

GOING UNDER THE KNIFE

*A sharp analysis of the customer portfolio of Sweden's leading Plastic Surgery Group
in order to enhance long-lasting beauty ... and business*

The plastic surgery industry in Sweden has experienced a turnover increase of 67% over the last three years and generates an annual revenue of SEK 600m (SFEP, 2011; SR, 2011). The number of total surgical procedures has increased by over 197% since 1997 (ASAPS, 2011). The growth is expected to continue by nearly 10% annually over the next three years, according to a survey conducted by McKinsey & Company (2012). No doubt that this is a lucrative business, but what is a business without its customers?

The purpose of this thesis is to estimate the value of the customer portfolio of *Akademikliniken*, the leading clinic within the industry of Plastic Surgery, in Sweden. The study is carried out by both quantitative and qualitative research. One part of the process is to use “big data” to indemnify the future customer flows and estimate the lifetime value of the customer portfolio, in order to allocate the company's resources in an efficient way. Secondly, positive word-of-mouth is essential in order to attain a position as market leader, to create an inflow of customers to the portfolio as well as regaining defected customers to the business. Therefore, in-depth interviews will enable the collection of customers' perceptions with the aim to generate a long lasting value creation.

The study reveals that the Super and Top segments, i.e. the 20% most spending customers, have the highest customer lifetime value, in comparison to the Middle and Bottom segments of Akademikliniken's portfolio. Hence, Akademikliniken should aim to satisfy the upper segments of the loyalty ladder, in order to increase the customer lifetime value for the entire portfolio. Customers within the upper segments are also to be seen as much more receptive and therefore good advocates, having potential of becoming partners in the value co-creation process. In order to retain the valuable customers, the service offer needs to be customized and value-added to enhance the customer perception of feeling royal.

Keywords: Plastic Surgery, Customer Relationship Management, Customer Lifetime Value, Frequency, Duration, Spending, Migration and Loyalty.

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For support and love

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1. INTRODUCTION

In the first section, the background to this thesis will be explained. Moreover, the problematization, the purpose of the study, definitions and clarifications as well as delimitations and prerequisites will be presented. Conclusively, the thesis outline will follow.

The practice of reshaping body tissues for reconstructive or aesthetic purposes dates back to the ancient world. The concept of *plastic surgery* was derived from the Greek *plastikos*, meaning “to mold”, and holds a critical place in cultures all over the world (Gilman, 1999). For centuries, tribes have sliced their lips, stretched their earlobes, winded their feet, filed their teeth, and tattooed and scarred their skin (Haiken, 1997) in order to answer to their cultures ideal of beauty.

Moving into the 21st century, this heritage has not lost any of its cultural influence. For example, contemporary popular series such as *Extreme Makeover* and *Nip/Tuck* indicate that plastic surgery is a predominating topic within beauty and lifestyle, and the company Big Tent Books even published a new picture book that explains to kids “why mommy is getting a flatter tummy” (Salzhauer, 2008). The influence of celebrities and reality programs has a great impact on consumer purchasing behavior, a phenomenon that is even listed as one of the top-ten consumer trends, given by Euromonitor International’s map in 2012. Furthermore, the increased usage of correcting photo-apps, firming underwear, cosmetic dentistry, injections such as Restylane, Botox etc., could also be considered as evidence that consumers are buying into an artificial, beauty-focused lifestyle (Askegaard, 2002; Edung, 2002; Hamermesh, 2011; Euromonitor International, 2012).

Since 1997, the total number of cosmetic surgical procedures has increased by over 197% (American Society for Aesthetic Plastic Surgery, 2011). The demand for plastic surgery has been on the rise thanks to factors including an ageing population, favorable public perception and technological advances (Ibis World, 2011). Looking at the Swedish market, plastic surgery is expected to grow by nearly 10% annually, over the next three years, according to a survey conducted by McKinsey & Company (Cisionwire, 2012). The turnover of the plastic surgery industry in Sweden has increased with 67% over the last three years. Since 2007, the three largest players in the Swedish market; Akademikliniken, Art Clinic and Plastikkirurggruppen, together

increased their revenue from SEK 170m to SEK 318m. Profits had nearly tenfold in four years, from SEK 3,5m to more than SEK 32m, according to the companies' annual reports of year 2010 (DN, 2012).

Nowadays, advanced techniques within the areas of aesthetic, reconstructive and non-surgical procedures offer men and women of today a wide range of surgical procedures to choose from. Stretched earlobes may not appeal to everyone; the ideal of beauty compared to the ancient times has changed, but even though the ideal of beauty has become more generic, the ideal still seems to differ between cultures. The breakdown of total cosmetic surgical procedures according to ethnicity, shows that Caucasians in America accounted for 79% of the total procedures in 2011, while 8% were done by Hispanics, 7% by African-American, 5% by Asians and 1% by other ethnicities (ASAPS, 2011).

The United States of America could be considered the pioneer market within the industry of plastic surgery (The Guardian, 2011). Recent research conducted by the American Society for Aesthetic Plastic Surgery (2011), establishes that the number cosmetic surgical operations increased by 1% in 2011, which corresponds to 1,6 million procedures. According to statistics the most popular procedures are; liposuction, breast augmentation, abdominoplasty (tummy-tuck), blepharoplasty (eye-lid surgery) and breast lift (Surgery.org, 2012). The Americans spent almost USD 10,1bn within the industry of plastic surgery, during 2011. Surgical procedures accounted for 63% and non-surgical treatments for 37% of total expenditures. Almost 9,2 million procedures were completed in total last year in the US and among them 18% were considered as cosmetic surgical and 82% as non-surgical (ASAPS, 2011). Within the category of non-surgical procedures Botox, microdermabrasion, collagen injections, laser hair removal and chemical peels are found - treatments that are "as easy as going to the mall" (Tampa Bay Online, 2009). Botox is the most common cosmetic treatment among Americans, around 5,7 million Botox injections were completed in 2011 and that is an increase of 5% compared to the previous year. Looking back to the early 21st century, Botox was a very rare procedure but since then the number of treatments have risen in popularity by 621%. Moreover, the average cost of an injection is USD 375 (The Guardian, 2011).

Plastic surgery, however, has not always been as available and diverse as it is today, in our "superficial" society. Only a few decades ago, plastic surgery was taboo and covered in mystery, magic and eroticism (Gilman, 1999). Nowadays the perception of beauty and plastic surgery is

not hidden in the dark – rather on the contrary. Physical appearance is in the spotlight and people's willingness to consume beauty products has increased tremendously (Edung, 2002). A recent study, carried out on Swedish mothers, showed that 62% of the respondents in the age group 18-30 years consider plastic surgery as an option to improve their appearance. This could be compared to mothers' aged 31-40 and 41-55 years where 40% and 37% respectively thought of going under the knife (Familjeliv, 2012). Furthermore, SIFO conducted an investigation where the research revealed that every fourth woman considered a surgical procedure (SvD, 2004). But plastic surgery does not just appeal to women; an increasingly target group is men. In Sweden, men spend in average 3000 SEK yearly, on beauty products and they spend 25 minutes daily in front of the mirror (DI, 2005). The beauty industry has experienced a 220 % increase in turnover the last 20 years and the global sales of toiletries and cosmetics exceeded USD 330bn in 2010, compared to USD 104bn year 1989 and USD 9bn in year 1950 (Jones, 2010).

Turning to the Swedish market, it can be seen that the household income in Sweden has increased during the past decade (SCB, 2012; Ekonomifakta 2012). A favorable economic situation has opened new doors for individuals to improve living standards and fulfill dreams about their appearance. According to Featherstone (1994) the body should correspond to the standard of the individuals' chosen lifestyle, to be able to be accepted in a certain social context. Further on, Askegaard (2002) argues that the reason people tend to put so much effort and capital into beauty comes down to a wish of being perceived in a certain way. He argues that there are underlying motives for people investing in their own bodies; it is not just a social satisfaction – it is also an economic incentive.

"The variety of sociological stances on the body have mainly focused on the social constitution of the body and its value as an asset in social relations, going as far as seeing it as a physical capital that can be traded for economic or social capital" (Askegaard, 2002)

By the same token, professor Daniel Hamermesh states in his book "Beauty Pays: Why Attractive People Are More Successful", that attractive persons are more likely to be employed, work more productively and profitably, receive more substantial payment, obtain loan approvals, negotiate loans with better terms, and have more handsome and highly educated spouses. According to his research, good-looking workers on average earn a total of USD 230 000 *more* than those with "below-average looks" (Hamermesh, 2011).

1.1 Background to the Study

To sum up, beauty is considered a status feature as well as a financial asset. We live in an era with an increasing focus on the body and its perfection. The marketing environment is overflowing with products and services, related to health, well-being and beauty (Askegaard et al, 2002). One of the more drastic and consequently also much debated and at times taboo consumption within this field is *cosmetic plastic surgery*. Marketing and sales within this industry could be seen as difficult and may differ from traditional marketing prejudices. Due to the physical and social risks involved when completing a surgery (financial, practical, health related and society's reactions), a company's marketing communication needs to be discreet and trustworthy in order to achieve a credible brand perception. Since 60% of cosmetic surgeries are performed at non-clinical facilities, 22% at freestanding surgical centers and only 18% at hospitals (ASAPS, 2011), the business is also about hospitality and service as much as social responsibility and medical competence. The tradeoff between being a profit-driven actor and a trustworthy, reliable partner may be difficult to handle with care, since the beauty-boom has reflected the plastic surgery industry and led to strengthened competition.

No doubt that this is a lucrative business, but what is a business without its customers? Loyalty is a keyword within this field, especially since plastic surgery could be considered as a vulnerable industry. Therefore, positive word-of-mouth and loyal customers are essential to attain a position as a market leader, to create a positive inflow of customers as well as regaining defected customers to a business. Fundamental marketing theory states that it is much more expensive to recruit a new customer than to capitalize on an existing one (Kotler & Keller, 2009). Hence, it is crucial to identify the existing customers in terms of purchase frequency, duration of relationship and size of purchases in order to generate a long-lasting value creation.

A part of this process is to use "big data" to indemnify the future customer flow and to estimate the lifetime value of the customer portfolio, in order to allocate the marketing budget and resources right. Consequently, companies of today tend to have a myopic behavior¹ that inhibits the creation of long-term value within the organization (Nachemson-Ekwall, 2012).

¹ An economic short-termism within the field of Corporate Governance.

1.2 The Purpose and Problematicization

In light of the discussion above and the problematicization that this paper intends to answer, the research question is:

*What is the value of the customer portfolio of Akademikliniken
and how can customer relationship management increase it by creating loyal customers?*

Based on the research question above, the aim of this study is to describe and analyze the customer portfolio of Akademikliniken in terms of spending, frequency and duration, in order to identify *customer lifetime value* (CLV) and discuss potential untapped sources of revenue. The ambition is to understand and reflect on the consumer relationship within the field of plastic surgery as well as investigate how Akademikliniken can capitalize on customer loyalty and revisits, to strengthen the company's customer portfolio. By interpreting empirical data based on theories of Customer Relationship Management, Customer Life Cycle, Loyalty and Customer Lifetime Value, the intention is to extend the knowledge and understanding of consumer behavior within the rapidly growing market of plastic surgery.

Please note that all absolute numbers are distorted to protect the data of Akademikliniken.

The thesis is written on behalf of Akademikliniken AB and the contact persons in the process have been Magnus Jansson (CEO), Andreas Bertilsson (CFO) and Charlotta Abrahamsson (CMO).

Staffan Elinder (who constructed the CLV-model that is used as one of the theories for the analysis of the empirical data) and Zacharias Elinder have been consulted for further knowledge and inspiration within the field of CRM, both engaged at Dubblera AB.

1.3 About Akademikliniken

Akademikliniken is one of Sweden's leading aesthetic and reconstructive surgery clinics, performing more than 27 000 procedures annually, including non-surgical injections such as aesthetic dental care and medical skin care. Approximately 3 500 of the procedures are surgical. Akademikliniken was established in Stockholm in 1991 by plastic surgeons Per Hedén, Jan Jernbeck and Ulf Samuelsson. The first clinic was located at Riddargatan, Östermalm, but as business grew, the enterprise expanded and moved to a more spacious medical center in Storängbotten, Stockholm, in 2004. In 2011, The Akademikliniken Group had a turnover of SEK 178m and a workforce of approximately 130 employees (AK Fiscal Report, 2011).

The Italian *Gasparo Tagliacozz* (1546-1599) is known as the “father of modern plastic surgery” since he was the author of *De curtorum chirurgi*, the first textbook within the subject (Gilman, 1999). Considering Tagliacozz the father of modern plastic surgery worldwide, Per Hedén, Jan Jernbeck and Ulf Samuelsson could be seen as the founding and driving forces of the plastic surgery industry in Sweden. As founders of Akademikliniken, they have participated in the process of creating an open-minded attitude towards plastic surgery in Sweden.

In April 2011, the founders divested a part of the business to Valedo Partners, a growth-oriented Swedish private equity firm. With Valedo Partners as a co-owner, Akademikliniken was given the resources, in terms of competence and capital, to drive growth while remaining committed to the company vision; “to offer a broad and high quality service concept based on world leading research and best medical practices” (Valedo Partners, 2011). On the basis of the partnership, Akademikliniken started off with a rapid and extensive expansion during the year of 2012. In May 2012 they expanded in Norway by an acquisition of *Ellipse klinikken*. Specialized in non-surgical treatments, Ellipse klinikken, with two clinics in Sweden and five in Norway, performs over 20 000 treatments annually. Additionally, Akademikliniken acquired *Specialistkliniken* in Gothenburg in late June 2012. Total proforma turnover for Akademikliniken, including the recent purchases, amounted to approximately SEK 300m in 2011. Currently, Akademikliniken operates surgical clinics in Stockholm and Malmö, as well as two consultation offices in Örebro and London. In 2012 Akademikliniken also launched the concept of “Walk-in clinics” (for non-surgical procedures) in the heart of Copenhagen and at Stureplan and S:t Eriksplan, in Stockholm. In addition, Akademikliniken hosts an annual symposium, “Beauty Through Science” named after the company's motto. The symposium of 2012 was visited by over five hundred of the world's leading plastic surgeons, dermatologists and researchers.

1.4 Delimitation and Prerequisites

The delimitations of this study could be referred to limited resources such as time, money and manpower. Further on, some requirements specific for this study will be disclosed.

This thesis will mainly focus on the field of *aesthetic* plastic surgery within the private sector. The country of investigation is Sweden, but a lot of facts, statistics and inspirational trends will be collected from pioneer markets, mainly the United States of America, since the Nordic market lacks statistics. The thesis is written on behalf of Akademikliniken and thus the study will primarily have a company perspective and not an industry perspective, even though industry facts will be included. Thus, the approach will be from a business perspective as well as a customer perspective since it covers the area of Customer Relationship Marketing. Hence, a scientific approach will be applied to penetrate the research. As mentioned previously, please note that all absolute numbers are distorted to protect the data of Akademikliniken.

The data collected is based on customers that have made one or more purchases at any of Akademiklinikens clinics in Stockholm, Malmö or Copenhagen, during the assigned period; 1st of October 2002 to the 30th of September 2012. The depth of the study will also be delimited within the organization; the recent acquisitions in Norway and Gothenburg as well as the consultation offices in Örebro and London are not included in the analysis due to difficulties in collecting data. At Akademikliniken (HQ) in Storängsbotten, gynecological examination and dental care are also offered, but since those divisions belong to a subsidiary company the customer information is not registered in the same journal system. Moreover, the treatments offered are not plastic surgery and the customers of those divisions are therefore not a part of this study.

The purchases made in Copenhagen were originally listed in Danish Kronor. To be able to merge the Danish customer portfolio with the Swedish customer portfolio, the revenue per person was converted with an average exchange rate for SEK/DKK, for each month (Oanda, 2012) during the period of observation. For the purpose of this thesis, all revenue numbers are excluding Value Added Tax (VAT). All data and the in-depth interviews are observed from the author's point of view and thereby may have been affected by her own personal thoughts. Regarding the sample of the respondents for the qualitative research; a requirement for participation was to have completed a surgical or non-surgical procedure within the examined time-period, to be considered as an active customer. Unfortunately, only women wanted to participate in the qualitative study (no man out of 4000 volunteered). Therefore, the in-depth interviews will be from a female's point of view.

1.5 Definitions and Clarifications

The field of customer relationship management as well as plastic surgery tends to be complex and there are an endless number of terms and expressions the reader may not be familiar with. The following definitions provide the necessary explanations critical for this thesis. Definitions are quoted, taken from the Swedish Academy's dictionary, the web page <http://www.vocabulary.com> and from people working in the beauty industry if no other reference is given.

- **Plastic surgery** = Surgery concerned with remodeling, reparation or restoration of body parts, especially therapeutic or cosmetic reformation of tissues. Though cosmetic or aesthetic surgery is the most well-known kind of plastic surgery, plastic surgery also includes many types of reconstructive surgery, hand surgery, microsurgery and treatments of burns.
- **Aesthetic plastic surgery** = Aesthetic plastic surgery, also called cosmetic surgery, involves techniques intended for the “enhancement” of appearance through surgical and medical techniques, and is specifically concerned with maintaining appearance, restoring it, or enhancing it beyond the average level toward some aesthetic ideal.
- **Reconstructive plastic surgery** = Reconstructive plastic surgery is performed to correct functional impairments caused by burns; traumatic injuries, such as facial bone fractures and breaks; congenital abnormalities, such as cleft palates or cleft lips; developmental abnormalities; infection and disease; and cancer or tumors. Reconstructive plastic surgery is usually performed to improve function, but it may be done to enhance an appearance.
- **Non-surgical treatments** = Treatments within the area of cosmetic remodeling and repairing, performed by the usage of e.g. different injections (Botox, Restylane), laser or chemicals.
- **Customer** = *In order to understand the theoretical framework, and so theories such as customer relationship management, the customer life cycle, customer lifetime value as well as customer loyalty, the word **customer** needs to be defined. The definition in this thesis comes from the book “Customer relationship management: Getting it right”, written by Judith W Kincaid (2003).*
 1. A customer is a human being. Only human beings can make decisions and use products.
 2. A customer is a person who has acquired or is considering the acquisition of one of our products, anyone who is involved in making a decision, from financial decision maker to the decision influencer to the end user (and often they are one in the same) is a customer.

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- **Customer Relationship Management (CRM)** = A widely implemented concept for managing a company's interactions with customers, clients and sales prospects. The overall goals are to find, attract and win new clients, service and retain those the company already has, entice former clients to return, and reduce the costs of marketing and client service.
 - **Customer Lifetime Value (CLV)** = A prediction of the net profit attributed to the entire future relationship with a customer. The prediction model can have varying levels of sophistication and accuracy, ranging from a crude heuristic to the use of complex predictive analytics techniques.
 - **Customer Life Cycle (CLC)** = A customer life cycle can be thought of as the length, arc and nature of a customer's relationship with a brand or a company.
 - **Migration/Customer flow** = The movement of a group of people from one locality to another. Could be positive (from a low to a high segment) or negative (from a high to a low segment).
 - **Frequency** = The number of times that an event occurs within a given period; rate of recurrence. For the purpose of this study, frequency refers to the number of purchases made during a observation period.
 - **Duration** = A period of existence or persistence, the length of time that something lasts or continues. In this thesis duration refers to the lifetime of a customer, in terms of number of years.
 - **Spending** = The amount spent by a customer or group of customers on one purchase.

1.6 Thesis Outline

This thesis is divided into nine chapters. Chapter 1, contained an *introduction* to the study field of plastic surgery, examined historical and future trends, market information and gave a brief presentation of the “company in crime”, Akademikliniken. Chapter 2, *Theoretical Framework*, consists of the theoretical foundation of the thesis. Chapter 3, *Methodology*, will explain the research approach and the validity of the study. Moving on to Chapter 4, *Empirical findings*, the result of the quantitative and qualitative studies will be presented. In Chapter 5, *Analysis and Discussion*, the breakdown of the results will be performed by examining the empirical findings in the context of exiting literature, followed by the *Conclusions* in Chapter 6 that answers the research question. Thereafter, in Chapter 7, potential *Criticism of the study, contributions and future implications* will be discussed and evaluated. Finally, all kinds of sources used in the study will be presented in Chapter 8, *References*, and conclusively the *Appendix* in Chapter 9.

2. THEORETICAL FRAMEWORK

In order to study the core problem, different theoretical areas are examined in the following chapter. The research and the theories mentioned address topics that are considered interesting for further interpretation and analysis of empirical data. The theory initially treats the concept of customer relationship management. After that the customer life cycle will be examined as well as customer lifetime value, followed by a section about loyalty.

2.1 Literature Review

In this part the collection of theoretical data and the constitution of the theoretical framework will be deliberated, with the aim to facilitate the understanding of the upcoming chapter.

In the very beginning of the process, general information relevant to plastic surgery (consumer behavior, market environment, economic reports etc.) were gathered from all kind of sources (Google, glossy magazines, radio, podcasts, TV and newspapers) to boost the author with inspiration and knowledge within the assigned field of research (Rienecker & Jorgensen, 2008). After having consumed “general” literature, the author moved on to authentic, academic articles. The purpose of the literature review was to get a comprehensive understanding of relevant theories behind the concept of customer relationship management and related theories. The author wanted to be familiar with the concepts of lifetime value, the customer life cycle and loyalty as well as the industry of plastic surgery. Hence, the literature review started off in parallel to the collection of empirical data. The principal theory by Clark (2008) and Elinder (2012) was set early in the process but the gathering of relevant theories continued throughout the construction of the theoretical framework. The sample of potential theory to be used was quite extensive since customer relationship management is connected to loyalty, decision-making, consumer behavior as well as managerial theories.

