***Market-Based Management,* 6e (Best)**
Chapter 1 Customer Focus, Customer Performance, and Profit Impact

1) The major benefit of a strong customer focus is long-run survival.
Answer: TRUE
Page Ref: 6
Difficulty: Easy

2) A business with a short-term perspective lacks a strong consumer focus.
Answer: TRUE
Page Ref: 6
Difficulty: Easy

3) Minimal customer focus results in a reduction in the cost of marketing and sales.
Answer: FALSE
Page Ref: 7
Difficulty: Easy

4) Asset turnover in an organization is an example of internal company metrics.
Answer: TRUE
Page Ref: 11
Difficulty: Medium

5) Measures of market performance, such as sales and market share, are backward-looking measures of success or failure.
Answer: TRUE
Page Ref: 14
Difficulty: Medium

6) A market-based management business gives its dissatisfied customers as much attention as its "very satisfied" customers.
Answer: TRUE
Page Ref: 17
Difficulty: Easy

7) The marketing cost of retaining customers is much higher than the cost of replacing them.
Answer: FALSE
Page Ref: 20
AACSB: Analytic Skills
Difficulty: Medium

8) A market-based management system views customers as lifetime partners.
Answer: TRUE
Page Ref: 21
Difficulty: Easy

9) A business that has a 75 percent customer retention rate has an an average customer life of 6 years.
Answer: FALSE
Page Ref: 22
AACSB: Analytic Skills
Difficulty: Medium

10) The life expectancy of a customer decreases exponentially as a business moves to higher levels of customer retention.
Answer: FALSE
Page Ref: 22
AACSB: Analytic Skills
Difficulty: Medium

11) The higher the rate of customer retention, the longer the average customer life expectancy and the greater the customer lifetime value.
Answer: TRUE
Page Ref: 24
Difficulty: Easy

12) The customer loyalty index (CLI) is a function of total sales, customer lifetime value, and shareholder dividend.
Answer: FALSE
Page Ref: 25
AACSB: Analytic Skills
Difficulty: Medium

13) A repeat customer buys a lot from many companies and does not have a strong preference for one over the other.
Answer: TRUE
Page Ref: 27
Difficulty: Easy

14) Captive customers are a drain on a business's profits because the cost of acquiring them can never be recovered.
Answer: FALSE
Page Ref: 29
AACSB: Analytic Skills
Difficulty: Medium

15) Unrestrained customer acquisition can result in a negative rather than positive impact on profits due to the cost of customer acquisition with little offsetting income.
Answer: TRUE
Page Ref: 31
Difficulty: Easy

16) Which of the following is true of businesses with a strong customer focus?
A) A customer-focused business lacks a long-term perspective.
B) A customer-focused business realizes higher profits over the short-term.
C) In a customer-focused business, shareholders are more interested in long-run survival than immediate earnings.
D) In a customer-focused business, managers are usually judged on the last quarter's results, and not not on their efforts to ensure the long-run survival of the business.
E) A customer-focused business is in synch with customers' needs and requirements, not with competitors' strategies.
Answer: B
Page Ref: 6
AACSB: Analytic Skills
Difficulty: Medium

17) Which of the following events occur when there is minimal focus on customers?
A) high customer loyalty
B) reduction in customer turnover
C) below-average profits
D) long-run strategies to improve sales
E) low cost of marketing and sales
Answer: C
Page Ref: 7
AACSB: Analytic Skills
Difficulty: Medium

18) The end result of underwhelming customers and shareholders is ________.
A) an unfocused value proposition
B) a higher pressure for short-run results
C) an above-average profit performance
D) a low rate of customer turnover
E) a high level of customer loyalty
Answer: B
Page Ref: 7
AACSB: Analytic Skills
Difficulty: Medium

19) In a customer-focused business, ________.
A) the senior management sets the tone and sends the signal for a strong customer focus
B) the management views customer complaints as negative feedback and avoids them
C) the analysis of customer feedback is performed only by the senior management
D) the business downplays the importance of customer training for new employees
E) the business is overly focused on building products they assume their customer wants
Answer: A
Page Ref: 9-11
AACSB: Analytic Skills
Difficulty: Medium

