1)^3}$$

$$\underline{35271.57}$$

n^4
$$\frac{(97152.36 - 9374.00)\ x\ 0.60}{(1+0.1)^4}$$

$$\frac{52667.02}{(1.1)^4}$$

$$\underline{35972.28}$$

CLV for Class B = 37161.6 + 31853.21 + 35271.57 + 35972.28 = $\underline{\$140258.66}$

Marketing Costs

Mudie and Pirrie (2006) concluded that at a very basic level, strategies for building customer relationships can affect five things: retention rate, referrals, increased sales, reduced direct costs and reduced marketing costs. Some customers are very expensive to market to than others, (Roberts and Morgan and Hunt, 1994). From the Table 6, customers' classes have different costs and contributions. In all the three Meikles branches, the A class customers have costs which are a bit higher than the B class from the year 2009 to 2013. A- Class incurred higher costs because of other extra services and benefits they receive from the firm. The costs were initially higher in 2009 and fallen dramatically with time; it costs less to market to existing than new customers. The marketing costs decreased due to a fall in other costs like acquisition costs. The researcher agrees with other marketing scholars who postulated that existing customers are more profitable and less costly to serve than new customers.

Table 6: Marketing Costs for Classes A and B (April 2009 to March 2013)

Year	A-Class marketing costs $	B-class marketing costs $	Aggregates Marketing costs for A and B Classes $
2009 -2010	31006.06	22727.00	53733.06
2010 -2011	41840.60	37931.00	79771.06
2011-2012	26307.00	20070.25	46377.25
2012- 2013	9756.00	9374.00	19137.00
Totals	108809.12	90102.25	199011.37

Acquisition costs for Classes A and B

On average it costs $4.00 to acquire a customer irrergardless of class. For Class A the total acquisition costs amounts: $(150 \times \$4.00) = \$600.00$ and for class B: $(150 \times \$4.00) = \$600$. The aggregated costs for the period April 2009 to March 2013 is ($1200.00). The acquisition costs are only incurred when acquiring the customer for the first time.

Buying power

In this research study buying power was defined as the amount of goods or services the customer is allowed to buy on credit basing on his/her level of disposable income. The data presented in above tables 2, and 4 clearly shows that the buying power affect the sales positively or negatively. An increase in the buying power leads to an increase in sales holding other things constant, for example, when the buying power for Masvingo [A class] customers was increased by 7.8% it resulted in an increase in sales by 25% for the one year period (March 2010-April 2011), and that for B Class when the buying power was increased by 16%, sales increased by 1.6 % for the same period. In other words when the buying power is increased by certain percentage, the sales volume will also increase positively. The subsequent periods reveal a similar trend. However, not all customers will comeback even if the buying power is increased. At the end the evidence show that even if the buying power is wielded before the customer, customer response to it is modified. The assumption is that when you dangle the buying power before the customer this will motivate the customer to buy more, and this will go on until their salary limits. To me the customer will always weigh their options, as in this case between buying goods on account with a high mark-up or buying cash for low price for similar quality. Despite an increase in the buying power percentage, in the later period, customer contribution went down as was shown by the customer contribution percentage changes tables.

Hypothesis Testing

1) H_1: **Net-salary is a reliable metric for predicting customer contribution.**
There is a relationship between net -salary range and customer contribution.

The researcher's aim is to establish the relationship between the Net Income and customer contribution, to reach this conclusion; the researcher computed the relationship using the Pearson correlation.

Table7: Pearson correlation : customer net-income and customer contribution

		Net Income	Contribution
Net Income	Pearson Correlation	1	.299**
	Sig. (2-tailed)		.000
	N	300	300
contribution	Pearson Correlation	.299**	1
	Sig. (2-tailed)	.000	
	N	300	300

**. Correlation is significant at the 0.01 level (2-tailed).

The correlation coefficient between customer net-salary and customer contribution is (0.299) denoting a weak relationship between the two.There is a positive (0.299) relationship between Net Income and Contribution. This implies that an increase in the customer's net Income will result in an increase in customer total contribution. The two tailed significance test 0.000<0.5 means that we accept the hypothesis and conclude that the correlation is significant. Previous discussions have also confirmed that sample A- class representing high salary range group, contributed more than B-class for the same period under review. The computed CLVs results for the two classes reveal that A-class contribution is much higher than that of B-class (A-class $194818.90 against $140258.66 of B-class). The implications are that the firms should focus more on customers with higher salary scales as have a higher retain than low income customers although they are costly to market to. But they should not neglect the low income group as they also contribute to revenue generation and can graduate to be in the A-class category one day.