As the research and the time went on, new perspectives on the calculation of the customer portfolio and related dynamics to the customers’ relationship with the category of plastic surgery were found. Hence, theory that could explain the respondents point of view and possibly rationalize these new perspectives was needed. To limit the investigation, theories that could complement the principal model and facilitate the analysis of the quantitative as well as the qualitative data were selected. Approximately one hundred-twenty article was read and the references of those were browsed through, thereafter the picture of the most relevant articles was clarified (determined by frequency and academic tone).

Since the theory by Elinder (2012) is a combination of different implications within the field of CRM and not that well-known, prestigious and well-reputed authors such as Clark, Pepper and Rogers, Kotler, Keller, Christopher, Grönroos, Payne and Pennie, et al. works as an interesting and rewarding complement. Nevertheless, the Elinder theories are highly relevant for this study, since the models have been valuable in analyzes of various business cases over the past forty years (Dubblera, 2012). To sum up, the empirical analysis and the creation of the theoretical framework are to be considered as simultaneous processes that have been shaped intuitively, in accordance with the chosen abductive reasoning approach that will be emphasized in Chapter 3, *Methodology*.

2.2 Introduction to the Concept of CRM

The interest in the concept of *Customer Relationship Management*, CRM, emerged during the early 1990's when Philip Kotler concluded that companies must move from a *short-term transactional-oriented goal* to a *long-term relationship-building goal* (Grönroos, 1994). Likewise, Morgan and Hunt (1994) acknowledge the turn towards relationship marketing and stated that the field of marketing had undergone a major change in both theory and practice, since the early eighties. They defined relationship marketing as “all marketing activities directed towards establishing, developing and maintaining successful relational exchanges” (Morgan & Hunt, 1994). The shift in business focus, from transactional to relational marketing, transformed the marketing industry and advanced the development of CRM (Payne & Pennie, 2005; Sheth & Parvatiyar, 2000). Rust et al. (2000) summarize these movements and conclude that the focus of the new economy is the concept of *customer equity*, also known as the *lifetime value of a customer base (CLV)*.

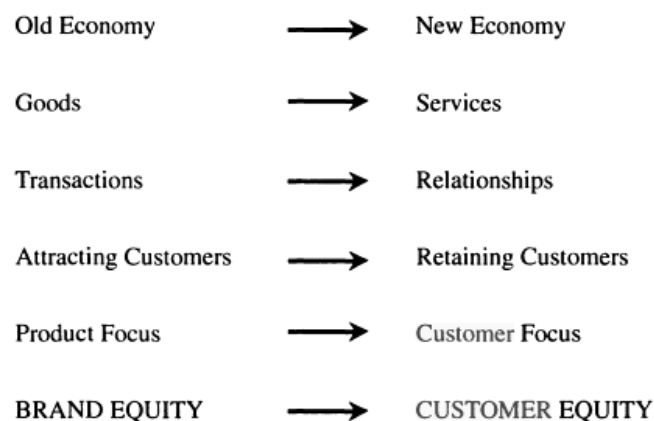


Figure I – Long term trends (Rust et al., 2000)

Ryans and Wittink (1977), Grönroos (1994) and Peppers and Rogers (1993), all agree on that the concept of CRM has progressed over time. Additionally, Capizzi and Ferguson (2005) predicted that the future need for active customer relationship management would intensify. Swift (2001) takes a historical perspective and argues that the idea behind the concept of CRM can be dated back to the early beginning of trading. The author claims that the entire history of customer service, customer care and relationship management is an attempt to get back to the intimacy with the customer enjoyed by small traders. Nowadays, a majority of all companies talk purely in marketing terms when reflecting about *who* their customers are; they are barely aware of how many customers they have and cannot possibly tell how *many* of them that are regular customers, *when* or *what* they purchased. Most companies state that they have “relationships” with their customers, but in many cases no such connection exists because of the companies’ generalization of customers (Swift, 2001).

2.2.1 The Emergence of CRM

The emergence of CRM as a management approach is to be seen as a consequence of a number of important trends, evolved during the last decades. Firstly, advanced technology enabled companies to upgrade their systems and track customer behavior in ways that were difficult or even impossible in the past - and those processes added value to the operations (Jackson, 1985).

The shift in interest towards CRM software applications took hold in the late 1990’s and in year 2001, the

spending on CRM reached almost USD 10bn with nearly half of that spent on marketing functions (Joachim, 2002). Research from Patrick Marketing Group (2002) revealed that 60% of the executives wanted CRM systems to expand relationships with existing customers, 54% gave their approval to facilitate customer shopping by CRM systems and 45% agreed on having cross-selling² through personalization³. However, another study performed by Jupiter Research, showed that only 17% of the companies that implemented CRM software, used customer analytics as a tool in the process of creating a personalized content (Joachim, 2002).

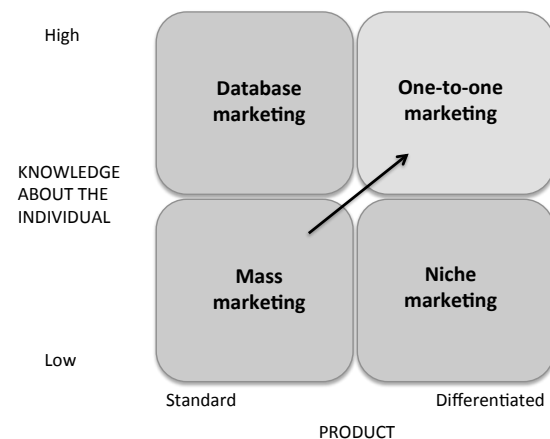


Figure II – Management approach matrix illustrating a trend towards one-to-one marketing

² Cross-selling refers to when an existing customer is offered additional products or services.

³ Personalization is the customization of a product or service to a customers personal preferences.

The growth in CRM was also fueled by the sector of management consultants; inspiration from live cases within mass customized manufacturing was applied to marketing communications. “The One-to-One Future”, published by Peppers and Rogers (1993), encourages a focus on “share of customer” instead of a mass-market “share of market”. The ideology is based on companies’ knowledge of customer interests and the ability of marketers to communicate unique messages to those customers, based on that knowledge. By utilizing data to provide differentiated solutions, companies’ capability to keep and develop the customer base could be improved. Hence, Peppers and Rogers (1993) argue that this “one-to-one” interaction with customers, would lead to improved customer lifetime value.

2.3 Analyzing CRM through the Phases of the Customer Life Cycle

According to Payne and Pennie (2005), CRM could be defined as *“a business approach that seeks to create, develop and enhance relationships with carefully targeted customers in order to improve customer value and corporate profitability and thereby maximize shareholder value”*. Further developed by Roebuck (2011), the overall goals of CRM are *“to find, attract and win new clients, nurture and retain those the company already has, entice former clients back into the fold and reduce the cost of marketing and client service”*.

Since CRM is all about “processing” the customers, the *Customer Life Cycle (CLC)* will be used to examine the above-mentioned aim with CRM. The CLC has obvious similarities with the product life cycle; besides one a clear difference that it focuses on the creation and delivery of lifetime value to *customers* instead of products (Draghici, 2011). Basically, the CLC summarizes the different stages in a customer’s relationship with an organization, but usually many shorter cycles constitute an entire lifetime of a CLC (Kincaid, 2002; Prasad, 2005).

According to theory, CRM can be examined through the CLC, illustrating the different phases of a customer’s relationship with a company (Clark, 2008; Elinder, 2012). A recent recruited customer starts off in the **new** customer phase, which lasts between three to four months. During this period the customers tend to be very receptive, which lasts approximately from the first day of purchase until ninety days after (The Loyalty Guide, 2008). Therefore, it is vital to confirm the customers’ choice of purchase in order to secure repurchases, collect customer data and place the

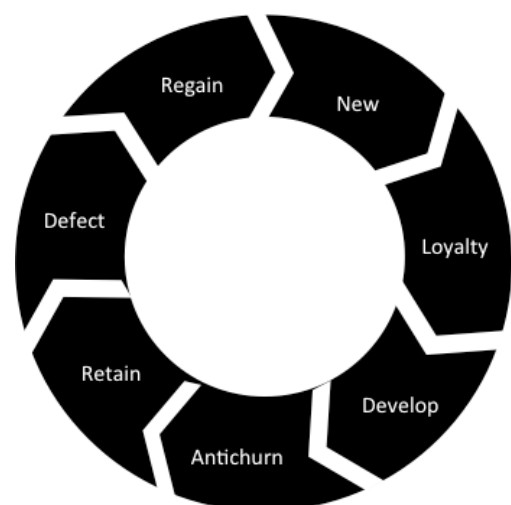


Figure III – Customer Life Cycle (Elinder, 2012; Dubblera, 2012; Clark, 2008; Kincaid 2002)

customer into the correct value segment. To be classified as a new customer, the customers should not have been in contact with the company previously. After the first purchase a new customer will be considered as an *active customer*. Throughout the new phase the customers are in the “incubator” and are well taken care of. Thereafter they enter the **loyalty** phase, where beneficial activities will be performed in order to increase the retention-rate and keep them as customers (Clark, 2008; Elinder 2012). This is an ongoing phase and a majority, up to 80% of the customer portfolio, will remain in this phase. The loyalty phase is a proactive stage, where activities should be done to decrease the churn rate and increase retention and duration. This is the time when the company should start building a customer relationship, reward, engage and provide the customer with tips and inspiration - in other words **develop** customers. During the development phase, the company needs to avoid customers remaining as “starters”.

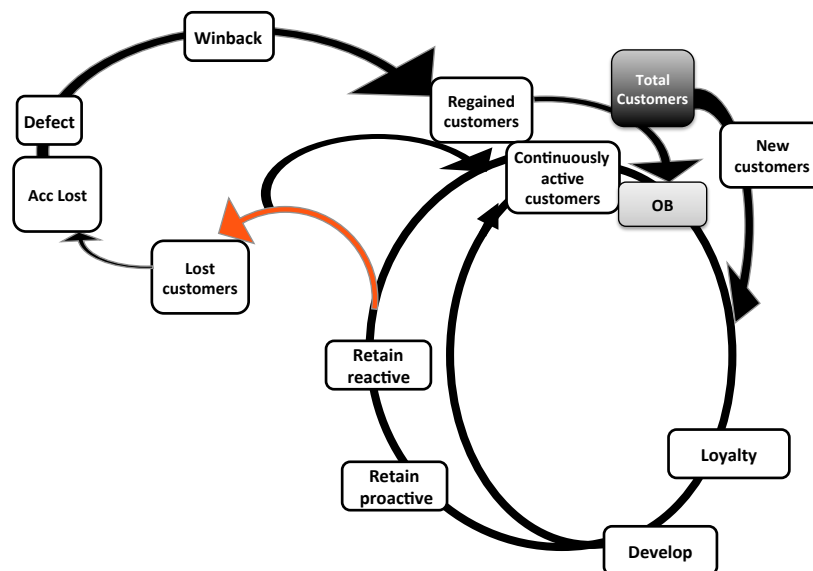
In order to evaluate customers’ growth potential, the “share of wallet” needs to be calculated. It refers to the amount of total spending that a business captures. The share of wallet can boost revenue, cross-selling as well as up-selling, and so increase the purchases. It is vital to upgrade active customers during this phase and to be aware of the customer *churn rate*, i.e. the customers’ propensity to leave the company. In the **anti-churn** phase, it is important to perform proactive activities to decrease the risk of losing customers. If a customer wants to leave, they need to be convinced not to in the **retain** phase and may be converted by a value-added offer. If, contrary to expectation, a customer **defects** it is important to understand the cause of the defection and handle the exit smoothly. Thereafter, an active win-back is recommended to regain a lost customer. Further on, if a company manages to **regain** a lost customer, an analysis of why the customer defected in the first place is to be performed, to prevent defection from happening again. Lastly, the customers should be considered as the greatest asset of a company. According to theory, the focus on retention is crucial since it is “3 to 5 times as expensive to acquire a new customer than it is to keep an existing customer”(Clark, 2008).

2.3.1 Get Control over the Customer Flows

Monitoring and measuring customer flows is crucial to succeed in CRM. Therefore companies strive to get control over the customer migration (Fornell & Wernerfelt, 1987). Figure IV on the following page, illustrates the customer movements in the CLC in a comprehensive way (Clark, 2008; Elinder, 2012).

The *opening balance* (OB) of a customer base includes the number of continuously active customers from a given period; entering another given period. All phases of the CLC (Figure III) can be found in the customer flow chart below (Figure IV). *Active customers* that are loyal will loop in the inner-cycle and will hopefully develop within the company until they consider defect. In that case, they will travel towards a stage where proactive, and further on reactive, actions will be taken. If the customers are convinced to remain as customers, they are considered as *retained customers* and will continue within the company. If the customers defect, they will be considered *lost customers* and will resume in the left-hand loop. Moreover, they will face a win-back phase - an opportunity for the company to convince the customer to come back, then as a *regained customer*.

Figure IV – Customer movements in the Customer Life Cycle (Elinder, 2012; Clark, 2008; Fornell & Wernerfelt, 1978)



2.4 CRM is Measurable via Customer Lifetime Value

Referring to theory, *customer lifetime value* (CLV) calculates “how to acquire, retain and develop loyal and profitable customers” (Payne & Pennie, 2005). Measuring CLV can be done in order to illustrate that some customers are more valuable than others, to get reliable data for strategic decision-making or to evaluate how much a company’s customer portfolio is worth (Clark, 2008). Upon thirty to forty years ago, Peter Ducker, known as a marketing guru worldwide, said that “it is the purpose of a firm to create satisfied customers” and in the same manner Theodor Levitt expressed that “...satisfaction is an important basis for loyalty, which is the key to profitability” (The Loyalty Guide III, 2008). Many marketing managers agree on those statements, but surprisingly few companies have the ability to transform customer data into customer analysis.

The theory gives several ways to calculate CLV. Software systems have simplified the progression, but still many companies fail in identifying customer migration, loyalty and profitability. For example, it is crucial to determine the value of a customer *before* deciding on how much to invest in that certain customer (Clark, 2008), in other words as early in the relation as possible. Additionally, CLV-analyses can be used to back up segmentation of target groups, marketing decisions, communication channels, budget levels, to mention a few areas of utility.

According to Payne and Pennie (2005) the most common definition of CLV is based on three components:

1. The number of purchases a customer makes in a year,
2. The value of the customers average purchase and
3. The customer's lifetime, i.e. in how many years the customer stays within the company.

The lifetime and the value are closely inter-related. Hence, the purpose is to influence of the above mentioned components in a positive direction, to make customers buy more regularly (*frequency*), buy a little bit more (*spending*) and stay loyal for a longer period of time (*duration*) (Clark, 2008; Elinder, 2012). Thus, CLV measures both short-time goals, i.e. extended purchase frequency, as well as long-term goals such as increased duration (Clark, 2008). Hence, a fundamental goal within relationship marketing is to maximize the CLV. Given the theory, the adoption of CLV principles force organizations to recognize that not all customers are equally profitable and that they must devise strategies to enhance the profitability of the customers that they seek to target (Clark, 2008; Elinder, 2012).

2.4.1 What Makes a Customer Profitable?

A profitable customer can be defined as “a person, household, or company whose revenues over time exceed, by an acceptable amount, the company costs of attracting, selling, and servicing that customer” (Kotler & Armstrong, 1996). According to Kotler & Armstrong (1996) a company should not try to pursue and satisfy every customer. As fundamental marketing theories declare; the top 20 % of the customers generate 80 % of the company's profit (Kotler & Keller, 2009). Known as the *20-80 rules*, this concept inspired Elinder (2012) to create his version of measuring the customer base. The model divides the customers into four different segments; *Super 5%*, *Top 15%*, *Middle 50%* and lastly *Bottom 30%* (Table I).

SEGMENTS	DEFINITION OF SEGMENTS
<i>Super 5%</i>	<i>Includes the super-five-percent highest spending customers out of the total base of active customers.</i>
<i>Top 15%</i>	<i>Includes the next, top fifth teen percent, most generating customers of the total amount of active customers.</i>
<i>Middle 50%</i>	<i>Consists of the fifty percent “middle” spending customers, out of the total customer base.</i>
<i>Bottom 30%</i>	<i>Consists of the thirty percent of the total amount of the lowest spending customers.</i>

Table I – Definition of customer segments (Elinder, 2012)

The separation into different segments is to be done by ranking the customers (from high to low) by the amount of total revenue that they have generated to the company (Table I). The theory points out, that it is not necessarily the “super customers” that generate the most profit. Since the Super customers require an extensive service and often get great discounts and promotions, the middle segments are often the ones that generate the most profit, since they pay a reasonably normal price and get good service (Elinder, 2012). Thus, interacting and making business with fewer customers - from a business point of view a more *valuable* segment - will positively affect the profitability (Kotler & Keller, 2009).

2.4.2 Measuring the Value of the Customer Base

The *customer development budget* (CDB) is a commonly used measuring tool, when dealing with CRM and CLV (Clark, 2008; Elinder, 2012). The model is a fundamental tool in the process of estimating the customer lifetime value and a tactical instrument to be used when following up strategic activities. The CDB differs from a conventional capital budget, in the way that it starts off from the customer, rather than a principal amount.

The purpose of the budget is to increase revenue, but also to understand *how* the revenue is generated – therefore it is crucial to grasp the basics of customer flow and migration theory. The model suggests a breakdown of customer data into different types; *active customers*, *new customers*, *retained customers* and *lost customers* (Table II).

TERM	DEFINITION
Active customer	An active customer has purchased products or services during the last 12 months (L12)
New customer	A new customer is an active customer during the last 12 months (L12) but has not been a customer previously
Continuous active customer	An continuously active customer is an active customer during L12 as well as during the previous 12 months (P12)
Retained customer	A retained customer is an active customer during the last 12 months (L12) who has also been an active customer during the previous 12 months (P12) or active earlier during the pre-previous 12 months (PP12).
Regained customer	A regained customer is an active customer (L12), who has not been active during the previous months (P12) but has been active earlier during the pre-previous period (PP12)
Lost customer	A lost customer is an active customer during the previous period (P12) but has not completed any purchases during the last 12 months (L12)
L12	Last 12 months
P12	Previous 12 months
PP12	Pre-previous 12 months (the 12 months, previous to the P12 period)

Table II – Definition of customer types and observation periods (Elinder, 2012)

2.4.3 Calculation of CLV

To further deepen the analysis of the CDB, a vital part is the determination of CLV (Clark, 2008). To define CLV is basically to calculate the economic value of a customer (Berger & Nasr, 1998). More in detail “the future flow of net profit, discounted back to the present, that can be attributed to a specific customer” (Payne & Pennie, 2005). According to Clark (2008) CLV is “the net value of all net payments from the moment the marketing effort starts toward a potential customer, and until the customer definitely stops dealing with the company”. The estimation of CLV, in this case, is grounded in Clarks (2008) formula based on the calculation of *net profit value*, since most companies only invest in customers that they expect to be profitable due to their future purchases or positive recommendations to others.

Mathematically, the formula is defined as follows:

$$CLV = \sum \frac{NPt}{(1+r)^t}$$

The formula states that if the expected net profit (NP) from a specific customer during a certain time period (t) is described as NPt - it is likely that the net profit will be waged. CLV is discounted into today's value by using a company's *rate of credit interest*, (r). Hence, if the expected net profit value in each period is divided by a discounting factor, the formula will provide the customer lifetime value, CLV (Clark, 2008).

Consequently, CLV mainly depends on three different factors:

1. The net profit stated for the periods (NP)
2. Customer lifetime (number of periods n)
3. The interest rate (r)

However, the formula for CLV can be modified in order to enhance the analysis of a company (Payne & Pennie, 2005). Elinder (2012) utilizes a simplified model to compute CLV of a customer portfolio, excluding the time value of money. The model consists of the following building blocks:

$$\textbf{Frequency} = \textit{number of purchases} / \textit{number of customers}$$

$$\textbf{Average purchase} = \textit{revenue} / \textit{number of purchases}$$

$$\textbf{Duration} = \textit{OB Customers} / \textit{Lost customers}$$

Frequency refers to the average number of times each customer makes a purchase of a product or service. By examining the total number of completed purchases in a specific period, divided with the total number of active customers in a customer portfolio, the regularity of consumption is computed. Observing *the number of purchases*, it is implied that it is the unique quantity of purchases that it refers to, thus the spending of each customer. The *duration* calculates for how long a customer stays with the company and is given by dividing the number of active customers during

the previous period of investigation, with the number of lost customers (defected) between the previous and the later period of investigation. Henceforth, the calculation will provide an approximation of the number of periods, during which the customer portfolio will last. In other words, for how long a company can rely on their existing customer base, if they do not recruit any new customers to the portfolio. By examining the customers' average purchase, frequency and duration, the lifetime of a customer is calculated in the following manner:

$$CLV = Average\ purchase \times frequency \times duration$$

According to theory, a customer that has a higher duration than an average customer will usually have a higher CLV (Clark, 2008). By computing CLV per customer, the monetary value of an individual is calculated. Summarizing the CLV for all customers, generate the value for the entire customer portfolio of a company (Clark, 2008).

2.5 Customer Loyalty

In this section various theories regarding customer loyalty will be described, all important when working with CRM. First of all the Loyalty Ladder will be defined.

Payne and Pennie (2005) states that “loyal customers are an intangible asset that adds value to the balance sheet and they represent the goodwill earned by a brand”. Loyal customers are not only contributing to a company's revenue or a brand's success by completing frequent purchases – they also highly valuable as ambassadors since they are referring new customers and reducing acquisition costs.

In addition, Gremler and Brown (1999) recommend that loyal customers participate in activities that “add value to or reduce costs for the firm”, such as word-of-mouth communication. Since the acquisition of customers can cost five times more than retaining current customers, it is important to identify and value the active, loyal and profitable customers (Kotler & Keller, 2009). To succeed in creating a long lasting loyalty, it is essential that the company understands and delivers a total customer experience (Mascarenhas et al., 2006).