20) Which of the following is an example of a company's external metrics?
A) return on sales
B) employee turnovers
C) manufacturing defects
D) late deliveries
E) retaining customers
Answer: E
Page Ref: 11
Difficulty: Easy

21) With reference to the six-category scale, a consumer satisfaction index (CSI) of 20 denotes that the customer is ________.
A) dissatisfied
B) satisfied
C) very satisfied
D) somewhat dissatisfied
E) somewhat satisfied
Answer: A
Page Ref: 14
Difficulty: Easy

22) With reference to the six-category scale, a consumer satisfaction index (CSI) of 60 denotes that the customer is ________.
A) dissatisfied
B) satisfied
C) very satisfied
D) somewhat dissatisfied
E) somewhat satisfied
Answer: E
Page Ref: 14
Difficulty: Easy

23) To create an overall customer satisfaction index (CSI) for a given sample of customers, a business ________.
A) computes the average of those customers' satisfaction ratings
B) sums all of those customers' satisfaction ratings
C) computes the average of those customers' satisfaction ratings and divides it by the industry average
D) computes the sum of those customers' satisfaction ratings and divides it by a leading competitor's customer satisfaction index
E) sums all of those customers' satisfaction ratings and divides it by 100
Answer: A
Page Ref: 14
Difficulty: Easy

24) A business determines that 75% of its customers are satisfied. This business also learns that 80% of a leading competitor's customers are satisfied. If this business implements a program to reach 80% customer satisfaction, this is called ________.
A) competitive parity
B) focused value proposition
C) managing to the averages
D) wide-angle view of customer satisfaction
E) forward-looking indicator
Answer: C
Page Ref: 14
AACSB: Reflective Thinking
Difficulty: Hard

25) Which of the following is a forward-looking indicator of business success?
A) customer satisfaction
B) shareholder dividends
C) sales
D) market share
E) ROI
Answer: A
Page Ref: 14
Difficulty: Easy

26) Customers with ________ customer satisfaction ratings are profitable but are below the average customer profitability.
A) Very satisfied
B) Dissatisfied
C) Somewhat dissatisfied
D) Satisfied
E) Somewhat satisfied
Answer: E
Page Ref: 15
Difficulty: Easy

27) What is the main reason that a business suffers several economic consequences when a dissatisfied customer leaves?
A) The cost of attracting a new customer is greater than retaining a current customer.
B) The business's competitors enjoy a greater customer loyalty toward the same type of products.
C) The amount of money spent on developing the product for the dissatisfied customer cannot be reimbursed.
D) The business has to pay a large compensation fee to the customer.
E) The future costs for the development of a similar product increases abruptly.
Answer: A
Page Ref: 17
AACSB: Analytic Skills
Difficulty: Medium

28) What type of customers are most likely known as "customer terrorists"?
A) customers who use their bargaining powers to purchase products at a cheaper price
B) customers who engage in shoplifting
C) customers who verbally communicate their bad experiences to others
D) customers who show a false sense of loyalty to a particular brand
E) customers who only buy the product if it is offered at an attractive price or with a promotional incentive
Answer: C
Page Ref: 18
AACSB: Analytic Skills
Difficulty: Medium

29) The most significant impact of satisfying and retaining customers is ________.
A) that a business can redirect marketing efforts to better serve dissatisfied customers
B) that a business can redirect marketing efforts to attaining new customers
C) that a desired increase in the level of profitability requires an increase in sales volume of only half as much
D) that a business can eliminate the need for advertising
E) that it can result in tremendous financial leverage
Answer: E
Page Ref: 20
AACSB: Analytic Skills
Difficulty: Medium

30) A market-based business looks at customers as ________.
A) lifetime partners
B) individual purchase transactions
C) conquests
D) short-term relationships
E) extraneous variables
Answer: A
Page Ref: 21
AACSB: Analytic Skills
Difficulty: Easy

