

PRINCIPLES OF MARKETING / 11

IBMS /
University of Applied Sciences

Raymond Reinhardt

3R Business Development
raymond.reinhardt@3r-bdc.com
©3R

Based on *Ph. Kotler's Principles of marketing / international edition, and miscellaneous designer's lecturing materials*



1

BUILDING CUSTOMER RELATIONSHIPS

Customer relationship context

- **Sellers' markets versus buyers' markets**
 - **Competition & customers' choices:** today's companies face enormous competition, and consumers have lots of products and services to choose from.
Whereas in sellers' markets companies can / could focus on a product and selling philosophy, in buyers' markets they will have to embrace a consumer oriented and marketing philosophy.
 - The **key to winning and keeping customers** is, as stated earlier, to understand their present *and future* needs better than competitors do, and to deliver more value.

3R

2

BUILDING CUSTOMER RELATIONSHIPS

Satisfying customers' needs

- **Customer-centeredness**
 - **Customer-centered (or: -driven) companies:** companies that focus on customer developments in designing their marketing strategies and on delivering superior value to their target customers.
In order to succeed or simply to survive, firms should be more customer-centered, and must become highly skilled in *building customer relationships*, not just in building products. And, they will have to be skillful in *market engineering*, not just product engineering.

3R

3

BUILDING CUSTOMER RELATIONSHIPS

Satisfying customer's needs

- **Customer-centeredness**
 - **Customer-centered companies:** in addition, these customer-driven firms have come to realize that 'marketing' (the department) can't do this alone. Their effectiveness relies strongly on all departments and employees teaming up to form a competitively superior *customer value delivery system*.

3R

4

BUILDING CUSTOMER RELATIONSHIPS

Satisfying customer's needs

- **Customer-centeredness**
 - **Customer-centered companies:** a good example could be McDonald's corporation (> 30.000 restaurants in 119 countries, serving > 69 million customers daily (2015)!



Customers don't go to McDonald's merely for their hamburgers. They are attracted to the McDonald's system that focuses on Quality, Service, Cleanliness and Value, through-out their whole internal and external system.

3R

5

BUILDING CUSTOMER RELATIONSHIPS

Defining customer value and satisfaction

- **Customer value**
 - **Customer-delivered value:** customers choose the marketing offer that gives them the most value. They are in fact *value-maximizers*, within their limits of search costs, limited knowledge, mobility and income.
 - According to **Tom Peters:** "*the goal (of a company) is not to create value for customers, but to mobilize customers to create their own value from the company's various offerings.*"

3R

6

BUILDING CUSTOMER RELATIONSHIPS

Defining customer value and satisfaction

- **Customer value**

- **Customer-delivered value:** the total of the entire product, services, personnel, and image values that a buyer receives from a marketing offer.

Example: a farmer deciding to purchase a *harvester* might consider buying a Caterpillar harvester instead of a cheaper East European product, in view of higher durability, reliability, performance, service, more knowledgeable personnel, and better reputation: the **total customer value**.



3R

7

BUILDING CUSTOMER RELATIONSHIPS

Defining customer value and satisfaction

- **Customer value**

Total customer value (product, services, personnel and image values)

Total customer cost (monetary, time, energy and psychic costs)

minus

Customer delivered value ('profit' to the customer)

3R

8

BUILDING CUSTOMER RELATIONSHIPS

Defining customer value and satisfaction

- **Customer value**

- **Customer delivered value:** how do companies sell this customer delivered value to their customers?

why pay \$ 25.000 more for a Caterpillar harvester?

\$ 225.000	the harvesters price, equivalent to the competitor's harvester
\$ 17.500	the price premium for Caterpillar's superior durability
\$ 15.000	the price premium for Caterpillar's superior reliability
\$ 12.500	the price premium for Caterpillar's superior service
\$ 5.000	the price premium for Caterpillar's longer warranty on parts
\$ 275.000	the normal price to cover Caterpillar's superior value
\$ 25.000	customer discount
\$ 250.000	final price

Thank you!