2.5.1 The Loyalty Ladder

The theory behind the loyalty ladder can be used to determine the focus of a marketing budget by identifying and classifying a company's customers. Therefore, it is a useful theory in complement to CRM activities and CLV calculations.

The *loyalty ladder* could be found in several different versions; it is a popular model in relationship marketing when it comes to classifying companies' customers. Christopher et al. (1994), Raphael (1995), Gummelsson (2002) and have different perceptions about the actual design of the ladder, but they have the same conclusion regarding what it interprets. The purpose of the model is to illustrate if a customer relation is successful or not.

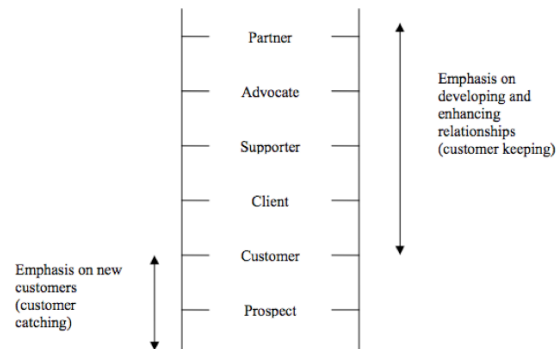


Figure V – The relationship marketing ladder of customer loyalty (Christopher et al., 1994)

2.5.1.1 Examining the Steps of the Loyalty Ladder

According to theory, the loyalty ladder groups the customers according to faithfulness and the ladder shows six different stages in the customer relation to a company; *prospect*, *customer*, *client*, *supporter*, *advocate* and *partner* (Raphael, 1995). In order to climb higher, each customer needs a certain amount of processing to reach the next step. While customers migrate up the steps, the relationship between the customer and the company develops, as they get to know each other more closely.

According to Feurst (1999), the first step consists of individuals that have no previous purchase history with the company - but still, they are considered as probable, future customers, in other words *prospects*. Thereafter, the *customers* are found, those that have purchased from the company once before but are not engaged in the relation with the company. Further on, *clients* are identified as customers who have completed regular visits and acted habitually, but have not yet an emotional connection to the company (Gummesson, 2006). The *supporters* are frequent customers that bond with the company and are engaged in the relationship. Likewise the supporters, the *advocates* are committed to the engagement of the relation but they are also great “ambassadors” for the company, willing to share positive information about the relation. If a customer is truly loyal, the person will pass all the different stages until the final step, *partner*, is reached. Marketers believe that one should strive to have their customers on a partner level since

truly loyal customers generate revenue and participate in the co-creation of value⁴ (Gummesson, 2006; Christopher et al., 1994).

2.5.1.2 Working with the Loyalty Ladder in order to Succeed in CRM

The critical issue with the loyalty ladder comes down to attracting the right target groups, since the customers should be able to climb further up the ladder (Feurst, 1999). An understanding of the customers' expectations and how the customers perceive the quality of the firm is therefore crucial to succeed in relationship marketing (Mascarenhas et al., 2006). According to theory, the customers also expect an additional value when they purchase a product or service – this value adding process is vital in gaining loyalty (Gummesson 2006; Christopher et al., 1994). Hence, the company's offer must be in line with the customer's expectations - to close deals and secure repurchases. Heskett, Sasser and Schlesinger (2002) published the book "*The Value Profit Chain*" in which they argue "the average CLV of a customer is highly correlated with a combination of the level of customer satisfaction and the level of customer loyalty (i.e. the retention rate)".

Marketers accentuate that the steps of the loyalty ladder also provide an indication of the profitability of a customers (Gummesson, 2006; Christopher et al., 1994). According to Hill (1996) customers are not profitable until they reached the client stage. On the other hand, Feurst (1999) argues that the supporters are to be seen as the first true customers on the loyalty ladder, since they aim to develop the relation between the parties as opposed to the intention of the clients that have no such interest. Raphael (1995) concludes that the further up the loyalty ladder, the more valuable a customer is to a company's business. Entering the discussion, Elinder (1993) explains the profitability of the loyalty ladder's steps (even though he makes use of another design including only five, instead of six steps, compared to the model by Christopher et al, 1994). Elinder (1993) claims that the first two steps of loyalty (suspects and prospects) consist of about 80% of the market and generate almost no revenue, they only incur costs. However, the three upper stages (customers, retainers and enrollers) represent 20% of the market and generate the profit. So, an appropriate goal in CRM is to do activities that will move customers one step up the loyalty ladder, an action that will improve revenue (Raphael, 1995).

⁴ A value co-creation process is defined by a collaboration between the company and the consumer. In stead of having regular, distinct roles of production and consumption both parties engage in the definition and creation of value (Prahalad & Ramaswamy, 2004).

2.5.1.3 Migration and Customer Flows

In order to recognize the migration (movement of customer flows) between different segments, in the CLC as well as the loyalty ladder, it is of greatest interest to manage the *customer defection rate*. That is the rate at which customers stop using a service or a product of a company (Capraro et al, 2003). A migration between stages and segments can be positive (low to high) or negative (high to low). Frederick Reichheld (1996) studied this phenomenon and stated in his book *The Loyalty Effect* that many major businesses lose their customers and have to replace half of the customer portfolio in a period of five years. To prevent existing customers from defecting, different customer loyalty programs are suggested as well as working with customer retention. Reichheld (1996) states *three reasons* “why even small improvements in customer retention can as much as double company profits” (Sorce, 2002):

1. It costs less to serve long-term customers.
2. Loyal customers will pay a price premium.
3. Loyal customers will generate word-of-mouth referrals to other prospective customers

Moreover, Reinartz and Kumar (2002) stated “loyal customers were less costly to serve, usually willing to pay more for brand choices than non-loyal customers and act as word-of-mouth marketers for the company”. Studies of companies within financial services, advertising and manufacturing industries have been conducted to prove this theory and they have all shown that a 5% reduction of the customer defection rate could increase profits between 25% to 85% (Reichheld & Sasser, 1990; Kotler & Keller, 2009).

3. METHODOLOGY

In the following chapter, the chosen research methods will be presented. Furthermore, strategies and approaches for the collection of empirical data will be described and motivated. In addition, the validity and reliability of the thesis will be examined.

3.1 Initial work

Prior to the start of the data collection, a confidentiality agreement was signed. Based on the act on privacy, no vulnerable information could be displayed. This agreement was vital, since the author had access to the back office at Akademikliniken and thereby an opportunity to get an insight in the daily work as well as collecting data from the patients' journal system. In order to collect empirical data from the assigned research periods, individual information related to the patients of Akademikliniken, was browsed through. This process was handled with care and with total respect for the individual. Therefore, *discretion* has been crucial during the entire process, to not reveal any confidential information that could impair the integrity of any of Akademiklinikens customers.

The author had the opportunity to work on the study from Akademiklinikens HQ, in Storängbotten, since the data collection had to be done from the company's internal journal system. Hence, the possibility was given to speak to the management and employees if any inquiries occurred. Lastly, several observations of the company's routines were performed which enhanced the authors understanding of the company and the industry in general.

3.2 Scientific approach

The appropriate methodological approach varies depending on the study at hand, since there are different perceptions of knowledge creation (Rienecker & Jorgensen, 2008). Two acknowledged outlooks are *induction* and *deduction*, where "induction starts from facts and deduction from theory" (Arbnor & Bjerke, 2009). The inductive study is derived from the empirical world while the deductive study starts from a theoretical point of view. Moreover, *abduction* is another way of generating theory; according to this approach induction and deduction are intertwined in real life. Well-reasoned by Arbnor and Bjerke (2009) "the analysis of facts may very well be combined with, or preceded by, studies of existing theory in the literature, not as a mechanical application to single cases, but as a source of inspiration to discover patterns for further explanations". For the purpose of this thesis, an abductive reasoning on creation of knowledge is appropriate, since this study originates from both theories and empirics.

Partly, the approach belongs within the *ideographic sphere*, since the focus is on attitudes and relationships (Lantz, 2001) reflected in the interview guide, used in the collection of qualitative primary data.

According to Bryman and Bell (2007) a *quantitative approach* puts “...emphasis on relationships between variables”. Since the study aims to calculate the value of a customer base by using customer data, a quantitative approach is applicable. Therefore, the analysis will explore the relationship between customers’ loyalty and variables such as frequency, duration and spending. Hence, this method is considered relevant for one part of the task. Due to the fact that the quantitative research has difficulties in capturing emotions, perceived relations and actual values or thoughts – another methodical approach is needed as a complement to understand the process of change fully, when digging deeper into customer relations and lifetime value (Alvesson, 1998).

As a researcher, the author indented to collect genuine descriptions of how the selected respondents perceive the company and the industry of plastic surgery (Jacobsen, 2002). To be able to do this a *qualitative approach* was adopted to show changes over time and uncover “...interconnections between the actions and the participants of social settings” (Bryman and Bell, 2007). The qualitative approach motivated the author as the data collection and the analysis of data could be done simultaneously. According to theory (Denscombe, 2003) a qualitative approach is also to be preferred when words rather than numbers characterize the study, as the second part of this empirical collection tends to.

To summarize; the research strategy of this thesis will have an abductive reasoning approach. A quantitative *and* a qualitative method will be used since the research question needs to be seen from two perspectives in order to enhance the knowledge creation and to understand the phenomena fully.

3.3 Empirical Collection and Research Design

*"The amount of data in our world has been exploding, and analyzing large data sets — so-called **big data**— will become a key basis of competition, underpinning new waves of productivity growth, innovation, and consumer surplus"*

MGI and McKinsey's Business Technology Office, 2011

3.3.1 Big Data

Already in the beginning of the last decade, the trend of a marketing data explosion was spotted. Developments in information technology have empowered the exponential growth of data, which has led to a set of tools being given, to enable a transformation of data into relevant marketing knowledge (Wierenga & van Bruggen, 2010). According to research presented at the Direct Marketing Association's forum, business leaders in *all* sectors will have to deal with implications of big data in the near future (DMA, 2012). Due to an increasing volume and detail of information, companies will face a unique ability to capture value through analyses of data. In return, they will get unique information that could be used as a competitive advantage – in the battle of the customers (Nordfält, 2007). Since the big battle comes down to "the moment of truth", in other words; active customers and actual purchases in terms of duration, frequency and spending, it has become even more crucial to have control over the customer base and the customer flows (Fornell & Wernerfelt, 1987).

A more competent and frequent use of data would enable companies to adapt towards a more customer-oriented organization (Kotler & Keller, 2009). By mapping out the customer base, companies will be able to boost their performance since they will be able to collect more accurate and detailed performance information. Moreover, that will result in more precise segmentations, which will enable companies to customize their product- and services range, or even improve the development of next generation's services. Overall, knowledge about the customer base will enhance analyses and improve decision-making (Payne & Pennie, 2005). Within the Swedish cosmetic surgery market, the knowledge of one's customer base is extremely important since the competition has intensified.

3.3.2 Quantitative Data Collection

This section describes the research design and the quantitative collection of "big data". The primary data comes from the patients' journals in the log-system of Akademikliniken, Skålpell.

Primary data can be collected through interviews, surveys, experiments and observations (Ghauri & Gronhaug, 2005). In this case the source of primary data comes from Akademikliniken's log-system, Skålpell, where customer data was collected from the patients journals of medical records.

The Skalpell system is not an optimal business system, rather a patient's casebook that successively has been transformed into a combo-system. Therefore, the collection of customer data was a struggle in many ways since it was not possible to make multiple segmentations simultaneously due to lack of system capacity. Hence, the research had to be done by going through months by month, to collect the data for the requested time period.

MS Excel was used for organizing and analyzing the data. In order to easily export data from Skalpell, MS Excel was the most compatible program available and was also adequate for building a new customer database from the customer data collected from the patients' journals. The raw data was analyzed on basis of Grounded Theory where "...data collection, analysis and eventual theory stand in close relationship to one another" (Bryman & Bell, 2007). In line with this theory, the work started off by coding the data that was collected from Skalpell. Since the approach is derived from abduction, the data analysis was done accordingly by a selective coding, using the segments from the chosen theories by Clark (2008) and Elinder (2012).

The process began by collection of the data necessary to complete the analysis of the chosen model. The *number of active customers*, the *number of unique purchases per customer* as well as the *total amount of each purchase per customer*, had to be extracted for two specific periods; the *Previous twelve months* (1st of October 2010 to 30th of September 2011) and the *Last twelve months* (1st of October 2011 to 30th of September 2012), hereafter denoted as P12 and L12.

In order to calculate the *regained* customers, a decision was made to take a longer time period of 8 years (96 months) from year 2002 to 2010, into account as well, to enhance the validity of the study (Bryman & Bell, 2007). Since plastic surgery may not be done annually, the author had an ambition to reflect a longer period of time than just the twelve months before the two selected time periods, in order to identify the regained customers. The *pre-previous period of ninety-six months* is hereafter referred to as PP96.

Early in the process, the decision not to follow a regular fiscal year when determining the periods of observation was decided, with the incentive to get as accurate and revised data as possible to make sure that the data was of highest relevance for the study. Therefore the cut-off date 30th of September 2012 was determined. Hence, the study stretches over a period of 10 years in total, from the 1st of October 2002 to the 30th of September 2012. Consequently, the periods of observation is defined as follows:

- L12: 1st of October 2011 to 30th of September 2012
- P12: 1st of October 2010 to 30th of September 2011
- PP96: 1st of October 2002 to 30th of September 2010

A master file was created, containing all necessary data. Abnormal data such as “fiction/test/incomplete” contacts were removed from the database, to prevent an incorrect data analysis (Appendix 3).

3.3.3 Qualitative Data Collection

In this section the collection of primary data comes from observations and in-depth interviews with customers that have completed a cosmetic treatment at Akademikliniken.

The method of *in-depth interviews* is suitable for investigations of consumer behavior as it provides insights of the social and cultural contexts that shape this behavior (Otnes et al., 1997). When using this interview technique, it is not accurate to use pre-written questions, since it might confine the flow and openness of the interview process (Lantz, 2001). Therefore an *interview guide* was used where the questions had a systematic order but of an open nature. Since the theme of the interview, and also the questions, were related to plastic surgery, the interview could however not be considered to be of a *completely* open nature (Banaka, 1981). According to Holme and Solvang (1997) a qualitative study has more of an in-depth character than width. Therefore, the number of respondents was intentionally limited to make sure that there was enough time for each one of them to reach a certain depth during the interview. The author thought it was of great importance to be able to review each one of the interviews afterwards and remember the persons by heart, in order to analyze the content accurately (Jacobsen, 2002).

Concerning the qualitative data, the empirical collection was segmented by the different phases (2-5) used in the interview guide, and those would work as core categories in the presentation of empirical data. The raw data was analyzed on basis of Grounded Theory where “...data collection, analysis and eventual theory stand in close relationship to one another” (Bryman & Bell, 2007). Based on those four phases, different categories or topics for discussion were emphasized in the analysis (Bryman & Bell, 2007).

3.3.3.1 Selection of Respondents

Thanks to the Marketing department at Akademikliniken, access was given to the company's customer e-mail database, used for dispatches, e.g. newsletters, so participants easily could be found for the qualitative study. The e-mail (Appendix 5) was sent on Friday the 18th of October 2012 and reached out to approximately 5000 customers. According to the Webmaster at Akademikliniken, the opening-rate of the e-mail was surprisingly high; one-fourth of the receivers opened the e-mail (Kovacic, 2012). Finally, eighty-five (85) customers replied and volunteered as interview objects. Out of them, eleven (11) respondents were welcomed for individual interviews. Unfortunately, there were only women volunteering, only one man answered the e-mail. All of the respondents had visited Akademikliniken in Stockholm during period P12 or L12, which was a requirement for being selected since the author wanted to be able to do a follow-up in the respondents' medical records, to enrich the analysis (Jacobsen, 2002). An important aspect when doing in-depth interviews is that the interviewer is "neutral" to the object (Lantz, 2001). Therefore, the author intentionally chose respondents that she had no personal relationship to, in order to minimize the impact on the outcome. Besides that, the selection of respondents was done somewhat randomly, by matching a volunteer's availability and the schedule for each interview session. The age range of the respondents was between 23-66 years.

3.3.3.2 Interview Guide

See the Appendix 4 for inspecting the interview guide in its entirety.

As mentioned earlier, an interview guide was created to protect the format of an *open in-depth interview*. As an introduction, the respondents were asked general questions, to create a relaxed atmosphere and build trust, in order to gain as trustworthy and open-minded answers as possible (Lantz, 2001). Questions regarding behavior and needs provided me with clues about amount of consumption, in other words, if they are light, medium or heavy users of plastic surgery (Dahlén & Lange, 2009). The guide was used during all interviews and divided the session into six phases:

Welcome and introduction

- Phase 1: Context and purpose (2 min)
- Phase 2: Background and relationship with AK (3 min)
- Phase 3: Self-perception, incentives and motives (10 min)
- Phase 4: Financing - Number of purchase, frequency, duration and spending (5 min)
- Phase 5: Loyalty (customer insights) and offers (8 min)
- Phase 6: Summary of content and conclusion (2 min)

Review of interview, confirmation of the respondent's answers and given information, in order to meet the requirement of reliability (Lantz, 2001).

De-brief and farewell

The separation of different phases was primarily to help the author to maintain a consistent approach throughout all interviews, to be able to perform the questions in an adequate way (Jacobsen, 2002). The total time consumption per interview was estimated to be *40 minutes*.

3.3.3.3 Implementation

A *pre-study* of two test-interviews was performed, to test the interview-guide as well as the authors interview technique. These two interviews were not performed at Akademikliniken but with respondents familiar with plastic surgery. The test interviews tended to exceed the time limitation of 30-40 minutes, but that helped the author in carrying out the actual interviews according to schedule.

Eleven in-depth interviews were performed in order to collect qualitative data about the customers' perceptions of Akademikliniken, the plastic surgery industry in general and about their own experiences and incentives. The interviews were held in Swedish since that was the mother tongue for the majority of the respondents, so the responses was later translated into English (Bryman & Bell, 2007).

The interviews took place October 25th, at Akademiklinikens Walk-in-clinic at Stureplan, in Stockholm. A contemporary treatment-room on the ground floor, with the possibility to talk in private, was the place for the sessions. The choice of a neutral, familiar and professional interview location, aimed to avoid contextual effects to a large degree that can occur if the interview takes place in an artificial environment (Nevin, 1974). By allowing data collection to be "close to" the place where the respondents first came in contact with Akademikliniken, the author hoped to familiarize herself with the respondents' situation and improve her ability to better illustrate a credible reflection of the source (Lantz, 2001). In the same manner, the clothes of the author were carefully chosen; a neutral black outfit and the author did not change her appearance or the interior of the room, during the interview day. The documentation technique was hand-written notes as well as observations. To document the respondent's experiences and perceptions, so-called category cards were used (Lantz, 2001). The purpose of the category cards was to obtain a systematic work pattern and, in a relatively efficient way, get an overview of the data collection and thus, be able to identify and establish links between a subject and the respondents (Jacobsen, 2002).

3.4 Research Quality

In this section the quality of this study will be discussed. Initially, the quantitative research will be examined in terms of reliability and validity. Secondly, evaluating trustworthiness and authenticity will assess the qualitative part of the study, inferring credibility, transferability, dependability and conformability.

3.4.1 The Quantitative Part

Examining a quantitative study, the most essential variables to consider when assessing the quality of data are *validity* and *reliability* (Bryman & Bell, 2007). If a study has high reliability, the potential of measurement failure is unlikely and the term refers “to the extent to which a rating scale produces consistent or stable results” (Wilson, 2006).

First of all, it is important to mention that all absolute numbers are distorted (multiplied with a randomly chosen variable), to protect the data of Akademikliniken. This was done in compliance with the company. The purpose of the study is to analyze and present the relation between the numbers; hence the falsification of the absolute numbers will not affect the validity or the utility of the study. Moreover, the quality of the sources may also be reviewed when examining the reliability. The primary quantitative source was authentic patient data, manually collected from patients’ journals. The secondary sources consisted of adequate journals and books, so the overall level of reliability should be considered as high (Bryman & Bell, 2007). According to Bryman and Bell (2007) “validity and reliability are related as validity presumes reliability”. In other words, it is a requirement that the processes have to be reliable to accomplish the validity of this study. As a matter of fact, this has been taken into account by ensuring that the quantities really measure the concept they are invented to estimate (Bryman & Bell, 2007). The sample size of a total of 33 870 customers’ during the investigated periods; P12 and L12 plus the total 46 520 of customers examined in PP96, made up a very decent number of respondents of 80 390, which contributed to a high level of validity. The wide age range, stretching from 2 years to 98 years (born year 2010 respective 1914), added legitimacy. The database had an authentic spread of gender distribution, but unfortunately it was not possible to identify the gender after the extraction of data from the patients’ journals in Skalpell. Hence, the customer portfolio will be seen as one group, not taking the gender into account. In order to improve the *external validity*, the geographical spread could have been extended to include Akademiklinikens newly acquired facilities in Norway and Gothenburg. Since the journal systems was not available in the same database, Skalpell, at the point of this study that may be a possible subject for future research.