31) Customer life expectancy increases ________ with customer retention.
A) exponentially
B) linearly
C) cubically
D) parabolically
E) hyperbolically
Answer: A
Page Ref: 22
AACSB: Analytic Skills
Difficulty: Easy

32) What is the relation between the customer retention (CR) and average customer life (N)?
A) CR=1/N
B) CR=1+(1/N)
C) CR=N/2
D) CR=(N-1)/2
E) CR= 1-(1/N)
Answer: E
Page Ref: 22
Difficulty: Easy

33) The average life expectancy of a customer for a company with 75% customer retention is ________.
A) 1 year
B) 2 years
C) 3 years
D) 4 years
E) 5 years
Answer: D
Page Ref: 22
AACSB: Analytic Skills
Difficulty: Medium

34) What is the customer retention for a company given an average customer life of two years?
A) 40%
B) 50%
C) 75%
D) 80%
E) 100%
Answer: B
Page Ref: 22
AACSB: Analytic Skills
Difficulty: Medium

35) An increase from 80% to 90% in customer retention would have what effect on the average customer life?
A) an increase of 1 year
B) an increase of 2 years
C) an increase of 5 years
D) an increase of 10 years
E) an increase of 20 years
Answer: C
Page Ref: 22
AACSB: Analytic Skills
Difficulty: Medium

36) What change in customer retention results from an increase from 5 to 10 years of an average customer life?
A) a decrease of 5%
B) an increase of 5 %
C) an increase of 10%
D) a decrease of 10%
E) the value remains the same
Answer: C
Page Ref: 22
AACSB: Analytic Skills
Difficulty: Medium

37) Which of the following statements is true about customer retention and customer life expectancy?
A) The higher the customer retention rate, the lower the short-term profit impact.
B) As customer retention increases, the customer's life expectancy decreases.
C) Customer life expectancy decreases exponentially with customer retention.
D) In general, it costs five times more to replace than to keep a customer.
E) Higher levels of customer retention have a long-term negative impact on profits.
Answer: D
Page Ref: 23
AACSB: Analytic Skills
Difficulty: Medium

38) In general, it costs ________ times more to replace a customer than it costs to keep a customer.
A) two
B) three
C) four
D) five
E) six
Answer: D
Page Ref: 23
AACSB: Analytic Skills
Difficulty: Easy

39) To estimate the lifetime value of a customer at a given rate of customer retention, you need to compute the ________.
A) net present value of the customer's cash flow
B) customer satisfaction index
C) future customer value
D) customer loyalty index
E) gross percent margin of the company
Answer: A
Page Ref: 23
AACSB: Analytic Skills
Difficulty: Medium

40) Which of the following is a component of customer loyalty index?
A) customer satisfaction
B) average customer life
C) customer's income level
D) desire to repurchase
E) customer's demographic details
Answer: D
Page Ref: 25
AACSB: Analytic Skills
Difficulty: Easy

41) Calculate the customer loyalty index if the customer history is average, the purchase amount is below average, the desire to repurchase is high, the product preference is strong, and there is no customer recommendation.
A) 0
B) 10
C) 50
D) 80
E) 100
Answer: C
Page Ref: 25
AACSB: Analytic Skills
Difficulty: Medium

42) Calculate the customer loyalty index if the customer history is 12, the purchase amount is 38, the desire to repurchase is 50, the product preference is 20, and there is no customer recommendation.
A) 30
B) 24
C) 50
D) 65
E) 92
Answer: B
Page Ref: 25
AACSB: Analytic Skills
Difficulty: Medium

43) ________ are most likely to recommend a company's product to others.
A) Loyal customers
B) Captive customers
C) New customers
D) Repeat customers
E) Customer terrorists
Answer: A
Page Ref: 26
Difficulty: Easy