3R

9

BUILDING CUSTOMER RELATIONSHIPS

Defining customer value and satisfaction

- **Customer satisfaction**
 - **Customer satisfaction:** depends upon the product's or services' performance relative to the buyers expectations.
 - **Expectations:** are based on the customer's past buying experiences, the opinions of friends and associates, and marketer and competitor information and promises.

3R

10

BUILDING CUSTOMER RELATIONSHIPS

Defining customer value and satisfaction

- **Customer satisfaction**
 - *"We should not try to sell things just because the market is there, but rather we should seek to create a new market by accurately understanding the potential needs of customers and society."* (Hideo Sugiura, CEO, Honda, 1982)
 - **Total customer satisfaction:** involves a firm's efforts to *highly satisfy* their customers, who in turn are then not likely to switch. *Customer delight* creates an emotional affinity for the product or service, not just a rational preference, and this creates **customer loyalty**.

3R

11

BUILDING CUSTOMER RELATIONSHIPS

Defining customer value and satisfaction

- **Customer satisfaction and the firm's profit**
 - **Maximizing customers satisfaction** is not the customer-centered firm's aim. Increasing customer satisfaction by lowering prices or increasing services may eventually result in **lower profits**.
The purpose of marketing is to generate customer value profitably. Ultimately, the firm should deliver a high level of customer satisfaction, while at the same time delivering at least acceptable levels of satisfaction to the firm's **other stakeholders**.

3R

12

BUILDING CUSTOMER RELATIONSHIPS

Defining customer value and satisfaction

- **Tracking customer satisfaction**
 - **Customer satisfaction tracking methods:** successful organizations are rather assertive in tracking customer's levels of satisfaction. Four of the most common methods are:
 - **Customer comment cards**, provided when the product is delivered;
 - **Mail surveys of customers;**
 - **Personal interviews**, face to face, by phone, or in a focus group;
 - **'Mystery shoppers'**.

3R

13

BUILDING CUSTOMER RELATIONSHIPS

Defining customer value and satisfaction

- **Tracking customer satisfaction**
 - **Customer comment cards**, are the easiest way of measuring satisfaction, and can provide a direct and inexpensive link with every customer.

However, comment cards are a passive way of communicating, and only the customers who are motivated will respond.

As such, some successful companies use comment cards *in addition* to more scientific methods of measurement.

3R

14

BUILDING CUSTOMER RELATIONSHIPS

Defining customer value and satisfaction

- **Tracking customer satisfaction**
 - **Mail surveys**, are only a bit more expensive than a well-managed program of comment cards. Regular customers will usually respond to a mail survey.

However, usually only a small portion of the customers might respond, and although the results of a mail survey are less biased (colored, opinionated) than those received from comment cards, it can be difficult to determine how representative the sample is.

3R

15

BUILDING CUSTOMER RELATIONSHIPS

Defining customer value and satisfaction

- **Tracking customer satisfaction**
 - **Customer interviews**, when conducted by skillful interviewers, can frequently give quicker results than comment cards or mail surveys. Customers are generally more likely to answer questions by a good interviewer, either on the phone or in person, than a survey sent by mail.

However, as interviewers are human, their biases may differ from those of the customers, and sometimes will affect the given answers. As with mail surveys, the quality of interviews should also be monitored with care.

3R

16

BUILDING CUSTOMER RELATIONSHIPS

Defining customer value and satisfaction

- **Tracking customer satisfaction**
 - **Mystery shoppers**, are professionals -unknown, of course, to the people being evaluated- who pose as customers and then report their findings regarding service. Mystery shopper programs may involve some problems, however:
 - higher costs than other ways of measurement;
 - mystery shoppers may be figured out;
 - mystery shoppers may be inconsistent or biased.