3.4.2 The Qualitative Part

The quality of a qualitative research can be assessed by *trustworthiness* and *authenticity* (Bryman & Bell, 2007). The term *trustworthiness* includes “credibility, transferability, dependability and conformability” while *authenticity* refers to how the study facilitates the understanding of a social milieu and “fairly represents different viewpoints among members of the social setting” (Bryman & Bell, 2007). The term *credibility* refers to whether the findings of the study are authentic or not (Bryman & Bell, 2007). According to theory, the performed in-depth interviews are credible since they are validated by each of the respondents, who have confirmed that the information given during the interview was correct and genuine. Moreover, the comparison of qualitative and quantitative data in the analysis also contributes with credibility, since the research is being mirrored from different angles. On the contrary, the credibility could be questioned by the way that the in-depth interviews were performed. Due to the fact that the author performed the interviews by herself, she was not totally objective and equal to each of the respondents, which is the aim since “quantitative researchers are striving towards objectivism” (Bryman & Bell, 2007). The reduced credibility is justified by the limitation of time and resources for this study. *Transferability* explains whether the findings are applicable in other contexts (Bryman & Bell, 2007). The results of this study are relevant for any company working with customers and relationship management. The findings can be used “as a database for making conclusions about the possible transferability of findings to other milieus” (Bryman & Bell, 2007). Further on, it is of interest to find out if the results are likely to last over time, examining the *dependability*. In other words, the intention is to know if the findings have a continuous approach to the progression of the research in practice (Bryman & Bell, 2007). To increase the reliability in this case, copies of the entire study were kept during the process so reviews of the material easily could be done – a sort of *conformability*.

Conclusively, the level of *authenticity* was high, due to all of the respondents being on the same level (former patients of Akademikliniken and came to the interviews under the same circumstances). Furthermore, a fairly wide sample of respondents was acquired; eleven women with an age ranging from 23 years to 66 years. Unfortunately, the sample comprised only of women, which reduces the level of generalizability. Nevertheless, there was a natural mixture of frequency and spending among the women and that are to be seen as reliable respondents that conduces the credibility of this study.

4. EMPIRICAL FINDINGS

The following chapter presents the results of the empirical data collection that consists of customer data from the log-system Skalpell, in-depth interviews and observations. To anonymize the eleven respondents, improve readability and simplify the analysis of patterns, they have been given fictitious names, in alphabetic order. The author has chosen to describe the empirical data that she considered relevant and useful for the investigation. The empirical data will be presented in two parts, starting out with the data collected from the quantitative research, using many of graphs and tables to enhance the understanding of the relationships. Secondly, the empirical data from the qualitative research will follow the structure of the interview guide, to assist the reader and later also the analysis of empirical data. The empirical research will be described as narratively as possible, to reflect the individual respondent's answers during the in-depth interview. Once again, please note that all absolute numbers are distorted to protect the sensitive data of Akademikliniken.

4.1 Quantitative Data Presentation

In this section the findings from the quantitative data collection will be presented for the assigned periods of study.

In order to calculate the value of Akademiklinikens customer portfolio, data on currently *active customers* was extracted from the company database for the specific time periods examined. In P12, running from 1st October 2010 until 30th September 2011, a total number of 16 186 active customers completed 42 595 purchases in total, which generated a revenue of SEK 248 670 555. The Super and Top segments together generated SEK 190 244 458, which corresponds to 76% of the total revenue of P12. Moreover, the Middle and Bottom segments generated a revenue of SEK 59 676 098, equivalent to 24% of the total revenue (See figure VI).

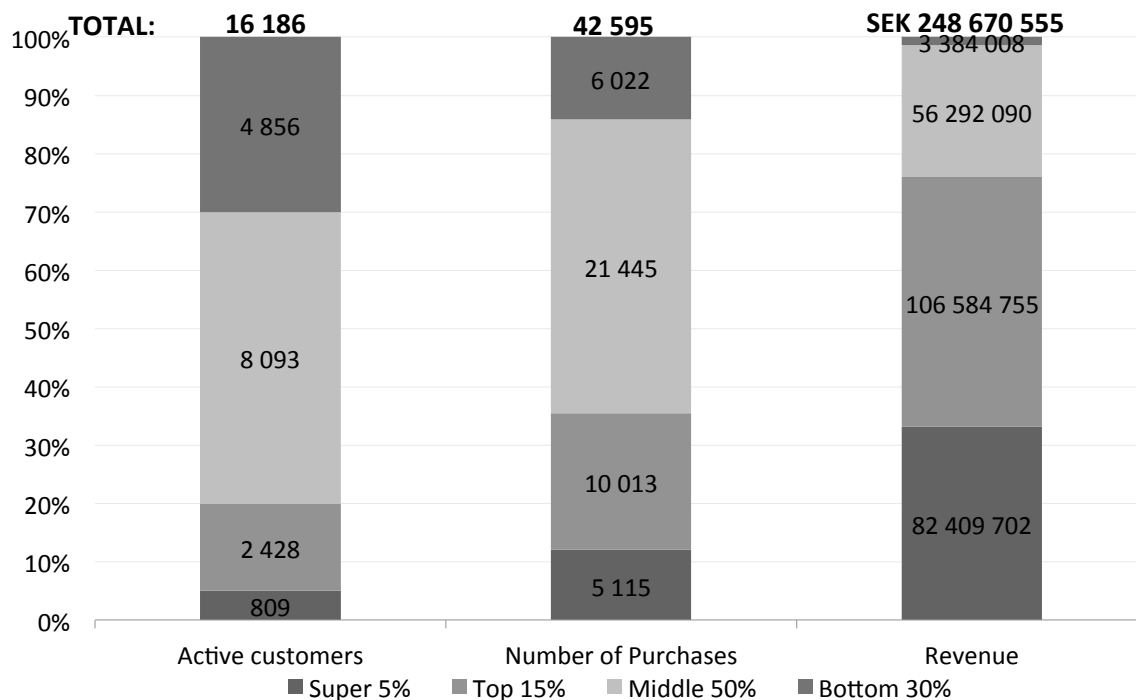


Figure VI - Customer segments in period P12

The last period, running between 1st October 2011 and 30th September 2012, referred to as L12, included 17 685 active customers that completed 57 344 purchases and brought in a revenue of SEK 260 580 012. In this case the Super and Top segments contributed with SEK 198 245 786 (76%) in total, while the Middle and Bottom segments generated SEK 62 334 226 (24%) of the revenue.

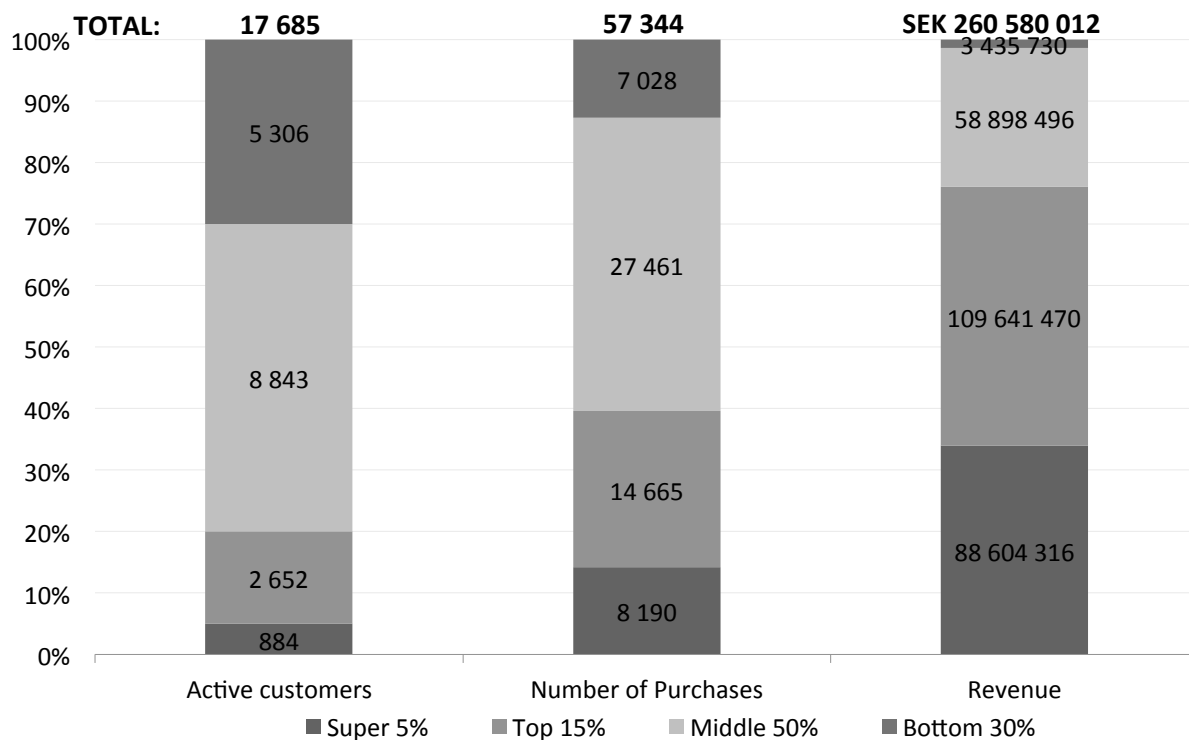


Figure VII - Customer segments in period L12

The data shows that the customer base increased with 9% from 16 186 to 17 685 customers, which corresponds to a gain of 1 499 customers, from period P12 to L12. The number of purchases increased by 35 % during the same period, from 42 595 to 57 644 purchases. Moreover, the revenue has been positively affected and went from SEK 248 670 555 to SEK 260 580 012, which correspond to an increase of almost 5% (4,8 percent). Comparing P12 and L12, we see that all segments have contributed to the increase in revenue, since they all faced an inflow of active customers as well as a boost in number of purchases.

4.1.1 Period L12 in Focus - Inflow of Customers due to New and Regained Customers

Taking a closer look at the customer portfolio of L12, that consists of 17 685 customers, the increase in active customers can be explained mainly by an inflow of *new customers* to L12. The inflow comprises a total of 10 627 customers, equivalent to 60% of the customer portfolio for

L12. However, the increase of the customer portfolio is also due to the success in winning back customers, so called *regained customers*. A total of 1 663 customers have been regained, almost ten percent (9,4%) of the total customer portfolio (L12). The remaining amount of customers in each segment, that do not qualifies as new or regained, are *continuously active* customers, adding up to a total of 5 395 customers, which corresponds to 30,5% of the customer portfolio of L12.

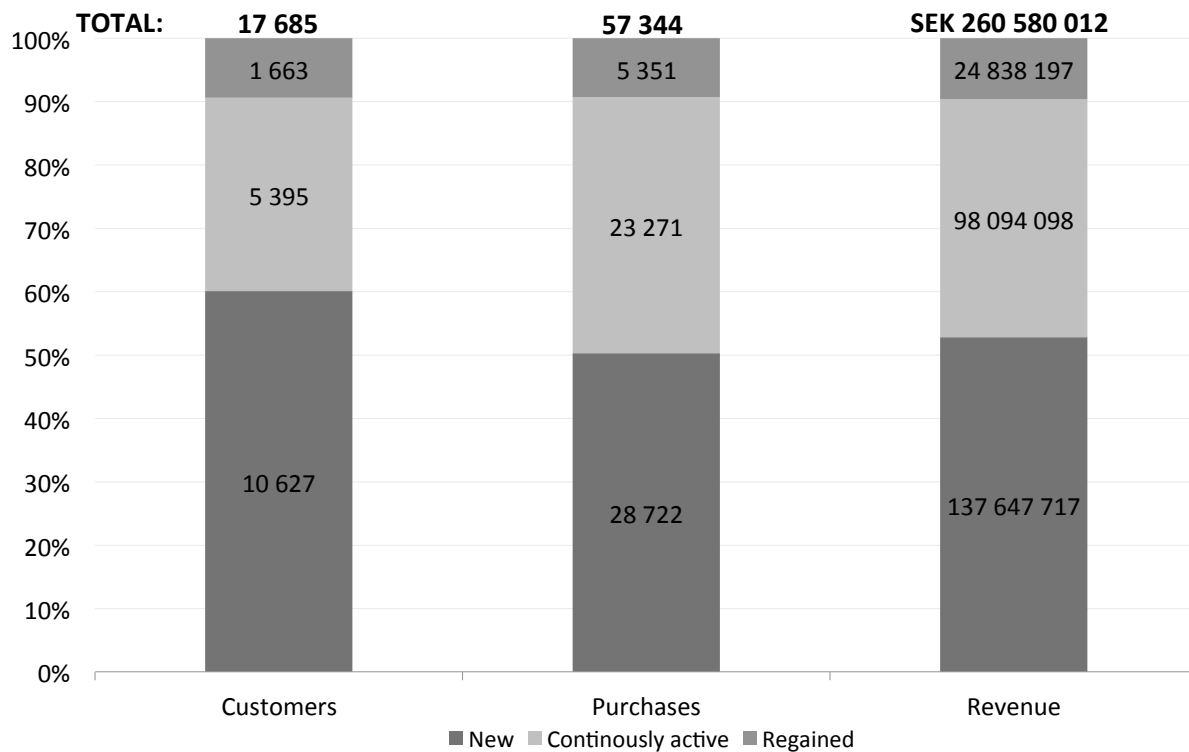


Figure VIII - Customer origin in period L12

The regained customers have completed 5 351 purchases (9,3% of the total number of purchases) and generated SEK 24 838 197, equivalent to 9,5% of the total revenue. In addition, the new customers have completed 28 722 purchases in total, corresponding to 50% of the total number of purchases during L12. In terms of revenue, the new consumers generated SEK 137 647 717, which is 53% of the total revenue.

4.1.2 Average Purchase and Frequency – Comparison Between P12 and L12

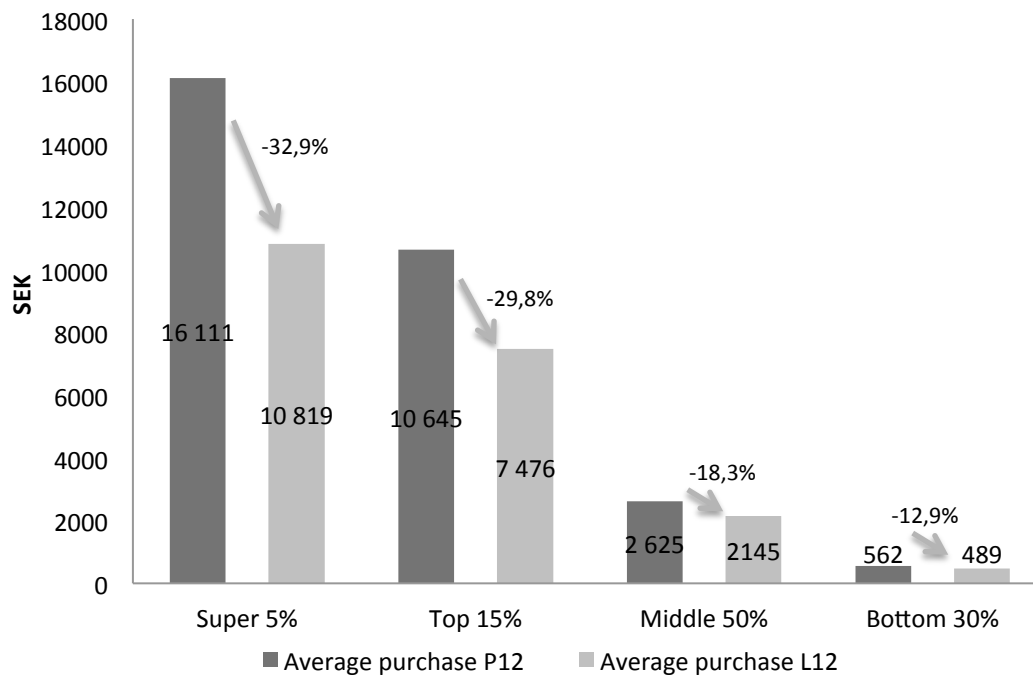


Figure IX – Change in average purchase between priod P12 and period L12

Examining the *average purchase* per customer, for P12 and L12 (see figure IX above), a negative change indicates that the level of average purchases has decreased in all segments. Observing the different segments, the Super segment stands for the largest decrease (-32,9%) in average purchase, followed by the Top segment (-29,8%) while the Middle and Bottom segment faced a minor decrease (-18,3% respective -12,9%).

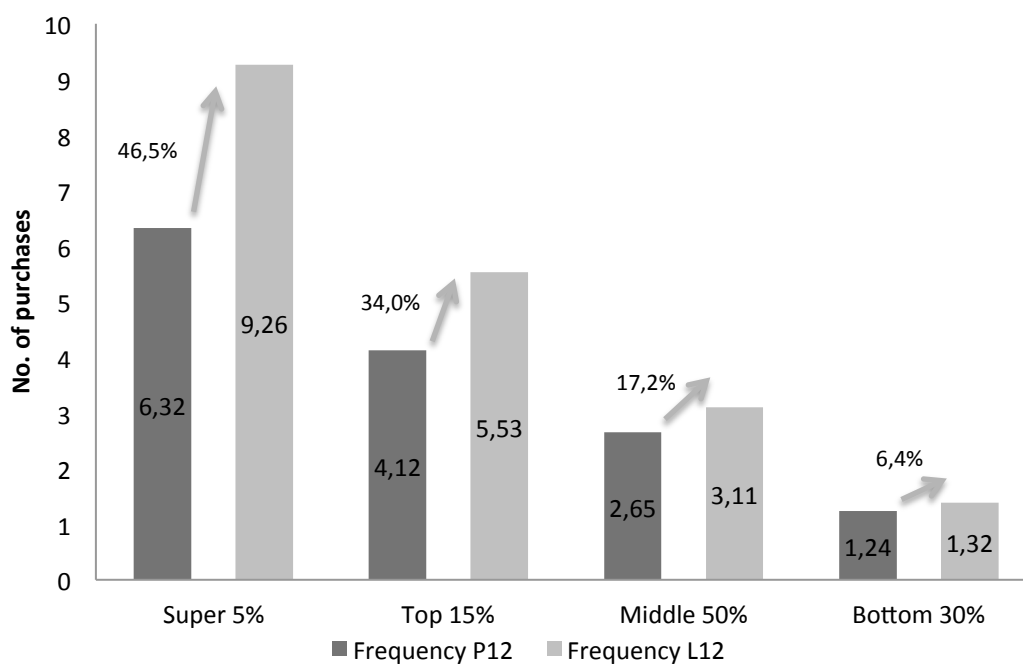


Figure X - Change in frequency between period P12 and period L12

Observing the different segments, the Super customers stand for the largest increase (46,5%) in frequency (see figure X, on the previous page). The Super customers are shopping most often, in average 9 purchases per 12 months (L12) compared to 6 purchases during the previous period. The remaining segments have not shown such a significant increase. The Top customers have increased the purchase frequency with almost 1,5 purchases, the Middle segment with approximately 0,5 purchases and the Bottom segment faced an increase of less than 0,08 purchases.

4.1.3 Migration Between Period P12 & Period L12

In order to identify the migration between P12 and L12, the customer flows between the different segments, from period to period, will be observed. A positive migration is an inflow to a segment while an outflow from a segment is called a negative migration.

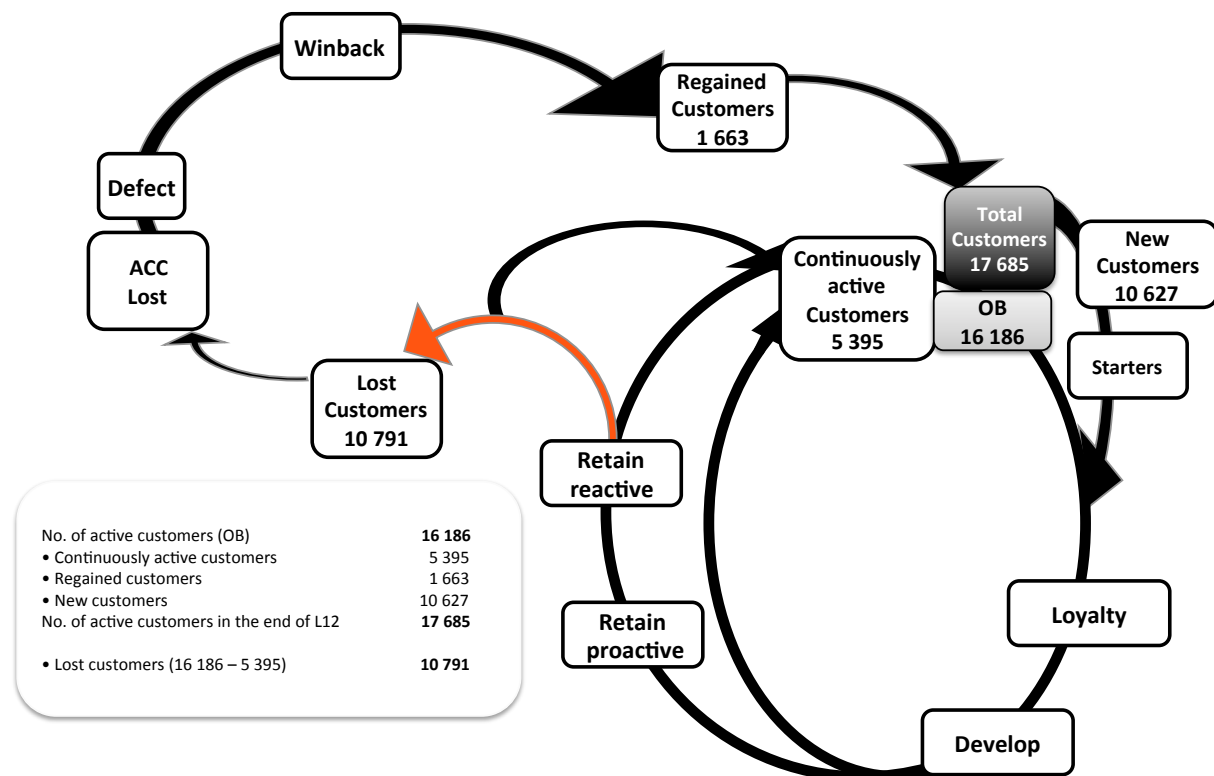


Figure XI – Illustrates the Customer Life Cycle for L12 period

Figure XI above, gives an overview of the customer flows during L12. Starting out from the OB of L12, examining the customer movements during the next 12 months. Total customers are the closing balance of L12. The red arrow shows the stage at which the customers decide to defect, as they are not in the ordinary loop any longer. In the following part the presentation of the empirical data will dig deeper into the migration between P12 and L12, looking in to the distribution of customers in different segments.