44) Which of the following groups of customers are most likely to have high desire to repurchase, strong product preference, long customer history, and a very high referral value?
A) Loyal customers
B) Captive customers
C) Unprofitable customers
D) Repeat customers
E) Customer terrorists
Answer: A
Page Ref: 26
Difficulty: Easy

45) Sally always purchases groceries at Dillard's Department store. Every time she visits the store, she spends exorbitant amounts on various items. Sally seldom recommends Dillard's Department store to her friends and acquaintances. The marketing manager at Dillard's calculates that she has a loyalty index of 50, and an average lifetime value. To Dillard's, Sally is a(n) ________ customer.
A) captive
B) loyal
C) unprofitable
D) repeat
E) intermediate
Answer: D
Page Ref: 27
AACSB: Reflective Thinking
Difficulty: Medium

46) Repeat customers differ from loyal customers in that repeat customers ________.
A) have a loyalty score between 70 and 100
B) have a high product preference score
C) are likely to recommend a company's product
D) are often simply "big spenders"
E) have low profit potential
Answer: D
Page Ref: 28
AACSB: Analytic Skills
Difficulty: Medium

47) Which of the following types of customers should be rewarded with special offers and services that are not offered to other customers?
A) loyal customers
B) nonprofit customers
C) new customers
D) dissatisfied customers
E) repeat customers
Answer: A
Page Ref: 28
Difficulty: Easy

48) A captive customer is most likely to ________.
A) have a low purchase amount
B) recommend a brand or company to others
C) have a weak product preference
D) have a high customer loyalty index
E) have a high desire to repurchase
Answer: C
Page Ref: 29
AACSB: Analytic Skills
Difficulty: Medium

49) Captive customers differ from unprofitable customers in that captive customers ________.
A) are the result of mismanaged customer selection
B) are simply "big spenders"
C) are a drain on a business's profits because the cost of acquiring them can never be recovered
D) have a low desire to repurchase but are unable to move easily to another company's product
E) produce a referral value that is over three times their customer lifetime value
Answer: D
Page Ref: 29; 31
AACSB: Analytic Skills
Difficulty: Medium

50) Julio lives in Summit County, in Colorado. He has taken health insurance from Pro-Life Inc., a health maintenance organization in Colorado that has a network of health care providers. Julio can visit the health care providers in the Pro-Life Inc. network, and get services at much lower rates. Julio regularly visits Dr. Amy Page, the best general physician in the Pro-Life Inc. network in Summit County even though he is not satisfied with her services. When any his friend require medical services, Julio does not recommend Dr. Amy Page to them. For Dr. Amy Page, Julio is a(n) ________ customer.
A) intermediate
B) loyal
C) captive
D) repeat
E) unprofitable
Answer: C
Page Ref: 29
AACSB: Reflective Thinking
Difficulty: Hard

51) Which of the following is true of new customers?
A) They are usually the profit driver of a business.
B) They are a company's best customers.
C) They have no impact on the net marketing contribution.
D) They are less likely to recommend a company's product to others.
E) They generally buy more than retained customers.
Answer: D
Page Ref: 29
AACSB: Analytic Skills
Difficulty: Medium

52) Which of the following types of customers generally have the lowest customer history?
A) new customers
B) captive customers
C) loyal customers
D) unprofitable customers
E) repeat customers
Answer: A
Page Ref: 30
Difficulty: Easy

53) Which of the following is true of unprofitable customers?
A) They produce a referral value that is over three times their customer lifetime value.
B) They are loyal customers in waiting.
C) They buy a lot from many companies and do not have a strong preference for one over the other.
D) They have a low desire to repurchase but are unable to move easily to another company's product.
E) They are a result of mismanaged customer selection.
Answer: E
Page Ref: 31
AACSB: Analytic Skills
Difficulty: Medium

54) Customers for whom the offerings of the current business do not fit their needs are called ________.
A) misfits
B) spinners
C) captive customers
D) customer terrorists
E) underachievers
Answer: A
Page Ref: 31
Difficulty: Easy