2) H_2 : **Increase in buying power will result in an increase in customer contribution**.
There is relationship between buying power levels and customer contribution

The Buying power can be viewed as the minimum amount of goods that can be purchased on credit by a customer depending on the level of disposable income. In large retail stores like Meikles, the buying power given to a customer is given basing one's net salary. The more the customer shows to be active and that they are not risk customers (paying their instalments in time monthly) the more his/her buying power will be increased. The researcher's aim is to establish the relationship between the level of buying power and customer contributions to the firm.

Table 8: Pearson Correlation: buying power and customer contribution.

		Buying power	Contribution
Buying power	Pearson Correlation	1	.301**
	Sig. (2-tailed)		.000
	N	300	300
Contribution	Pearson Correlation	.301**	1
	Sig. (2-tailed)	.000	
	N	300	300

**. Correlation is significant at the 0.01 level (2-tailed).

The correlation coefficient between buying power and customer contribution is (0.301) showing a weak relationship between the two, but is within the acceptable region. This means that there is positive relationship but not too strong. This means that when the customer buying power is increased, the contribution to the firm will also show some significance changes and most likely increasing. The two tailed test 0.000<0.5 which implies that the researcher cannot be confident enough with the relationship between the two variables. However, the relationship proved to be weak just because the customer might opt for other brands which can satisfy him or her. Since the customers are becoming complex in the modern business world, the company should put its foot on the accelerator when it comes to innovations to bring about new products in order to lure its customers to come back and spend more on the company offerings. When you increase the buying power

customer are likely to buy more for a start, but some time they will modify their behaviour and buy less. Buying power can be used effectively in the early years of an account holder. This is when they show to respond more to buying power offers.

3) H_3: **Relationship duration has a positive influence on customer contribution/ profitability.**
   There is relationship between relationship duration and customer profitability.

Table9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.109[a]	.012	.010	2760.14483

.Predictors: (Constant)Relationship-duration

The aim of the above data is to show the relationship between relationship duration (longevity) and customer profitability. Table: 9 also indicate the model summery of the two variables that is longevity and profitability. On this model, the relationship length is the constant variable which determines the profit level to be earned.

Analysis of variance (ANOVA)

The researcher's aim is to assess the relationship between relationship duration and customer profitability. To find the appropriate solution to this research question, Pearson regression was computed and the results were analysed after the ANOVA table.

Table10: Relationship between relationship duration and customer profitability.

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.579E7	1	5.579E7	7.324	.007[a]
	Residual	4.655E9	611	7618399.459		
	Total	4.711E9	300			

a. Predictors:(Constant),Relationship duration

b. Dependent Variable: profit margin

The ANOVA test above tested at 95% confidence interval shows that the significance is 0.007< 0.05. The result falls in the acceptance region. Therefore we accept the hypothesis, that relationship duration has a positive influence on customer contribution. The evidence from earlier discussions on customer profit margins, reveal that as the relationship enter its fourth year, customer contribution begin to decline, for both classes and for the three regions. Organisations that strive to lengthen customer relationships will tend to benefit in the way of increased customer equity, but this has limited duration. Druv and Levy (2010) support that there are some benefits that can be accrued by the firm from longer life span with the customer. The base profit will change positively since the cost to serve will decline and that loyal customers buy tend to buy larger volumes and are less price sensitive than new customers. The longer you keep the customer, the more you will earn this base profit. In addition, Kotler and Armstrong (2006) also concur that as customers get to know the business firm and company employees get to know their customers, efficiencies in doing business will increase and thereby reduce costs and increase costs.