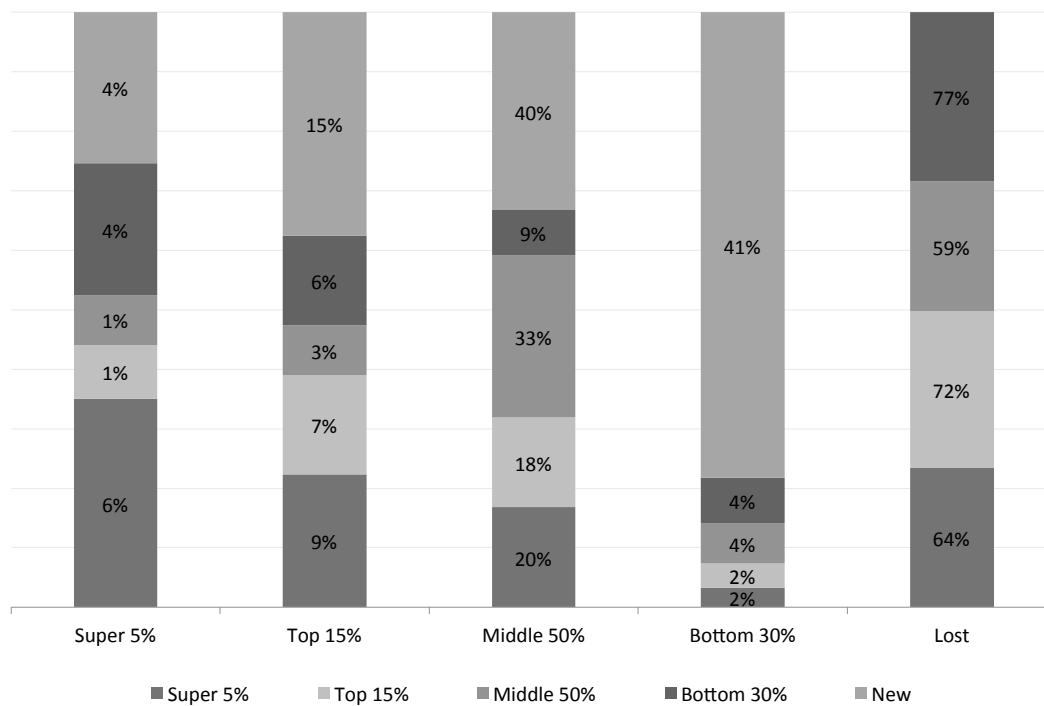


Figure XII - Customer migration in Akademikliniken between period P12 and L12

The diagram illustrates the spread of the customers, after they have completed the migration from P12 into L12. A majority of the new customers entered the lower segments, the Middle (39,8%) and Bottom (40,9%). The migration corresponds to 80,7% of the total number of new customers, leaving 19,3% of the new customers going into the upper-segments, Super and Top. Of the continuously active customers that migrated from P12, the majority is now found in the largest segment, Middle.

The bar on the left-hand demonstrates the origin of the lost customers that have now defected (left the company when entering L12). The largest numbers of defections are found in the Bottom segment (77,3 %). The average defection rate (from P12 to L12) is 66,6 % for the entire portfolio. Between the four segments, the defection rate ranges from 59,2% to 77,3%. In other words loses all of the segments between 60%-80% of the customers from P12 to L12.

The diagrams below, illustrate how the continuously active customers, have migrated between the segments as well as where newly recruited and regained customers have entered, in L12.

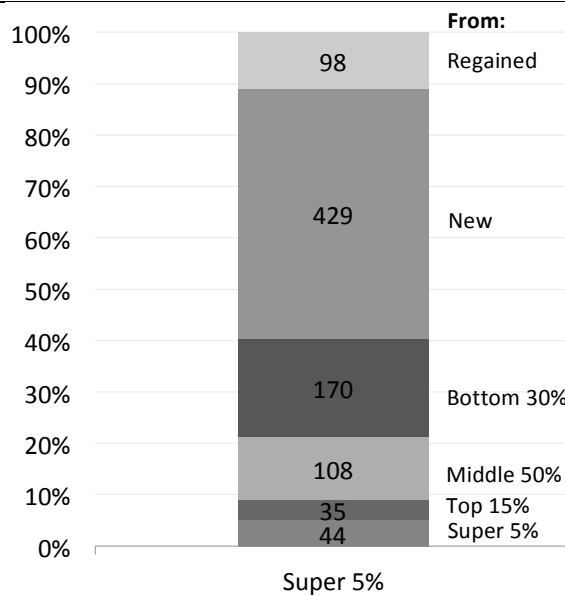


Figure XIII - Customer migration into the super segment in L12

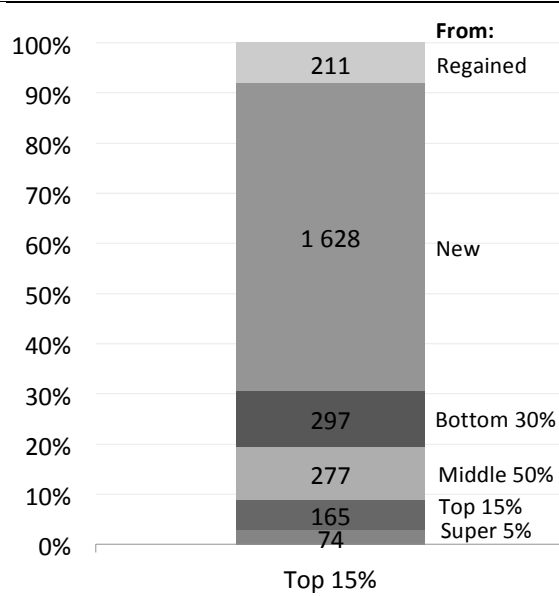


Figure XIV - Customer migration into the top segment in L12

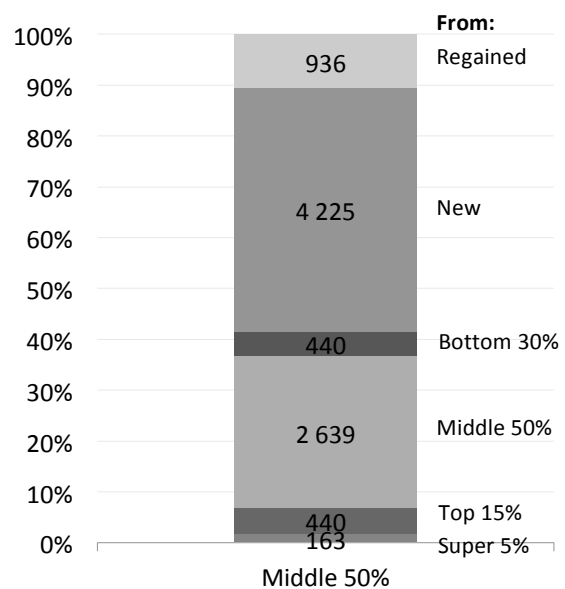


Figure XV - Customer migration into the middle segment in L12

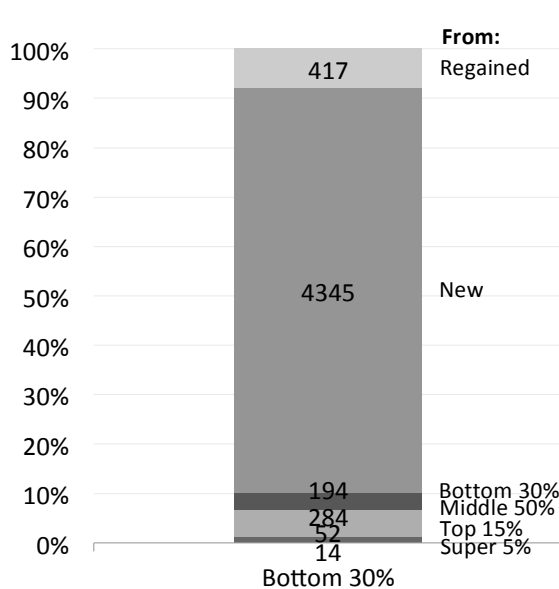


Figure XVI - Customer migration into the bottom segment in L12

Observing each of the segments individually it could be seen that the Super segment contains of almost fifty percent (48,4 %) newly recruited customers while 11% of the customers are regained. The amount of new customers is even larger in the Top segment, amounting to 61,3% while the number of regained customers is lower (7,9 %), compared to the Super segment.

In the Middle segment, 47,7% of the customers are new and 10,5 % have been regained. Lastly, the Bottom segment consists of the largest number of new customers; a remarkable 81,8% and the regained customers amount to 7,8% of the total number of customers in the segment.

4.1.4 Index L12 and Revealing the CLV for the Customer Portfolio

Observing the index calculated for the annual revenue (column to the right in table III), it could be seen that a Super customer generates 154,8 times more income than a Bottom customer. Worth mentioning is that a Super customer also performed seven (7) more purchases compared to a Bottom customer and the average purchase is approximately twenty-one (22,1) times higher than a Bottom customers.

Segment	Active customers	Number of Purchases	Average purchase	Index	Total revenue	Purchases/customer	Index	Annual revenue	Index
Super 5%	884	8 190	10 819 kr	22,1	88 604 316	9,3	7,0	100 231	154,8
Top 15%	2 652	14 665	7 476 kr	15,3	109 641 470	5,5	4,2	41 343	63,8
Middle 50%	8 843	27 461	2 145 kr	4,4	58 898 496	3,1	2,3	6 660	10,3
Bottom 30%	5 306	7 028	489 kr	1,0	3 435 730	1,3	1,0	648	1,0
Total (Average)	17 685	57 344	4 544 kr		260 580 012	3,2	1,50	14 735	
							Duration		
							CLV per customer	22 105 kr	
							CLV totalt	390 930 399 kr	

Table III – Overview of the Customer Portfolio

Moreover, the Top segment has an index that clarifies that a Top customer spends in average fifth teen (15,3) times more money on each average purchase. The purchase per customer is just over four (4,2) times higher than the purchase completed by a Bottom customer and the Top customer generates in annual revenue nearly sixty-four (63,8) times more money than a Bottom customer.

The Super customers contribute in average with 100 231 SEK in annual revenue, compared to the average Top customers generating 41 343 SEK. From five-digit down to two four-digit; the customers in the Middle segment funds in average 6 660 SEK annually, while the Bottom customers drop down to three-digit, generating 648 SEK. From this point of view, by observing the tables below, it is obvious that the Bottom segment barley exists in comparison to the Super and Top segments.

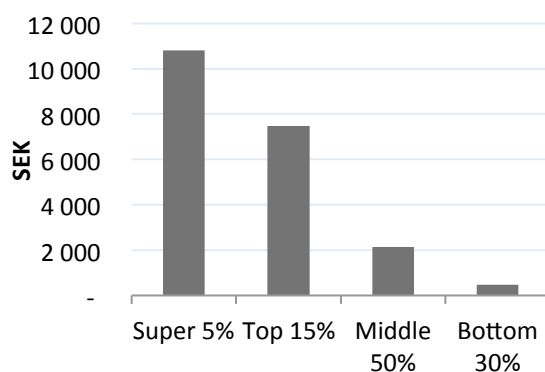


Figure XV/II - Average customer spending per purchase in period L12

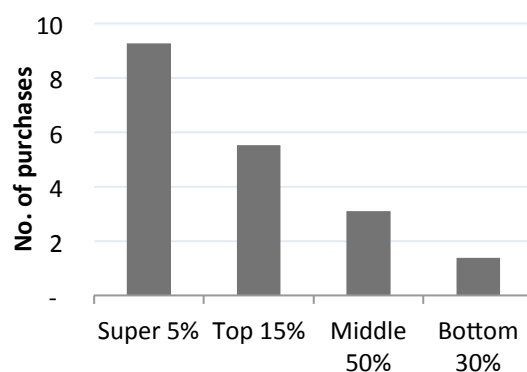


Figure XV/III - Average frequency per customer in period L12

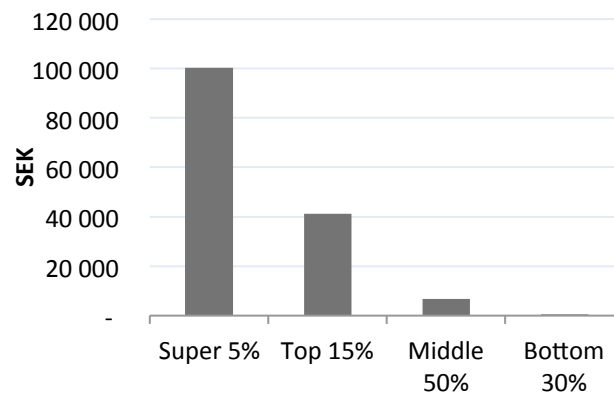


Figure XIX - Annual revenue per segment period L12

4.1.5 How Long Will the Customers Stay with Akademikliniken?

According to the calculation of the customer data, the average duration is considered to 1,5 years. Taking a long-term perspective, measuring the duration for each of the segments demonstrate that the Super customers and Middle customer have a longer customer life time than the average; 1,57 and 1,69 years respectively. The Top segment is below average (1,39) as well as the duration of the Bottom segment (1,29).

4.2 What is the Value of the Customer Portfolio of Akademikliniken?

In the following part the Customer Life Time Value (CLV) of Akademiklinikens customer portfolio will be examined. After examining Frequency, Average Purchase and Revenue, it is possible to distinguish CLV per customer.

According to the calculation of customer data, the *duration* is 1,5 years. This implies that the existing customer portfolio has a lifetime of one and a half year. Having an average frequency of 3,2 purchases per customer and a total average purchase amount of 4 544 per purchase in L12 receives an average CLV per customer of **SEK 22 105**. This represents the sum of future income of a single customer in the portfolio, consisting in total of 17 685 active customers. Hence, the estimated, total, CLV of the portfolio is **SEK 390 930 399**.

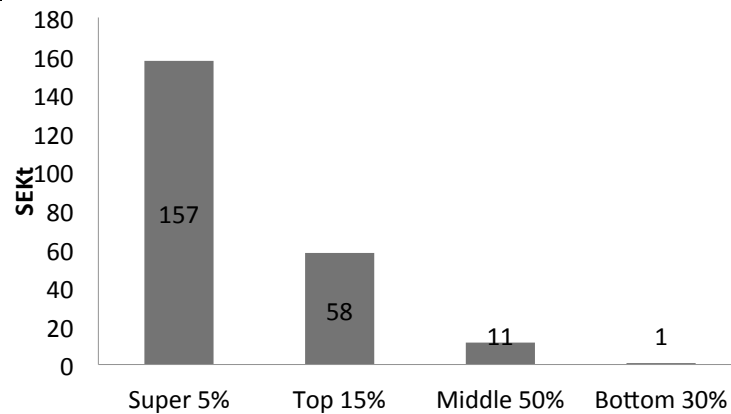


Figure XX - Average CLV per customer

4.2.1 What is the Customer Lifetime Value for Each Segment?

Examining the CLV of each segment, it is shown that the Super segment has the highest CLV per customer of SEK 157 450, which is due average purchase (SEK 10 819) and number of purchases per customer (9,3). The total CLV of the Super segment comes down to SEK 139 186 197, which is less than the total CLV for the Top segment, accounting for SEK 153 170 016. This is due to the fact that it is more customers in the Top segment, than in the Super segment. Observing the Top segment separately, the CLV per customer is SEK 57 756, which is a higher CLV than the Middle segment, even though the duration for the Middle segment is much higher (1,69) than for the Top segment (1,39). The high CLV derives from the average number of purchases (SEK 7 476) and the purchases per customer (5,53). Even though the Middle segment has a high duration and includes 50% of the entire customer portfolio, the CLV per customer of SEK 11 253, does not exceed the Top segments CLV since the average purchase is low of SEK 2 145 and the purchase per customer (3,11) as well. The Bottom segment is the underdog, with a CLV per customer of SEK 839 and a total CLV for the entire segment of SEK 4 453 792. This is due to a low average purchase (SEK 489), a few numbers of purchases per customer (1,32) as well as a weak duration (1,29), even though the number of customers in the Bottom segment corresponds to 30% of the total customer portfolio.

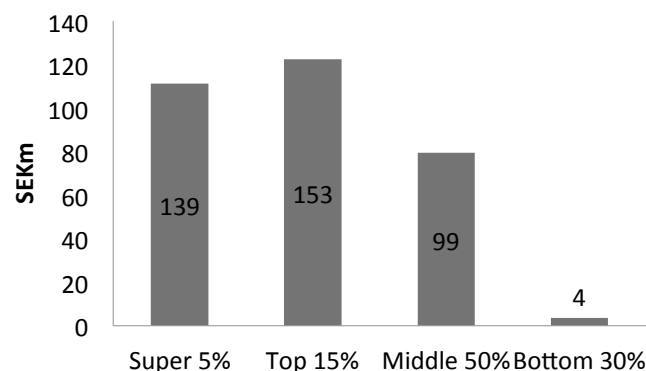


Figure XXI - Total CLV per segment

4.3 Qualitative Data Presentation

Initially, fundamental information regarding the respondents is presented such as demographics, chosen surgical treatment and the reason why the respondents decided to go under the knife. The respondents will follow in chronological order, with the aim to give the reader a chance to get to know each one of them. Thereafter, in the review of the empirics, a review of the respondents' contributions and perceptions will take place.

The Table IV below summarizes of the respondents' demography and purchasing behavior at Akademikliniken.

NO.	PSEUDONYM	AGE	TREATMENT	REVENUE P12 (SEK)	NO. PURCHASES P12	REVENUE L12 (SEK)	NO. PURCHASES L12
1	Alice	23	Nose job			45750	2
2	Betty	26	Birthmark	3250	1		
3	Caroline	31	Breast augmentation	57750	2		
4	Donna	30	Lip injection			3500	1
5	Elizabeth	46	Breast lift and liposuction			115750	2
6	Felicity	46	Varicose veins	500	1		
7	Gloria	34	Lip injection	760	1		
8	Helen	54	Arm tuck and breast lift			86750	2
9	Isabelle	66	Face lift			85750	2
10	Jenny	27	Restylane lip injection, juvéderm	9250	4	2000	2
11	Kathy	43	Botox injections			3000	1

Table IV – Overview of interview respondents

4.3.1 Phase 2: Background and Relationship with Akademikliniken

Nine o'clock in the morning *Alice* steps over the doorstep to Akademikliniken's Walk-in-clinic, by Stureplan. She is the very first of the respondents of today's interview session, and by far the youngest, only twenty-three years old. Alice originates from the Middle East and tells me briefly that she grew up in Örebro. At the moment she is studying at a University and she is about to write her thesis too, but about sexual offenders. She seems to be a very humble person and a little shy at first sight, but as soon as we are settled in a small treatment room, eye-to-eye, she speaks up.

"I have spent many hours a day, for years, searching different forums and webpages in order to investigate the reputation of different clinics, plastic surgeons and methods, in Sweden and abroad" – Alice

Recently, she finally completed a nose job, after years of dreaming. Ever since she can remember, she has dreamt of correcting her nose, due to a bump on the upper nose bone and some breathing difficulties. But not until she met plastic surgeon Dr. Paolo Montemurro, at Akademikliniken she decided to go all in. She verifies that the reputation is highly important when choosing a clinic and that it was a huge benefit that Akademikliniken offered 3D-simulation, so she could have a clue about the result.

“The plastic surgeon understood my needs and gave me a feeling of trust, that was when I decided to go for Akademikliniken in the end” – Alice

Travelled from Nacka, east of Stockholm, twenty-six year old **Betty** arrives on time. Her red hair shines in the light of a spotlight. Betty cherry-picked Akademikliniken due to their professionalism and discretion. Her mother recommended the clinic and her own observations from the TV-program “Plastikkirurgerna” underbuilt her decision. After visiting Akademikliniken last year, she decided to remove a birthmark off her face. Betty points out a small mark by her right upper lip, barely visible. She explains that it was a mark the size of a thumbnail and that she was afraid that it might lead to skin cancer since it changed in shape and color over the past years. Furthermore, she felt that people stared at it and since she is studying to become a teacher she felt relief to remove it, she explains.

Next up, thirty-one year old **Caroline**. She is a petite woman and judging by her accent, she is originally from the county of Småland. Caroline starts talking about her family situation, that she is on maternity leave and that she is a mother of three kids. Hence, that is the reason why she decided to do a breast augmentation at Akademikliniken, last year. Caroline felt that her body was not what it used to be, after breastfeeding three kids. A few weeks after giving birth to her latest child, she had an appointment at Akademikliniken.

“I planned my plastic surgery experience in detail – the date, the doctor, the size of my implants – I wanted it to be perfect, and so it was” – Caroline

Caroline consulted Akademikliniken because she felt that they had an honest approach; showing photos of surgeries before and after. She googled different clinics before she decided to go for Akademikliniken, thanks to a great contact with plastic surgeon Dr. Jonas Rödmark.

Donna has just moved back to Stockholm after a couple of years abroad. She just turned thirty and tells that she is experiencing an age-crisis, resulting her recently being more open-minded towards “new opportunities” than before.