55) ________ are customers who buy because a product is being offered at an attractive price or with a promotional incentive.
A) Top performers
B) Underachievers
C) High potential customers
D) Misfits
E) Spinners
Answer: E
Page Ref: 31
Difficulty: Easy

56) Simmons Inc. is an American firm that manufactures and distributes a line luxury furniture under the brand name Elegant Living. The firm measures the loyalty levels of its customers and classifies them into the different groups based on their loyalty index. Which of the following customers are most likely to be classified as spinners by Simmons Inc.?
A) Customers who have a loyalty score between 50 to 69.
B) Customers who purchase an Elegant Living furniture one time because of an attractive discount.
C) Customers who are first-time buyers.
D) Customers who are likely to recommend Elegant Living furniture to potential buyers.
E) Customers who buy a lot of Elegant Living products as well as products from other furniture brands.
Answer: B
Page Ref: 31
AACSB: Analytic Skills
Difficulty: Medium

57) Describe the process that results in "underwhelmed" customers and shareholders.
Answer: A business with a weak marketing orientation has only a superficial or poor understanding of customer needs and competition. This little or no customer focus translates into an unfocused value proposition and minimal customer satisfaction. This results in low levels of customer loyalty because customers are easily attracted to competitors. Marketing efforts to hold off customer switching are expensive, as is the cost of acquiring new customers to replace lost customers. Low levels of customer loyalty and higher marketing costs contribute to disappointing business profits. In response, short-term sales tactics and accounting maneuvers are used to bolster short-run financial results. However, investors and Wall Street analysts are able to see through this facade, and shareholder value generally stagnates. Management is now under even greater pressure to produce short-run profits. This means that there is not the time, the inclination, or the motivation to understand customer needs and to unravel competitors' strategies, so the vicious circle of poor performance continues.
Page Ref: 6-7,
Difficulty: Easy

58) Explain the classification of customer loyalties and the contrasts in their range of behaviors.
Answer: Based on the customer loyalty scores, customers are classified into (1) loyal, (2) repeat, (3) captive, (4) new, and (5) unprofitable customers. Loyal customers possess the highest loyalty index and are most likely to recommend a company's products to others. Repeat customers buy a lot from many companies and do not have a strong preference for one over the other. Captive customers are dissatisfied customers who have an average to long customer history and are less likely to recommend the product to others. New customers can be first-time customers or returning customers, and have a below-average to average customer lifetime value. Unprofitable customers are a result of mismanaged customer selection and are a drain on a business's profits. "Spinners" and "misfits" are types of unprofitable customers.
Page Ref: 26-31
Difficulty: Easy

MINI-CASE

Your brother, Fred, owns ATZ Inc., a company that provides wireless telecommunications network in several cities in the Midwest region. You are taking a marketing class in college, and you asked Joe for some information about his business for a class project. You determined that one of his customers has a long customer history of 75, an above-average purchase amount of 55, a low repurchase desirability of 20, a weak product preference of 10, and the customer does not recommend ATZ services to potential customers. The customer is clearly dissatisfied, but since ATZ Inc. is the only wireless telecommunications network provider in the city he is compelled to use it.

59) Mini-Case Question. Based on the values provided, determine the customer loyalty index.
A) 28
B) 32
C) 36
D) 40
E) 44
Answer: B
Page Ref: 25-31
AACSB: Analytic Skills
Difficulty: Medium

60) Mini-Case Question. Based on the customer loyalty index (CLI) for the customer, what type of customer would you tell Fred that he has?
A) loyal customer
B) repeat customer
C) captive customer
D) new customer
E) unprofitable customer
Answer: C
Page Ref: 25-31
AACSB: Analytic Skills
Difficulty: Medium

61) Mini-Case Question. If the same customer has a high repurchase desirability, a strong product preference, and recommends ATZ wireless telecommunications services to his friends and acquaintances, what type of customer would he be?
A) a new customer
B) a captive customer
C) an unprofitable customer
D) a repeat customer
E) a loyal customer
Answer: E
Page Ref: 25-31
AACSB: Analytic Skills
Difficulty: Medium