H_4 : **High retention rate has a positive influence to customer contribution**
There is a relationship between retention rate and customer contribution

The term customer retention was defined by Werner and Kumar (2003), as the probability of a customer being "alive" or repeats buying from a firm. Several scholars concur that there is a positive relationship between the retention rate and the profitability. The customers with high retention rate are sometimes classified as loyal customers. The researcher computed correlations using the Pearson correlation.

Table 11: Pearson Correlation: Retention Rate and Customer Contribution.

		Retention	Profit margin
Retention rate	Pearson Correlation	1	.109[**]
	Sig. (2-tailed)		.007
	N	300	300
Profit margin	Pearson Correlation	.109[**]	1
	Sig. (2-tailed)	.007	
	N	300	300

**. Correlation is significant at the 0.01 level (2-tailed).

The analysis shows positive correlation (0.109) between the retention rate and profitability, since it is above zero. However, the relationship is weak since it is below 0.5. This help the researcher to conclude that high retention rate positively contribute to the firm's profitability. Under the table above it is clearly indicated that the correlation is significant at 0.01 level (2 tailed).The two tailed significance 0.007 <0.5 means that we therefore accept the hypothesis that retention rate has a positive influence on customer profitability.The above outcome is in line with the findings from other several marketing research findings. Kerin et al (2006) postulated that the retention rate and the discount rate have effects on profits for the subsequent time periods. He also takes in Mudie's idea by noting that the traditional role of marketing has been to win customers, little attention or effort was devoted to keeping them. This preoccupation with customer acquisition rather than customer retention has been criticized as a "leaky bucket" approach to business. Lovelock (2011) concurs that the measurement of customer loyalty is known as the customer retention rate. As a company retention rate improves, the average "life" of a customer increases thereby increases the base profit in the long run. The profit margin will be said to improve in the sense that the cost to save the same customer tend to fall with time unlike when the firm acquire new customers all the time , the costs will be increasing instead of falling.

Table 12: Summary of Hypothesis Tests

	Hypothesis	**status**
H1	**Salary scale is a reliable metric for predicting customer contribution.** (There is a relationship between salary range and customer contribution)	**Accepted**
H2	**Increase in buying power will result in an increase in customer contribution.** **(There is relationship between buying power levels and customer contribution)**	**Accepted**
H3	**Relationship duration has a positive influence on customer contribution.** **(There is relationship between relationship duration and customer profitability)**	**Accepted**
H4	**High retention rate has a positive influence to customer contribution** **(There is a relationship between retention rate and customer contribution)**	**Accepted**

IV.   CONCLUSIONS, RECOMMENDATIONS AND FUTURE AREAS OF RESEARCH

The research analyzed the use of Net- salary as a metric for predicting customer contribution. The retail market needs to be aware of the impact of certain marketing practices and see how they develop them to be competitive. Relationship Marketing is now the buzz word and a key competitive strategy for many firms. Identifying and selecting the right customer to forge a long term relationship is critical to Relationship Marketing, because the firm has to invest in the right customer, hence the need to evaluate the existing criterions used to select customers for CRM. The research investigated the impact of buying power on customer purchase behavior that is whether an increase in buying power will result in corresponding increase in customer contribution. The research also analyzed the influence of relationship duration on customer profitability, that is whether keeping the customer longer in a relationship with the firm will yield value for the firm bearing in mind that to sustain customer relationship organization needs to invest into the customer.

It can therefore be concluded salary scale is a reliable metrics for predicting customer profitability and thus can be used for customer selection in CRM. Low correlations between the independent and dependent variables in this analysis calls for caution on those using the metrics. Results have shown that customers can be more profitable in the short –run of that relationship, which can be the first 4years. In the long-run in the fifth year, margins begin to decline and this was revealed in both classes. So firms need to maximize on customer wallet in early years of the relationship. Firm need to intensify their marketing effort in these early years, particularly their retention and loyalty programs. To benefit, firms need to retain their customers but move them up to top tiers through retention and loyalty programs . Buying power has shown to be more useful during the early years of the relationship, in the later years despite an increase in buying power sales declined.

V.   FUTURE RESEARCH

Future research needs to focus on evaluating the feasibility of salary scale metrics in the long- run for period beyond five years.

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