“I was so bored in life and wanted to try something new; an injection was an appropriate option” – Donna

Donna heard about Akademikliniken from a friend that is a frequent consumer of non-surgical injections. This resulted in a visit at Akademikliniken and a lip-injection that should prevent scaly, dry lips. She had never completed any cosmetic treatment before, except for some facials. **Elizabeth** is almost fifteen years older than Donna; she visited Akademikliniken due to her flabby tummy and breasts. Elizabeth tells me that she had seen an article in Amelia-magazine about plastic surgery, where there were pictures of completed procedures (before and after). She decided to contact Akademikliniken since she had seen the TV-program “Plastikkirurgerna” – a reality show following plastic surgeons at Akademikliniken in their daily life. According to Elizabeth, she got a great feeling of the atmosphere at the clinic as well as the competence of the employees. Likewise, **Felicity** had the impression of Akademikliniken as a serious, trustworthy actor. She tells me that at the age of forty-six, she faced problems with varicose veins. Therefore, she searched for info on the Internet before she called Akademikliniken to book an appointment.

A sparkling woman called **Gloria** enters the room. She tells me that she is thirty-four years old, originally from Poland and is on maternity leave at the moment, so that is why she has got time for this interview. She describes that she never tried another clinic before, and that she had no doubts about choosing Akademikliniken when she wanted to “boost herself” with a little extra”.

“I am a princess, only the best is good enough for me” – Gloria

Helen, a fifty-four year old woman, has a totally different story to tell. She works at an IT company and completed a gastric bypass a year ago. Due to her great weight loss of approximately hundred kilos, Helen consulted Akademikliniken for an arm tuck and a breast lift, to remove skin. Similar to Elizabeth, Helen also saw the TV-program that assured her that Akademikliniken could manage her operation because she did not want to wait for an appointment at a public hospital. Another customer that also has seen Akademikliniken on television is **Isabelle**. She is being interviewed during the afternoon and turns out to be a beautiful lady, sixty-six years old, she tells before I even asked. She has been working as a teacher

her entire life and just retired. In February this year, she completed a facelift at Akademikliniken to improve her neck and face lines. Thereafter it is time to meet twenty-seven years old **Jenny** from Stockholm. She seems very enthusiastic and tells instantly:

“I am quite familiar with the interior at Akademikliniken, I like this white, contemporary design of the clinic... You’ll see, I am a beauty freak... It is my passion to try the latest treatments within cosmetics and treatments”
– Jenny

Jenny babbles about several injections that I do not even capture and tells that she known about Akademikliniken as far as she can remember, that her mother is an experienced customer. At the end of the day, it is time for forty-three years old **Kathy**, who also tried injections but is now considering a breast augmentation.

“Even though I am satisfied with the results of my injections, I will not do the boob job at Akademikliniken. My sister recommended a plastic surgeon at Lidingö that she was happy with, so I will follow her advice” – Kathy

4.3.2 Phase 3: Self-perception, Prejudices and Motives

I introduce the subject “prejudices” and Alice responds intuitively that she does not care about what other people think and that she thinks it is her own choice – since it is her body. Along the same lines, she tells me that she is open-minded towards other people’s decisions in life.

“I am not the one to judge nor the one to be judged myself – people should mind their own businesses” – Alice

The surgery was a major decision for Alice since she suffered a long time due to her dysfunctional nose, but she admits that she was a bit scared since she did not want anything to go wrong or to be “fucked up”. She is very satisfied with the result and she has not suffered from any complications, except for some nose bleeding due to the cold weather, she explains. Alice is holding a Kleenex in her hand, constantly drying her nose. **Betty**, on the other hand, does not consider her birthmark removal as *cosmetic* operation, she declares;

“I do not identify myself as a patient of a plastic surgeon” – Betty

Moreover, **Caroline** did not tell her friends at first, only her husband and her mother. She tells that she was afraid of being judged and that people would see her in a different light.

Especially her friends from back home, she explains that in a small town people like to gossip about anything that is new...

"I was frightened to get that mark, you know, the plastic I-am-a-bimbo-mark" – Caroline

Donna does not seem to care that much wheatear or not people know about her "small experiments". **Elizabeth**'s thoughts are more in line with Caroline's qualms.

"I completed my surgery during the holiday, cause I did not want to cause a "bullabaloo" at work" – Elisabeth

Elizabeth explains that she gladly discusses her operations with family and friends, but not in public. In addition, Elizabeth explains that she was lucky that she scheduled the operation during her holiday, since she needed a lost of rest after the surgery due to a severe infection. **Felicity** did not face any complications, having her treatment for varicose veins. Further on, she tells that her self-esteem has increased due to the reduction of the veins and that she does not hesitate to talk about her cosmetic treatments.

"I am ashamed of my terrible varicose veins, more so than ashamed of telling people about my attempts to get rid of them" – Felicity

Gloria feels almost like a friend, she speaks very openheartedly about her philosophy of life. She is straightforward and dislikes people that cannot admit that they take care of themselves.

"Of course I am vain, but not in a plastic way. My inner beauty manifests in the way I look - great!" – Gloria

Gloria argues, "what is wrong with changing something that you are disgusted about?! I do not have a low self-esteem just because I am concerned about how I look". **Helen** knows, since she could not stand her flabby skin due to her rapid decrease in weight.

"It would have been impossible to hide what I have done since I have changed completely, both personally and physically. I am proud of who I am and what I have been through" – Helen

She speaks openly about her surgeries and tells that people are very curious about what it is like to complete a cosmetic surgery and that many people in her vicinity, commented that they are considering a treatment too.

“We used to have “question time” during the coffee break at work. Especially my male colleagues are very anxious to know more about cosmetic surgery...” – Helen

Isabelle tells me that she had a much more discrete approach to her surgery. She explains that her thought of doing a facelift grew over time, since she barely recognized herself in the mirror. On purpose, she waited until she retired before she completed her surgery. Since she worked as a teacher she felt that it was inappropriate to enhance her physical appearance, moreover she did not want to become a topic of conversation.

“I kept it a secret, only my husband and my sons knew about the facelift” – Isabelle

On other hand, **Jenny** happily discusses her treatments – according to her, that is the point! She explains that beauty is a popular topic among her friends and in order to enhance her social status she is keen on telling them about her new treatments. She declares that she has been struggling with her self-esteem for ages, but finally found a way to boost herself. Furthermore, she is not ashamed of her hobby, cause she finds it natural.

“You only have one chance to make a first impression. You have to look your best!” – Jenny

Kathy prefers to keep a rather low profile, but tells me that if somebody asked her if she had completed a treatment, she would admit. She explains that she thinks she looks very angry, since she has got a “bad wrinkle” between her eyebrows.

“Botox is no big deal, each and every woman in their mid-forties take a shot once in a while” – Kathy

4.3.3 Phase 4: Financial Aspects

According to Alice the bottleneck was the price tag. She describes Akademikliniken as a “premium actor” and that she preferred to go to a serious actor than saving some thousand SEK. Alice confesses that her uncle funded her nose job.

*“The financing was yet another obstacle, the main reason why I did not perform the surgery at an earlier stage”
– Alice*

Alice's nose job came down to SEK 45 000 plus a consultation fee previous to the surgery, of SEK 750. The cost of **Betty's** surgery was not of interest, her parents sponsored her with SEK 3 250. Betty shares her view of that Akademikliniken is not overpriced, instead she argues that she thinks it is good that the clinic charges the customers – in that way the “wrong” customers are kept out of the knife. **Caroline's** surgery came down to a cost of SEK 57 750 and she increased the loan on her car to finance the operation.

“I'm not ashamed that I increased the loan of my car to finance my operation, I am living for the day - so why not do something about it” – Caroline

Donna paid her injections in cash since it “was only about SEK 3000” and her salary affords her to treat herself. In the same manner as Caroline, **Elizabeth** took a loan to finance her operation, SEK 115 750 in total.

*“I did not have any savings so I took a “HealthCare”-loan, even though the interest rate was horribly high”
– Elizabeth*

Felicity tells me that her treatment only cost SEK 500, it was even cheaper than going to the hairdresser, she concludes. Likewise **Gloria** spent less than SEK 1 000, more precisely SEK 760 for her lip injection. **Helen** financed her operation of SEK 86 750 with money from her savings account.

“I waited for this moment so long, so when I was ready I just cashed out the money that I saved and had the surgery” – Helen

Isabelle was sponsored by her husband to pay the SEK 85 750 that her facelift cost.

“My husband gave me the facelift as a gift when I retired” – Isabelle

Jenny, on the other hand, declares that she struggles to find money to fund her exclusive hobby. Last year she spent SEK 9 250 and this year SEK 2 000, in order to fulfill her dreams. But according to her she rather eats pasta and ketchup for one month, and having her injections. Lastly, **Kathy's** injection cost her SEK 3 000. She explains that she relocated a part from her monthly shopping budget, to her new “beauty account”.

4.3.4 Phase 5: Loyalty, Customer Insights and Offers

“A student discount would have been great”, says **Alice** with a smile. She tells that she expects some kind of reward, since she has recruited a couple of friends to Akademikliniken; her sister, a

cousin and her friend – so “*maybe a “group-discount” could have be an option to complement customers*“ she suggests. But she has not experienced any attempts from Akademikliniken to “thank her” for her recruitments or any retention activities, something that she actually wished for since she is a student. Moreover, she explains that a lot of her friends want to have plastic surgery, but cannot afford it.

“My friends have even been looking into Groupon-deals from different plastic surgeons” – Alice

Betty does not promote the idea of rewarding loyal customers, she think it is good that people are not encouraged within this industry. On the other hand, she declares that:

“Plastic surgery easily becomes an issue of social class, which I do not think is good either” – Betty

Caroline is positive to promotions, she would like to have a pricing promotion, for example “Go two pay for one”, so she could go with her friends to do injections. **Jenny** also believes in the idea, she would “sign up straight away”, she declares. **Alice** also thinks that is a good idea since some support from friends can be good during those circumstances. Alice describes that her sister has been a great supporter during the entire process and she highlights the value of sharing the experience with someone.

“She has been by my side during the entire process, she made me brave and determined” – Alice

Isabelle also emphasizes the value of support from her family; she would not have had the treatment without their approval.

Felicity would like to come for a “plastic surgery event” since she feels that she needs more information, in order to have a cosmetic surgery. Moreover, **Gloria** suggests that Akademikliniken should offer a “mama-discount”, so she can go together with other mothers on maternity leave. **Kathy** is thinking along the same lines, but she proposes a “couple-discount” so she could go together with her husband.

“My husband does need a Botox injection but needs a kick in the right direction. If we could come together as a couple, I might be able to convinced him to join” – Kathy

Helen points out that she would have appreciated a “package-price” since she needs to do a tummy tuck as well, in addition to her arm tuck and breast lift. **Elizabeth** and **Isabelle** mention this kind of benefit as well, due to their interest in future operations. **Elizabeth** stresses the point that Akademikliniken has limited opening hours and **Caroline** is eager to point out that weekends are a great time for her to visit Akademikliniken. **Donna** also stresses the issue with the opening hours. Even though she does not care about her colleagues’ thoughts about her treatments, she does not feel that it is appropriate to sneak out of the office to get an injection, for example. **Betty** says thoughtfully, that she had some unanswered questions (about sun protection, cleansing etc.) after the operation that she thought of. Likewise, **Caroline** wished to have had some more support from Akademikliniken due to the infection that she had after the operation.

“Another idea is to enhance the customer experience by doing a better follow-up” – Caroline

Alice says that she is satisfied with her body and her appearance, overall. After a second of self-reflection, she shares that she would consider a boob job in the future, if she does not gain some more weight. And maybe after she nursed some potential babies. On the other hand, **Betty** has no further interest in plastic surgery at the moment, but she concludes that she had a positive experience and should not hesitate to contact Akademikliniken again - if she *ever* wants to do another operation, which she describes as unlikely.

“Beauty to me is a person who is confident, not just a pair of large breasts... Beauty is natural and usually comes from within. If you are confident in yourself, you will automatically become beautiful” – Betty

Caroline adds that she is pretty satisfied with the shape of her body at the moment, but concludes that she most likely will do another surgery in the future.

“Most likely I’ll have to re-do my boobs in ten to fifth teen years, so I will definitely remain as a customer at Akademikliniken” – Caroline

Gloria has not planned any renewal yet, **Donna** is also unsure of when she will complete her next injection, as she was a bit disappointed of the lasting effect of her last injection. **Elizabeth** could see herself doing further surgical procedures but first she needs to pay off her existing loan. On the contrary, **Helen** already booked an appointment for her next surgery; an expensive tummy-tuck.

5. ANALYSIS AND DISCUSSION

In this chapter the results of the empirical study will be analyzed. The analysis is based on the theoretical framework that has been presented in Chapter 2. Please note that the absolute numbers are distorted and that the results are not applicable for all cosmetic surgery patients in the population, but reflect the respondents' perceptions of the subject of study.

5.1 What is the Way Forward?

The Elinder-model (2012) that has been used as a tool in analyzing the customer flows and calculation of CLV for Akademikliniken also enables an elaboration function. The tool helps in making a “sensitivity analysis” that can predict possible scenarios by simulating the results of the L12 period. By doing this, potential budget scenarios can be displayed for the period of the Next 12 months (N12). In the following part, a number of different scenarios for Akademikliniken will be presented, with the aim to illustrate how manipulation of spending (average purchase), frequency and duration may affect the future CLV as well as stating the importance of having control over the customer flows by referring to the phases of the CLC.

5.1.1 Scenario I: Increase the Average Purchase by 1% (*spending*)

To increase the average purchase among all customers within a segment may not seem like it would make a remarkable difference, but many drops make a river. Let's suppose that the average purchase of all customers in the *Super* segment would increase by 1%. Since the Super customers average purchase (L12) is SEK 10 819, 1% will correspond to approximately SEK 108 per customer and SEK 95 472 in total per year. As a Super customer, you might not be that price sensitive, since one hundred SEK only makes up 1% of your total spending. Presumably, it is more likely that a Super customer could shop for another hundred SEK, more easily than a Bottom customer. For a Bottom customer the barrier is probably much higher since their average purchase is only SEK 489. Henceforth, SEK 108 is 22% of the Bottom customers' total average purchase. On the other hand, making the Bottom customers spend 1% more on each average purchase might not be that difficult but it would just make up a SEK 4,89 extra per customer, only SEK 25 946 in total per year. Conclusively, the Bottom customers need to spend 27% extra, beyond current spending, to increase the total revenue as much as the Super segment. Given that the duration is to be the same in N12 as in L12, the increase of 1% in average purchase for the Super segment or 27% for the Bottom segment, results in an increase of totally SEK **1 331 721** in CLV. Conclusively, it may be easier to convince a number of 884 Super customers to increase their average purchase by 1% than to influence 5 306 Bottom customers to increase their

average purchase by 27%. The Super segment is much more lucidly, which may be a benefit when working with customer relationship management activities since it is all about creating long-lasting relations (Payne & Pennie, 2005).

Looking at the Top segment, the average purchase is SEK 7 476. If all of the 2 652 customers would increase their average purchase by 1%, which is approximately SEK 75, it would generate SEK 198 900. That is more than two times the revenue generated from an increase of 1% of the average purchase, in the Super segment. Examining the Middle segment, the average purchase is estimated to SEK 2 145. If all 8 843 Middle customers increased their average purchase with SEK 21,45 each, it adds up to SEK 189 683 – still less than the Top segment.

Lastly, bundling the Super segment together with the Top segment, and likewise the Middle plus the Bottom, the upper segments would together generate SEK 294 372 while the lower two would make up SEK 215 629. So, in order to gain additional profit, by increasing the average purchase per customer with 1 %, it is shown that it is much more profitable to invest in the Super and Top segments than the Middle and Bottom. An increase of 1% on average purchases for all of the Super and Top segments, would increase the total CLV with **SEK 2 950 641** (given that all other variables remain constant). Increasing the average purchase for the Super and Top segments with 1 000 SEK each, corresponding to 9,2% and 13,4% respectively of their total average purchases, would result in an increase of CLV of **SEK 34 282 431**, just by making the highest spending customers increase their average purchase with 1 000 SEK extra. In line with Clark (2008), CLV has a high correlation with customer loyalty, which would strengthen the thought of Super and Top customers as good ambassadors. Analyzed by the theory of Sorce (2002) loyal customers will generate word-of-mouth referrals to other prospective customers, which could be related to the fact that positive recommendations will spread to other customers down the loyalty ladder (Raphael, 1995). By aiming for the upper segments, Akademikliniken can most likely receive an increase in CLV from lower segments as well, since small improvements in customer retention of the upper segments can as much as double company profits (Reichheld, 1996), but without having to manage 80% of the customer portfolio.

5.1.2 Scenario II: Increase the Frequency by One Purchase (*regularity*)

Suppose that Akademikliniken allocates more resources to the Super segment, for example in the *loyalty* or *development phase* in the CLC, and manage to increase their average number of purchases per customer by one more acquisition (from 9,3 to 10,3 purchases), all else equal.

According to the simulation, this action could increase the annual revenue for N12, with SEK 9 518 635. The same prognostication for the Top segment, simulating from 5,5 purchases to 6,5, would generate an additional SEK 19 831 611. One more purchase corresponds to 10% of the average number of purchases in the Super segment. If the Top segment increased the number of purchases per customer by 10% it would generate SEK 10 968 752. Impressively the Super segment that consists of only 5% of the total customer portfolio, generates almost as much as the Top 15% most profitable customers in the portfolio.

Moreover, the Middle segment would generate SEK 19 053 870 more, if each customer made one more purchase - that is SEK 777 741 less than the Top segment. The Middle segment includes 50% of the customer portfolio, which is a massive number of customers to convince to perform one additional purchase, in comparison to the Top segment that only consists of 15% of the total customer portfolio. In other words, the Top 15% segment generates more added revenue than the Middle 50% segment, if the scenario of an increase in one purchase per customer could be applied. However it might be difficult to convince the Top customers to complete another surgery, while it is easier to lure the Middle customers into doing another injection. By estimating that the number of purchases per customer would increase by 10% in the Middle segment as well, the total revenue would increase by SEK 5 985 943 - that amount is almost half of the same share as for the Top customers.

Lastly, if all Bottom customers completed an additional purchase (from 1,3 to 2,3) they would only generate SEK 2 582 136 in additional profit. Simulating an increase of 10%, in purchase per customer, a total of SEK 330 624 in extra revenue could be gained. This amount corresponds to miniscule 3% of the share of SEK 10 968 752 calculated for 10% increase in purchase per customer in the Top segment. If Akademikliniken manages to force all of the customers in the Super and Top segment to complete one more purchase, the simulation suggests a potential in increased revenue, of SEK 29 350 246 for the next upcoming period. Likewise, by merging the Middle and the Bottom segments monetary contributions, that would make up a total of just SEK 21 636 813. Even if only 74% of the Super and Top customers completed one extra purchase, the revenue would be beyond what all of the Middle and Bottom segments generated together. Conclusively, the implications of the simulations are in line with the theory since it indicates that it would generate SEK 7 713 433 more in annual revenue if Akademikliniken aimed to satisfy the total number of 3 536 customers from the Super and the Top segment instead of manage a total of 14 149 customers in the Middle and the Bottom segment.

Summarizing, if all Super and Top customers completed one more purchase per customer, the value of the customer portfolio, would rise from SEK 390 930 399 to SEK 434 955 768, corresponding to an increase in CLV of **SEK 44 025 369** for N12. According to theory, it is easier to communicate with the Super and Top customers, than trying to reach out to a broader audience (Kotler & Keller, 2009). An increased CLV means that the Super and Top customers have a higher customer lifetime value and most likely will stay as customers for a longer period of time, which indicates that they are more valuable as customers. Reicheld (1996) backs up the argument; his theory says that it costs less to serve long-term customers. Thus, they are more likely to engage in a relationship and are more open to communication (Payne & Pennie, 2005).

5.1.3 Scenario III: High Outflow and No Inflow of Customers

According to the simulation for the next period (N12), the number of *lost customers* will increase since fewer customers will be active, compared to the migration from P12 into L12. Therefore, Akademikliniken has a relatively high number of lost customers in N12, in total 12 289 customers compared to 10 789 customers in L12, which is an increase in lost customers by 8,7%. Moreover, Akademikliniken will face a loss of 69,4% of their customer base, from L12 to N12, which is a tremendously high *outflow of customers*. Given that no new customers are recruited or regained, the average duration will decrease from 1,5 to 1,44. In other words, the customers will remain in their CLC at Akademikliniken for a shorter period of time and proceed to the defection phase much faster than desired. Theory suggests that the best thing Akademikliniken could do in this certain phase, is to facilitate the exit for the customer and work on a win-back in the near future. Hence, the CLV will decrease with SEK 15 931 822, to a total of SEK 374 998 577 for the entire portfolio, which confirms the statement made by Fornell & Wernerfelt (1987), that it is exceptionally important to have control over a company's customer flow. This occasion can be grounded in Heskett et al.'s (2002) argument that CLV is highly related to the level of customer satisfaction and loyalty (i.e. retention rate) explaining that customers that did not fall for the value-added offers in the retention phase defected, which decreased the duration and accordingly the customer lifetime value.

5.1.4 Scenario IV: Retain 1 000 Customers

Suppose that Akademikliniken could retain 1 000 customers during L12, in the *anti-churn phase* of the CLC, by performing pro-active activities to decrease the customers propensity to leave, or by convincing customers in the *retain phase*, by e.g. enticing value-added offers. In that case the

number of continuously active customers would increase from 5 395 to 6 395 and generate an additional annual revenue of SEK 18 179 040. Moreover, it would have a positive effect on the duration that will increase from 1,44 to 1,57! The increase in duration will make the CLV higher for the entire portfolio, estimated to **SEK 436 695 352**. In order to keep customers, the theory suggests that more resources should be allocated to the loyalty phase, since that is a proactive stage where the activities performed have a great possibility to decrease the churn-rate and increase retention and duration (Elinder, 2012). During this phase the company should start building a relationship with the customer to secure future purchases and create a long-term co-creation of value (Payne & Pennie, 2005). According to the theory, it is vital to reward and develop the customers during the loyalty phase, enabling the company to enhance the “share of wallet” which in turn can boost revenue by cross- or upsell (Clark, 2008).

5.1.5 Scenario V: Recruit New Customers or Regain Customers?

To prevent the set-up in scenario III from happening, it is important to secure the *inflow of customers* to the portfolio, to keep CLV from decreasing. Imagine a recruitment of 1 000 new customers for N12, according to the simulation it would generate SEK 12 952 641 in total revenue (N12). The qualitative simulations illustrate in a comprehensive manner Roebuck’s (2011) statement that the goal with CRM is to “find, attract and win *new clients*, nurture and retain those the company already has”. Given that the duration is 1,44 as predicted for N12, the CLV will be **SEK 393 638 617** for the entire customer portfolio if 1000 new customers were gained - a slightly higher value than in L12. The newly recruited customers will enter the first phase of the CLC and will be extra recipient. This is the time for Akademikliniken to collect as much information about the customers as possible in order to secure a future relation (Clark, 2008). Nevertheless, according Roebuck (2011), another aim with CRM is to “entice former clients back into the fold” comparable to the process of *regaining customers* in the Elinder-model (2012). Looking into the old stock of customers instead, the simulator computes that a recapture of 1000 regained customers would generate an additional SEK 14 944 764 in annual revenue to Akademikliniken. Moreover, the CLV will then be calculated to **SEK 396 505 465**, which is a higher value of the portfolio than if 1 000 new customers were recruited. As the theory suggests, it is important to investigate why the customer defected in the first place, to prevent a short customer-loop in the CLC from happening. Since theories imply that it is cheaper to regain or retain a customer from PP12, than to recruit a completely new customer, it could be suggested that Akademikliniken should spend their marketing budget on retaining existing customers and regaining previous customers, rather than to recruit completely new ones.

5.2 Striving to Improve CLV

This part will discuss how Akademikliniken should allocate the resources in order to enhance CLV.

Taking a closer look at the revenue distribution of L12, it is obvious that the theory of the *80/20-rule* (Kotler & Keller, 2009) applies in this case, since the Super and Top segments contributed with SEK 198 245 786 (76%) while the Middle and Bottom segments generated SEK 62 334 226 (24% approximately 20%) of the annual revenue of SEK 260 580 012. This illustrates that the customers in the upper segments could be seen as more valuable than the ones in the bottom segments, since the qualitative research showed that they generated a higher CLV per segment. Being selective in the targeting of customers may be difficult, but since interacting and making business with fewer customers (from a business point of view - a more *valuable* segment) will have positive effects on the profitability, a more selective targeting would be recommended for a company like Akademikliniken (Kotler & Keller, 2009).

As seen in the previous part of the analysis it is important to have control over (or at least knowledge about) the customer flows in order to allocate the resources right and to get the most out of the marketing budget (Fornell & Wernerfelt, 1987). Based on the findings as well as theory, it would seem rather unwise to spend the marketing budget equally over the entire customer portfolio. Adequately, it is implied that Akademikliniken may not try to pursue and satisfy every customer within the four segments (Kotler & Armstrong, 1996). In terms of duration, Super and Middle customers are suggested to be the most profitable customers, in a long-term perspective. By highlighting these segments the company is applying a long-term focus, which is considered vital in order to not hinder the value creation process, according to corporate governance theory (Nachemson-Ekwall, 2012). However, the Super and Top customers provide Akademikliniken with a higher total CLV.

The high duration for the Middle segment may be seen as misleading since there are an excessive number of non-surgical customers, so called “injection customers”, within this segment. The extensive duration can be due to the treatment cycle of Botox, Restylane or other non-surgical treatments. In order to prolong the effect of an injection, the patients need to do a refill regularly. The intervals are approximately between 4-8 months, depending on the individual (AK, 2012). Hence, it could be considered as a “false” or an “uneven” loyalty among the Middle customers, since some might complete several treatments in a year and others just one. This can be confirmed by the results from the qualitative in-depth interviews where **Jenny** performed six

purchases of injections while **Donna** and **Kathy** just had one each. Relating the results from the quantitative research to the findings within the qualitative empirics the Super customers may be considered as more trustworthy and profitable while the Bottom customers are more of a passing nature, since a majority of the lost customers (77,3%) originate from the Bottom segment. This indicates that the Bottom segment may not be the “level of entrance” to more advanced surgical procedures in the future, since only 10% of the customers migrated upwards to the Super or Top segment.

Inspecting the results from the in-depth interviews also gives us some information about the next period (N12) based on the information from the respondents. As clarified in the Table V below, only two out of eleven customers have planned to complete a purchase during N12, in other words continue as active customers. This can be related to the quantitative calculation of the number of lost customers, where the average defection rate (from P12 to L12) is 66,6%. Manifesting the 80/20-rule, the Middle and Bottom customers should not be subjects of investment since they do not generate more than approximately 20 % of the revenue (Kotler & Keller, 2009; Elinder, 2012). Examining the Super segment, the customers could be seen as much more devoted, since they are loyal both in terms of engagement and revenue (Clark, 2008). Hence, the Super customers should be favored in a short-time perspective, since extended purchase *frequency* is a measure of short-time goals within the field of CLV (Clark, 2008). On the other hand, to succeed with CRM, companies must move from a *short-term transactional-oriented goal* to a *long-term relationship-building goal*, thus transferring the focus to *duration*, the variable affecting the long-term goals (Grönroos, 1994). From that point of view, Super and Middle customers are the most long-lived and generating the highest revenue over time.

NO.	PSEUDONYM	AGE	TREATMENT	P12	L12	N12	REVENUE P12 (SEK)	NO. PURCHASE S P12	REVENUE L12 (SEK)	NO. PURCHASES L12
1	Alice	23	Nose job	NEW	TOP	LOST			45750	2
2	Betty	26	Birthmark	MIDDLE	LOST	LOST	3250	1		
3	Caroline	31	Breast augmentation	TOP	LOST	LOST	57750	2		
4	Donna	30	Lip injection	NEW	MIDDLE	LOST			3500	1
5	Elizabeth	46	Breast lift and liposuction	NEW	SUPER	LOST			115750	2
6	Felicity	46	Varicose veins	BOTTOM	LOST	LOST	500	1		
7	Gloria	34	Lip injection	BOTTOM	LOST	LOST	760	1		
8	Helen	54	Arm tuck and breast lift		SUPER	SUPER			86750	2
9	Isabelle	66	Face lift		SUPER	LOST			85750	2
10	Jenny	27	Restylane lip injection, juvéderm	MIDDLE	MIDDLE	MIDDLE	9250	4	2000	2
11	Kathy	43	Botox injections		MIDDLE	LOST			3000	1

Table V – Interview respondent characteristics

5.3 The Relationship and Loyalty

In this section the CLC, Elinder's four segments as well as the loyalty ladder will be used in order to analyze Akademikliniken's relationship with its customers. Insights from the in-depth interviews will be examined in order to analyze how loyalty can be enhanced and so generate a valuable, long-term relation, between Akademikliniken and the company's customers. See Table V for a re-cap of the interview respondents' characteristics.

Based on the theory that “the average CLV of a customer is highly correlated to a combination of the level of customer satisfaction and the level of customer loyalty (i.e. the retention rate)” stated by Heskett et al. (2002) in the book “*The Value Profit Chain*”, the author of this thesis argues that a connection between CLV, duration and the concept of loyalty, is accurate. Referring to Payne & Pennie (2005), *customer lifetime value* calculates “how to acquire, retain and develop loyal and profitable customers”. Since duration gives an indication of *how long* the customer will last, based on spending and frequency, it is also to be seen as a *measure of loyalty*, underbuilding the connection between CLV and loyalty. By linking Elinder's (2012) four value segments to the loyalty ladder's six stages of a customer's relation to a company (Christopher et al., 1994), the intention is to accomplish a comprehensive analysis of the customer portfolio.

According to the findings, the average CLV of a Super customer is SEK 157 450 and thus, could be classified as a loyal customer; an advocate or a partner in accordance with Raphael (1995). This way of analyzing the customers can be strengthened by Payne and Pennie's (2005) argument that “loyal customers are intangible assets that add value to the balance sheet”. Relating to the findings from the in-depth interviews, **Helen** spent SEK 86 750 during L12 and is a typical example of a Super customer that behaves like an advocate (Raphael, 1995). She speaks openly about her surgeries (an arm tuck and a breast lift) in front of her colleagues and answers their curious questions. Moreover, Helen already booked a new appointment for a tummy-tuck at Akademikliniken, showing that she is a *continuously active customer* (Elinder, 2012). The planned surgery indicates that Helen will remain as a Super customer during the period of N12 but may even step up to a *partner level*, since she will act truly loyal, generate great revenue, engage in the relation with Akademikliniken and participate in the co-creation of value (Gummesson, 2006; Christopher et al., 1994).

Isabelle is also a Super customer since she generated SEK 85 750 during L12 and should also be considered an *advocate*. She seems to be engaged in her relationship with Akademikliniken and

puts a lot of trust and capital into the relationship, but stated that she does not talk about her surgery among people, except from her family and close friends. According to theory, Isabelle will probably defect by N12 since she just completed her surgery. Therefore she will be classified as a *lost* customer according to Elinder (2012). Worth mentioning is that it might be valuable to keep in contact with Isabelle and try to win her back as soon as possible, since she clearly has an interest in cosmetic surgery and could possibly be regained and henceforth generate revenue in the future (Sheth & Parvatiyar, 2000; Clark, 2008). The third Super customer is **Elizabeth**; she completed a liposuction and a breast lift (L12), at a cost of SEK 115 750. Due to the high revenue she generated, she is definitely a Super customer, but not as high up on the loyalty ladder as Helen. Elizabeth mentions that she discusses her operations with family and close friends, but not in public. Therefore, she could also be considered an *advocate* since she is willing to share information about Akademikliniken, but it probably requires a lot more effort to turn her into a partner. She is profitable since she is a loyal customer that would generate word-of-mouth referrals to other prospective customers, explained by Sorce (2002) and thus revenue. Elizabeth says that she has an interest in undergoing another surgery, but she cannot afford it at the moment. Due to that her probability to defect is relatively high. While she is in the anti-churn phase, Akademikliniken has to provide activities to prevent the risk of defection. According to theory it is most likely that Elizabeth will defect during N12, but hopefully she can be retained to an active customer by a value-added offer (Clark, 2008).

Alice is a Top customer according to Elinder (2012), due to her purchase of SEK 45 750. She is likely to be seen as an advocate as well, since she already recruited a cousin and a friend to Akademikliniken. Currently, she is in the loyalty phase, but since she has not faced any retention activities she will most likely defect. Likewise, **Caroline** is a Top customer since she contributed with SEK 57 750 for her operation. According to the loyalty ladder approach, she could be considered as a *supporter* or even a *client*, based on her statement that she does not want to talk about her relation with Akademikliniken. Hence, Caroline does not seem to commit fully to her relationship with Akademikliniken, since she is afraid of peoples' prejudices. On the contrary, **Jenny** considers cosmetic treatments as a status mark and she gladly exposes her relation to Akademikliniken. Based on the concept of loyalty she could be seen as a supporter since she is engaged in the relation by keeping herself posted about the latest trends within plastic surgery. Most likely, Jenny could proceed further up the loyalty ladder if a certain amount of processing was done and if Akademikliniken chose to *develop* her. Since she has all the valuable qualities, such as engagement and ambassador ambitions, to become an advocate. In the customer life cycle, she

is probably at the loyalty stage and does not intend to change position, since she mentioned in the in-depth interview that she would keep on having injections at Akademikliniken. Jenny is therefore most likely to be classified as a *continuously active customer* since she completed purchases in P12, L12 and planning a purchase during the N12 period. According to the Elinder model, Jenny, **Betty** and **Kathy** are all in the Middle segment due to their generated revenue. But in contrast to Jenny, Betty and Kathy have only completed one purchase each and do not intend to do any further treatments at Akademikliniken. Kathy even states that she intends to do a breast augmentation at a competitor and according to theory her lifetime cycle is in the retention phase, since she most probably will defect. Examining the loyalty ladder theory, Kathy is in the phase of a *customer*, since she purchased from the company before but has revealed during the in-depth interview, that she had no emotional relationship to Akademikliniken, preventing her from going to a competitor for her breast augmentation. Still there is a possibility to *win back* Kathy after her likely defection. Analyzed from Kotler & Keller (2009) this is of high relevance to Akademikliniken, since it is cheaper to regain a customer than to acquire a new customer. However, the resources may not be putted on the process of retaining Kathy, since she does not aspire to deepen her relationship with Akademikliniken and she belongs to the least valuable segment, the Bottom segment. According to Raphael (1995) a lot of effort and processing would have to be done in order to make Kathy continue further up the loyalty ladder.

Betty declares that she does not have any further interest in plastic surgery and that she never had - she does not consider her birthmark removal as a cosmetic treatment. Based on the loyalty ladder's phases, Betty is on the *customer* level and her lifecycle has most likely come to an end. On the other hand, **Gloria** is very enthusiastic and intends to be an advocate, but should probably only be considered a customer, or on the broader term a client, on the loyalty ladder (Christopher et al., 1994). This is due to the fact that she has only completed one purchase so far, corresponding to the revenue-level of a Bottom customer; unfortunately she does not generate enough revenue at the moment. It seemed like Gloria wanted to give the impression of being a loyal customer, but according to her patient journal she only visited Akademikliniken once before. Consequently, she did not have any future bookings in her calendar of Akademikliniken either. Likewise, **Donna** is classified as a Bottom customer in Elinder's model, due to her low-cost purchase. Since she only visited Akademikliniken once and she does not intend to become more loyal, it is likely that she will remain in the *customer* phase according to the loyalty ladder theory.

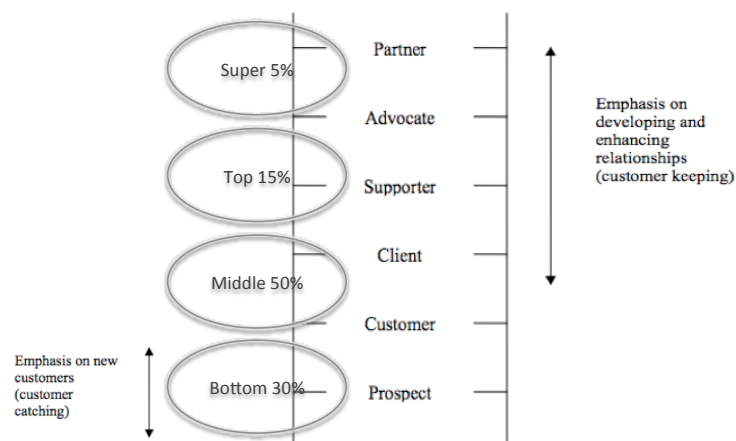


Figure XXII – Suggested combination of Elinder's four customer segments and the loyalty ladder (Christopher et al., 1994)

To summarize, it has been seen that even small improvements in customer retention can have a positive impact on the company's CLV, which is in line with Reichheld's (1996) theories. Additionally, the findings indicate that the customer's amount of revenue is connected to the individual's level of loyalty, verifying the "value profit chain" by Heskett et al. (2002). Hence, the results imply that Elinder's four segments and the loyalty ladder could be merged together to gain a more comprehensive analysis of CLC, CLV and loyalty. Therefore, it could be suggested that the two lower segments could be interlocked with the lower three steps of the loyalty ladder (prospects, customers and clients). Moreover, the two upper segments (Super and Top) represent 20% of the entire customer portfolio and could be linked to the upper three stages of the loyalty ladder (supporter, advocate and partner), since they generate approximately 80% of the profit and accordingly include the most loyal customers. In other words, an inverted 80/20-loyalty model may complement the regular 80/20 rule (Kotler & Keller, 2009), when it comes to customer devotion.

The discussion and analysis could explain why a common goal in CRM is to undertake activities that move customers up the loyalty ladder (in other words – migrate customers to the upper segments) since it will improve revenue (Raphael, 1995). This could be explained by Payne & Pennies (2005) theory that loyal customers are intangible assets that add value to the balance sheet, which is backed up by Sorce (2002) and Reichheld (1996), whom state that it is less costly to serve long-term, loyal customers as they will pay a price premium. Hence, Akademikliniken may focus on the Super and Top segments, as they are the segments with maximum customer lifetime value.

6. CONCLUSION

Please note that the results and the conclusions are not applicable to all patients within the industry of plastic surgery, but reflect the respondents' relationship to the category. Moreover, observe that all absolute numbers are distorted to protect the data of Akademikliniken.

The discussion below will be based on the research question:

*What is the value of the customer portfolio of Akademikliniken
and how can customer relationship management increase it by creating loyal customers?*

6.1 The Customer Lifetime Value

Based on the calculation and analysis of big data collected from the 1st of October 2002 - 30th of September 2012, it is conclusively achievable to determine the *customer lifetime value* (CLV) of Akademiklinikens customer portfolio, according to the assigned approach (Elinder, 2012; Clark, 2008). The value of Akademiklinikens customer portfolio is estimated to **SEK 390 930 399**. Akademiklinikens customer portfolio consists of a 17 685 active customers, implying that the average customer has a CLV of **SEK 22 105**, representing the sum of future income of a customer in the portfolio.

The calculation of CLV is based on duration of 1,5 years, which implies that the existing customer portfolio has a lifetime of one and a half year. Given that no new, retained or regained customers add on to the portfolio, the value will decrease gradually and undermine the customer base. How can this be prevented through Customer Relationship Management?

6.2 Focus on the Upper Segments

The results of this study suggests that it may be beneficial to concentrate the marketing activates towards the Super and Top segments, generating most revenue and having the highest involvement in the relationship with Akademikliniken. From a business point of view, these two segments are important for the future success since they account for 80% of the total revenue. In other words, it generates more revenue having a few customers completing "Total Makeovers", than to give injections of e.g. Botox to the mass. Furthermore, the Super and Top segments tend to be more loyal and to a greater extent also act as advocates. Instead of aiming to satisfy the entire portfolio, it appears more attractive to allocate the resources to the top of the loyalty ladder. Hence, processing the customers within these two segments would certainly make them great co-producers in the value creation process.

Such partnership can increase revenue and reduce marketing costs for the company. In addition, it is far more conquerable to target 20% of the customer portfolio instead of 80%. The study also shows that all the 884 Super customers increasing their average purchase amount by 1%, generates the same increase in annual revenue as the 5 306 Bottom customers spending an additional 27% on each purchase. It could be safe to say that the former is a more reasonable increase. Concentrating on enhancing the relation with the Super and Top segments would probably increase the CLV for the entire customer portfolio. This implies a motive for a focus on loyalty and reward systems. Showed in the qualitative research, many of the existing customers inquire various promotions. A suggestion is to create a members club or a loyalty program. However, this does not necessarily have to be an official membership. Rather the contrary, an exclusive, discreet club may be a more suitable option, as the integrity of the respondents is highly valued.

6.3 Retain Instead of Recruiting

An “old”, regained or retained, customer generates greater revenue and provides a higher CLV than new customers, according to the research. Therefore, it is implied that Akademikliniken may spend their marketing budget on retaining existing customers and regaining previous customers, rather than recruiting new ones. Consequently, it is recommended to use big data analysis to personalize the communication and develop the relationship with the focus segments; Super and Top. In doing so, Akademikliniken can improve the follow up of customers’ treatments and positions within the CLC, which is vital in order to get control of the migration and the defection-rate of 66,6% that the company experienced during the period of investigation. Developing CRM activities to retain active customers would most likely decrease the outflow and facilitate the win-back process of old customers.

6.4 Less is More, Focus on The Core

It is not sustainable to offer everything to everyone. The study implies that it is important to not underestimate the value of protecting a positive brand perception and not to take the core value of the business for granted. According to the results of the study as well as the concept of CRM, it is vital to have a long-term business perspective, in order to create an enhanced lifetime value of the customer portfolio. Expansion may be a tempting option, not least considering the private equity ownership.

However, it is important to point out that this study indicates that Akademikliniken could benefit from remaining true to their core business, cosmetic surgery. Their most loyal customers seem to be within the upper segments and they do not seem to have an interest in injections or non-surgical cosmetic treatments. Moreover, the Bottom and Middle customers do not tend to migrate upwards to the Top or Super segments (where the cosmetic surgeries are consumed). Instead, almost 80% of the Bottom customers defect and within the Middle segment most of the customers migrates to the same segment next period. This may indicate that the business of non-surgical injections is not necessary for the success of the core business and vice versa. Therefore, an idea would be to create a franchise business of the Walk-in Clinics, since the idea of recruiting people at the Walk-in clinics does not seem to have a strong impact, according to the qualitative research of this study. Furthermore, a focus on the high-end segments and the core business eliminates much of the risks of diluting the brand. Going down the “injection-way” and being perceived as much more “public” and attracting a low-end audience may undermine the brand perception of Akademikliniken in the future.

6.5 Involve Customers in the Value Creation Process

The decision of having plastic surgery is once-in-a-lifetime and many aspects need to be taken into account before a decision has matured and the customer is convinced to open the wallet and go under the knife. A major finding from the qualitative research is what could be seen as a “princess syndrome”, which refers to the respondents’ desire to be treated almost like a royalty, by being spoiled and very well taken care of when having a cosmetic surgery. This could be considered a unique selling point of Akademikliniken since they are already branding the business as high-end due to their extensive experience and competence within the industry.

Intangible factors such as a luxury feeling, a cozy atmosphere, excellent service and trust may add value to the standard treatments. The in-depth interviews revealed that there is a lot of pressure involved in, first of all, deciding and later on actually having a cosmetic surgery. Practical planning, psychological qualms, social barriers and financial issues may affect the customer’s decision-making process. Therefore, facilitating the process and offering more support are suggested actions. An idea is to glance at the airline or hotel industry where *hospitality* is a key to success. In order to create a value-added offer, Akademikliniken could oblige the demands from the respondents concerning flexible opening hours, the possibility of performing surgeries during holidays and “partner packages”.

A way to add value is by creating “packages” with a customized solution, since mass production is not considered appealing within this industry. Such packages could include financial aid or even hotel arrangements, in order to give the customer a unique feeling of being indulged. In turn, that would lead to a positive ambassadorship and increased loyalty. To involve customers in the value creation process is not necessarily more expensive or demanding, than “regular marketing”. Looking at a longer time-horizon, a way to go may be to act inline with Mascarenhas et al.’s (2006) idea of delivering a total customer experience, in order to create long lasting loyalty. According to the results of this study it is beneficial to change towards a more customer-oriented organization, since the value creation process will enhance loyalty and consequently the customer lifetime value.

7. CONTRIBUTIONS, CRITICAL REFLECTIONS AND SUGGESTIONS FOR FUTURE RESEARCH

In the following chapter contributions and criticism of the study will be discussed. Suggestions on future subjects of research will also be given.

A vital part in Customer Relationship Management is the collection of customer data, which is confirmed by this study. This thesis contributes with a comprehensive analysis of a real life case within an emerging industry, based on the usage of a large database. This thesis provides contributions and implications for practice, as well as academic research and education, of four main points.

- (1) The theories used have brought attention to three main areas that impact the company's opportunity to succeed in customer relationship management; CLV, CLC and loyalty.
- (2) By applying a theoretical framework to a real life case, the thesis provides in-depth insights and a better understanding of the concept of CRM, as well as of the industry of Plastic Surgery, than previous research.
- (3) The findings from the thesis are subject to generalization; such as how to measure the value of a customer portfolio by using the customer lifetime value approach and how to enhance loyalty and creating valuable relationships among the customers in a company's portfolio. However, it may be argued that this study is only applicable to the cosmetic plastic surgery sector, since loyalty patterns may be unique within this field.
- (4) Lastly the thesis contributes to the development of CRM, CLC and loyalty theory (Clark, 2008; Elinder, 2012; Christopher et al., 1994) since a new suggestion of a merge of Elinder's four segments and the six steps of the loyalty ladder may contribute to an enriched analysis of the loyalty of a company's customer portfolio.

Examine some criticism regarding the study, includes firstly some limitations related to the models and theories. Since the collected data only includes the revenue that each customer generates to the company, and unfortunately not the costs related to those purchases, it was not possible to calculate the *net profit value* which is one of the building-blocks in the formula of CLV, according to Clark (2008). Due to lack of time and resources, as well as the wide product range of Akademikliniken, it was not viable to derive the costs related to each purchase. A possible solution would have been to estimate an average cost related to each treatment, but since the costs vary among the clinics as well as over the ten-year period of observation, this would also have been too time consuming. Therefore, a modified version of Clark's formula done by Elinder

(2012) had to be used in order to calculate the customers' lifetime value in an accurate way. One of the main differences is that the Elinder-model does not take the time value of money into account, while Clark is utilizing companies' rate of credit interest in his model. The discount rate depends on a certain company's investment budget and indirectly on the market interest as well as the inflation of the market, but since the levels have been constantly low historically (Riksbanken, 2012), it is unlikely that the excluding of a "time-value-of money"-calculation effected the calculation of CLV, during this short period of investigation. Moreover, it has been recognized that the Elinder-model generalizes customers when separating the portfolio into segments (the 5%, 15%, 50% and 30% most valuable customers). Since the customers are sorted by the customers' total revenue it means that two or more customers with the same revenue, basically can be divided into two different segments and being judged in different ways because of this separation. For example, one customer can become a member of the Top segment while another ends up in the Middle segment and thus considered as "less valued". However, this generalization has had a relatively low impact on the calculation of customer lifetime value, due to the great sample of quantitative data; 80 390 customers in total. In addition it is worth mentioning that the customers visiting the Walk-in clinics and consultation offices of Akademikliniken, are not always registered in the journal system of Skalpell, when they are purchasing e.g. a cosmetic product or a gift card. Due to this fact, a category named "*unspecified*" is registered in the system, containing customers that might have purchased a product from Akademikliniken's skincare product-line or other products such as books or support stockings in relation to an unnamed treatment. In other words, this means that customers that could have been considered as "active customers" during the observed period, were "unidentified" due to non-existing customer registration, when completing purchases of products and unnamed treatments (Appendix 2). Consequently, this study is delimited to "treated customers", i.e. customers that completed a cosmetic plastic surgery or a non-surgical treatment, and hence been registered in the patient journal system, Skalpell, according to their ID-number.

In some cases, transactions were negative or nonexistent in the database, but the column of purchases specified that the customer had completed one or several purchases. This may indicate that a refund or a price reduction has been made. The customers that did not purchase anything during the assigned periods were classified as "inactive" and therefore excluded. Likewise, customers that had been directed to Akademikliniken from the county council were excluded for the purpose of this thesis, since they cannot be considered as independent, private and self-paying customers. A few customers had completed transactions during some of the months of

the observed periods, but no number of purchases was entered in the database. Thanks to the patients' journals it was possible to identify each customer, verify their purchases and register the number of purchases manually (Appendix 3).

7.1 The Relevance of CRM & Loyalty within the Industry of Plastic Surgery

The question whether loyalty is applicable to cosmetic plastic surgery or not is an interesting point of reflection. The study indicates that the consumers put a lot of effort and consideration into their decisions of performing plastic surgery and the choice of surgeon - a majority of the qualitative respondents were highly involved in this process. Nevertheless, to enhance loyalty within the field of plastic surgery may be considered as "unethical" by some, still loyalty is a relevant aspect to consider when creating marketing communication within this unique field and there is a need for advanced data analyzes. Even though the phenomenon of big data has risen in popularity and acceptance, massive data collection may not be appreciated by the customers, especially not in a sensitive field like cosmetic surgery. Far from all customers strive towards a committing relationship with a company. According to Kotler et al. (2009), European countries are certainly not enthusiasts of data based marketing. Recently, the European Union proposed a reform of the legal framework with the aim to "strengthen individual rights and tackle the challenges of globalization and new technologies" in order to protect the integrity of its inhabitants and take control over database marketing (The European Commission Justice, 2012). Hence, the conclusions of using customer data in order to customize a product package may not appeal to everyone and may even be challenged by some. Therefore, the contribution of qualitative insights is highly valuable. It provides information about the customers' perceptions and reactions, enabling the companies to distinguish patterns and trends in customer migration and loyalty. The quantitative and qualitative findings of this thesis therefore provide a unique framework for companies looking into CRM, especially within the unexplored field of plastic surgery. The analysis of data enables companies to determine strategic decisions based on big data, while findings about perceptions could indicate how to put the perfect package together as well as giving a new perspective on how to succeed in creating loyalty. Identifying loyal customers may lead to a more specific and customized communication, focusing on the once with a true need for or interest in plastic surgery, instead of targeting the mass. Additionally, the accepting mentality towards plastic surgery has been eased during the last decade (Featherstone, 1994; Gilman, 1999; Askegaard, 2002; Jones, 2010) and the overall opinion is that it is up to the individual to decide whether to go under the knife or not according to the qualitative research of this study.

Nevertheless, some may question the usage of Loyalty and Customer Relationship Management theory in this study, since plastic surgery is a debated industry and furthermore not completed that frequently. Even though the concept of loyalty may not be seen as perfectly suitable from an academic point of view, the company of study and the business in general are actually talking in terms of loyalty when assessing their customers and their portfolios. With all respect that it may not be ethically correct to strive to increase the loyalty within a debated business, it still mirrors a real life case and the perceptions of loyalty within a certain industry. If plastic surgery is considered as “an immoral industry” is left for the reader to decide. However, the author found it legitimate to apply loyalty and Customer Relationship Management theories to plastic surgery, and the study indicates that there is a difference in loyalty between a Super and a Bottom customer, for example. Hence, examine the concept of loyalty may also infer the likelihood that a customer recommend the company to someone, since loyal customers are good advocates. Consequently, loyalty is not equivalent to an increased frequency in completing cosmetic surgery, to clarify; a customer can climb the loyalty ladder by completing purchases within another product category (e.g. skincare) or by recommending Akademikliniken to friends and thereby improve the value of the customer portfolio. To strive for increased loyalty may also include working with refining CRM-activities among *existing* customers and not to lure new recruitments. To sum up, enhanced loyalty does not necessarily infer an intensified frequency in performed cosmetic surgeries, in particular.

Measuring loyalty is also highly relevant when examine the product category of non-surgical injections, since the use of injections are based on a regularly usage and are therefore purchased more frequently. The measure of CLV is applicable since frequency; durations and spending could be considered relevant variables when observing non-surgical injections. For example, a possibility could be to increase the frequency (recommend the consumer to do the injections every 4 to 6 month, instead of every 6 to 8 months) to enhance the CLV. Therefore, it may have been interesting to separate the cosmetic surgical and non-surgical treatments into two categories, in order to determine the CLV for each of the two categories as the study indicate that the treatments may differ in duration, frequency and spending, as well as the customer level of loyalty. In a future study, it would also have been of greatest interest to compare masculine and feminine patients in order to investigate the growing target group of men within the category of plastic surgery.

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Customer data collected from *Skalpell*, the journal/log-system of Akademikliniken. Assigned period: 1st of October 2002 to 30th of September 2012.

Eleven (11) Individual, in-depth interviews á approximately 40 minutes.
Performed: 25th of October 2012.

Observations of the daily work at Akademikliniken in Storängsbotten, during the fall 2012.

Akademikliniken AB

Continuous discussions with:

Magnus Jansson (CEO)

Charlotta Abrahamsson (CMO)

Andreas Bertilsson (CFO)

Linda Kovacic (Web Master)

Ulf Samuelsson (Plastic Surgeon)

Jan Jernbeck (Plastic Surgeon)

Anita Rose (Admin)

The Marketing department at Akademikliniken

The Financial department at Akademikliniken

Dubblera AB

Elinder (2012) *In-depth coaching sessions at Dubblera AB with:*

Staffan Elinder (author and Senior CRM-Consultant)

Zacharias Elinder (CRM-Consultant)

8.2 Secondary Data

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9. APPENDIX

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9.2 APPENDIX II – Akademikliniken Customer Portfolio Characteristics

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1. Customer portfolio in period P12

Previous period (P12)			
Segment	Active customers	Number of Purchases	Revenue
Super 5%	809	5 115	82 409 702
Top 15%	2 428	10 013	106 584 755
Middle 50%	8 093	21 445	56 292 090
Bottom 30%	4 856	6 022	3 384 008
Total	16 186	42 595	248 670 555

2. Customer portfolio in L12

Last period (L12)			
Segment	Active customers	Number of Purchases	Revenue
Super 5%	884	8 190	88 604 316
Top 15%	2 652	14 665	109 641 470
Middle 50%	8 843	27 461	58 898 496
Bottom 30%	5 306	7 328	3 435 730
Total	17 685	57 644	260 580 012

3. Customer migration between the periods

Customer flows		Active customers	Number of Purchases	Revenue
Continuously active	Super 5%	44	526	4 049 215 kr
Upgrading from	Top 15%	35	425	3 058 160 kr
Upgrading from	Middle 50%	108	1 429	12 452 656 kr
Upgrading from	Bottom 30%	170	1 401	17 834 100 kr
Retained		98	919	9 678 376 kr
New		429	3 490	41 531 809 kr
Super 5%		884	8 190	88 604 316 kr
Downgrading from	Super 5%	74	634	2 855 899 kr
Continuously active	Top 15%	165	1 397	5 947 690 kr
Upgrading from	Middle 50%	277	2 285	10 098 333 kr
Upgrading from	Bottom 30%	297	1 424	13 067 636 kr
Retained		211	1 235	8 625 032 kr
New		1 628	7 690	69 046 880 kr
Top 15%		2 652	14 665	109 641 470 kr
Downgrading from	Super 5%	163	870	1 583 654 kr
Downgrading from	Top 15%	440	1 661	3 720 846 kr
Continuously active	Middle 50%	2 639	8 857	19 578 548 kr
Upgrading from	Bottom 30%	440	1 469	3 469 078 kr
Retained		936	2 585	6 250 359 kr
New		4 225	12 019	24 296 011 kr
Middle 50%		8 843	27 461	58 898 496 kr
Down-grading from	Super 5%	14	56	9 538 kr
Down-grading from	Top 15%	52	109	33 869 kr
Down-grading from	Middle 50%	284	443	199 096 kr
Continuously active	Bottom 30%	194	285	135 780 kr
Retained		417	612	284 430 kr
New		4 345	5 523	2 773 017 kr
Bottom 30%		5 306	7 028	3 435 730 kr
Lost from	Super 5%	515	2 826	- 50 773 419 kr
Lost from	Top 15%	1 738	5 856	- 79 512 157 kr
Lost from	Middle 50%	4 790	10 749	- 29 146 662 kr
Lost from	Bottom 30%	3 746	4 502	- 2 579 305 kr
Total	Active customers	17 685	57 344	260 580 012 kr
Total	Retained	1 663	5 351	24 838 197 kr
Total	New	10 627	28 722	137 647 717 kr
Total	Lost	10 789	23 933	- 162 011 543 kr

9.3 APPENDIX III – Manual Corrections to Quantitative Data

1. The customers that did not purchase anything during the assigned periods were classified as “inactive” and therefore excluded; in total 1 366 customers were removed from P12 and 4 085 customers from L12, accounting for 5 451 customers in total for both periods.
2. There were in total 855 customers that had a record of purchased amounts in the monthly data. However, in the summary of number of performed purchases during the period of investigation, they had zero registered purchases. Going through each month and adding up the numbers of each purchase occasion adjusted these manually.
See details below.

Number of purchases	Number of customers
1	706
2	127
3	13
4	6
5	3
TOTAL CORRECTIONS:	855

3. In each month there was a residual part of the revenue and purchases denoted unspecified. For the purpose of this thesis these purchases were excluded from the data set.

Unspecified customers	P12	L12
REVENUE	3 363 295 SEK	4 856 380 SEK
NO. PURCHASES	1 494	1354

9.4 APPENDIX IV – Interview Guide

Intervjuform: Öppen, individuell djupintervju (Lantz 2001). I och med denna intervjuform är det i princip omöjligt att förutbestämma fördjupningsfrågorna, varpå intervjuplanen kommer att bestå av en punktlista med aspekter som jag önskar belysa på en mental nivå. Intervjuplanen förblir densamma för samtliga intervjuer och avser att penetrera punktlistan djupare under intervjuens gång. Två provintervjuer har lett fram till den slutliga, reviderade formen av intervjuplanen.

Ungefärlig beräknad tidsåtgång per intervju: 30-40 min.

- **Fas 1: Ramar och syfte (2 min)**

Börjar med att sätta upp ramarna för intervjun; att kommunicera bakgrund och syfte till intervjun samt planerad tidsåtgång och dokumenteringsmetod (diktafon, lyssna, skriftliga anteckningar).

- **Fas 2: Bakgrund samt relation till AK (3 min)**

Betydelsefull bakgrundsinformation hjälper mig som intervjuare i den öppna intervjun att förstå centrala aspekter och den kontext som intervjupersonen befinner sig i. Inledningsvis ställs frågor av faktakaraktär, för att öppna upp dialogen med förhoppning att skapa en relation till respondenten och göra denne varm i kläderna.

Hur gammal är du?

Ungefärlig inkomst per år?

Vilken utbildning har du?

Vart är du uppväxt?

Vart är du bosatt i detta nu?

Hur skulle du beskriva din civilstatus?

Hur kom du i kontakt med AK?

Vad var din ingång till plastikkirurgi?

När? Tid mellan initiativ till operation? Hur länge?

- **Fas 3: Självuppfattning, perception, motiv (10 min)**

- 1.1 (Åsikts-, attityd- och känslolägesfrågor)

Generellt

Hur skulle du beskriva dig själv?

Hur ser du på din självkänsla?

Hur ser du på din manlighet/kvinnlighet?

Vad är skönhet för dig?

Tycker du att det är viktigt med image?

Anser du dig själv som fåfäng?

När började du bry dig om ditt utseende?

I paritet till dina vänner, anser du att du bryr dig mer eller mindre om ditt utseende?

Vad tänker du på när jag säger skönhetsoperationer?

Vilken betydelse har utseendet för dig?

Vad var ändamålet med din operation?

Har din syn på plastikkirurgi förändrats i och med ditt eget användande/kontakt med AK?

Hur tror du att andra ser på plastikkirurgi generellt?

Hur tror du att andra ser på dig och ditt användande av plastikkirurgi?

Ingående

Vill se personens resa in i kategorin → hur kom denne in i kategorin?

Vad fick dig att intressera dig för plastikkirurgi?

Hur kom det sig att du kontaktade AK?

Hur länge har du varit kund?

Vilken var den första produkten du konsumerade inom kategorin?

Vem köpte den produkten?

Var köpte du den produkten?

Varför köptes just den produkten?

Hur stor inverkan hade varumärket på inköpets betydelse?

Hur stor inverkan hade produktens funktion/resultat på inköpet?

Är du nöjd med resultatet/funktionen av ditt köp?

Hur vill du beskriva, definiera ditt förhållande till AK/plastikkirurgi?

Vilket utbyte har du av användandet av plastikkirurgi?

Långsiktigt/kortsiktigt?

Hur känner du inför ditt användande av plastikkirurgi?

Har du plikter gentemot närstående att ta hand om din hy/ditt utseende?

Talar du om AK med dina vänner?

WOM? Spridning av budskap.

Hur många aktörer inom kategorin känner du till?

Vet du vad dem står för (prisklass, rykte etc).

Vilka typer av produkter/ingrepp har du gjort?

Kan du känna dig obekväm i ditt användande av kirurgi?

Är det någon produkt som är mer eller mindre pinsam att erkänna att du brukat?

Står du för att du konsumerar plastikkirurgi?

Tar du råd ifrån vänner om plastikkirurgi?

- **Fas 4: Antal köp, frekvens samt ekonomi (5 min)**

Går du ofta någon form av skönhetsbehandling?

Hur ofta genomför du ett kirurgiskt ingrepp/använder fillers etc?

Vilka förväntningar har du på resultatet?

Har du flera produkter/tjänster som fyller samma funktion?

I vilken utsträckning tror du på produkternas/ingreppens funktion?

Har du märkt resultat av användningen av produkterna/ingreppen?

Kommer du att fortsätta använda dig utav estetisk kirurgi?

Vad brukade du använda/göra innan du kom i kontakt med AK?

Planerar du att göra något ingrepp inom en snar framtid?

Vilka källor till inspiration/råd finner du inom kategorin?

Hur ser din procedur ut runt användningen av plastikkirurgi?

Planerad/spontan

Skulle du kunna tänka dig att göra fler ingrepp än du gjort i dag? Oftare?

→ om ja, vad är barriären till att du inte gjort det?

Vad tror du om kategorins framväxt och framtid?

Vad tror du skulle kunna få dig att använda fler av AK tjänster/ ”besöka” AK mer ofta?

Hur tror du att AK skulle kunna göra kategorin mer attraktiv?

- **Fas 5: Lojalitet (kundinsikt + behagande) och priserbjudande (8 min)**

Spridning av budskap, anonymitet/öppenhet, kommunikation med AK, motivation, penetration.

Har du utfört skönhetsbehandling/plastikkirurgi på annat behandlingsställe än AK?

Vad attraherade dig att vända dig till AK?

Anser du att AK är lätta att komma i kontakt med?

Nämn några varumärken/aktörer som erbjuder samma tjänster?
Vad anser du om de aktörer som finns på marknaden?
Känner du att kategorin entusiasmerar till köp?
Har du sett reklam för kategorin på senaste?
Vad tror du skulle kunna göra så att fler intresserade sig för kategorin?
Skulle du vara intresserad av att vara med i en kundklubb?
Skulle du vilja få en ”kompensation” för din kundlojalitet?
Om ja, i vilken form hade känts mest premierande?

- **Fas 6: Sammanfattning av intervjuinnehållet och avslutning (2 min)**

Upprepa information utifrån det som är relevant för att besvara frågeställningen. Ger en möjlighet att försäkra mig om att jag speglar källan rätt, och uppfyllt kravet på tillförlitlighet (Lantz 2001).

9.5 APPENDIX V – Invitation To Interview Session



NYHETSREV 2012

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Kära kund,

Just nu utför vi en kundundersökning på Akademikliniken. Vi är intresserade av att veta mer om er uppfattning av oss och våra behandlingar/ operationer och söker 15 st deltagare för detta. Undersökningen kommer att utföras på Akademikliniken Stureplan den 25/10 och varje intervju sker enskilt.

Tidsåtgång: ca 30 minuter/ person

Plats: Akademikliniken på Stureplan, Birger Jarlsgatan 26

Datum: torsdagen den 25/10, löpande mellan kl 9.00-18.00

Sista anmälan: tisdag den 23/10

Är du intresserad av att vara med vänligen skicka en anmälan till my.lestander@ak.se och meddela även om du har möjlighet att komma på för- eller eftermiddag.

Vid frågor vänligen ring 070- 783 34 56.

Som tack för din medverkan får du ett AK TO GO-kit

Våra AK TO GO- kit innehåller:
Pure Berry Toner 50 ml, Pure Radiance Cleanser 30 ml, Extra Care Lotion 10 ml, Pure Effect Eyes 2 ml

Vi följer reglerna i PLU. Detta innebär att de uppgifter Du lämnar lagras i vår databas och används endast i samband med att ge Dig bättre information, service och erbjudanden. Endast Akademikliniken har tillgång till dessa uppgifter.



AKADEMIKLINIKEN

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