3R

17

BUILDING CUSTOMER RELATIONSHIPS

Delivering customer value and satisfaction

- **Michael Porter's value chain**
 - Creating and delivering superior value, involves 5 capabilities:
 - understanding** customer value
 - creating** customer value
 - delivering** customer value
 - capturing** customer value, and
 - sustaining** customer value.

To succeed, organizations use the concepts of a **value chain** and a **value-delivery system**.

3R

18

BUILDING CUSTOMER RELATIONSHIPS

Delivering customer value and satisfaction

- **Michael Porter's value chain**



3R

19

BUILDING CUSTOMER RELATIONSHIPS

Delivering customer value and satisfaction

- **Michael Porter's value chain**

- The **value chain** can be considered as a tool for identifying ways to create more customer value. The value chain identifies 9 value-creating activities, consisting of **5 primary activities** and **4 support activities**.
- **Primary activities** involve bringing materials into the business (**inbound logistics**), converting them into products (**operations**), shipping out final products (**outbound logistics**), marketing them (**market & sales**), and servicing them (**service**).

3R

20

BUILDING CUSTOMER RELATIONSHIPS

Delivering customer value and satisfaction

- **Michael Porter's value chain**

- **Support activities** involve procurement (such as purchasing materials, servicing, etc.), technology development, HRM, and firm infrastructure, which are all handled in certain specialized departments, **but not only there**. Other departments may do some procurement or hiring of people, as well.
- The **firm's task** is to examine its costs and performance to each value-creating activity and to look for ways to improve it. The firm should also estimate its competitor's costs and performance as benchmarks (reference point).

3R

21

BUILDING CUSTOMER RELATIONSHIPS

Delivering customer value and satisfaction

- **Michael Porter's value chain**
 - The **firm's success** depends not only on how well each department operates, but also on how well the activities of each department are coordinated.
Too often, individual departments are too concerned with their own interests rather than those of the whole company and the customer.
 - This **coordination problem** can be reduced by better management of the **core business processes**. >>

3R

22

BUILDING CUSTOMER RELATIONSHIPS

Delivering customer value and satisfaction

- **Value chain and core business processes**
 - **Product development process**: all the activities involved in identifying, researching, and developing new products with speed, high quality and reasonable cost.
 - **Inventory management process**: all the activities involved in developing and managing the right inventory levels of raw materials, components and finished goods, so that adequate supplies are available, while avoiding the costs of high overstocks. >>

3R

23

BUILDING CUSTOMER RELATIONSHIPS

Delivering customer value and satisfaction

- **Value chain and core business processes**
 - **Order-to-payment process**: all the activities involved in receiving orders, approving them, shipping the goods on time and collecting payments.
 - **Customer service process**: all the activities involved in making it easy for customers to reach the right persons or teams within the company to obtain service, answers and resolutions of problems.

3R

24

BUILDING CUSTOMER RELATIONSHIPS

Delivering customer value and satisfaction

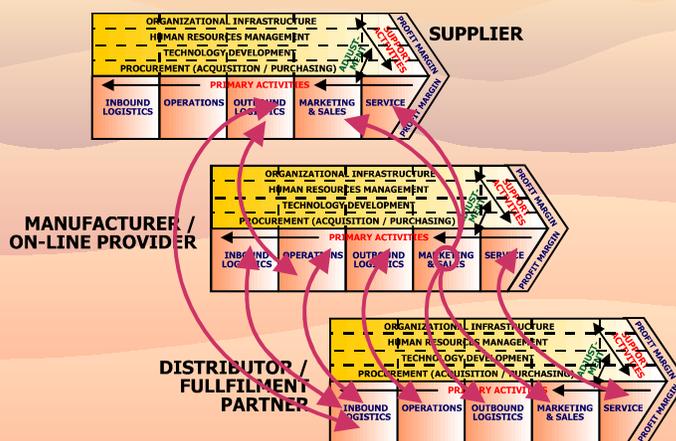
- **Value chain and core business processes**
 - In its search for **competitive advantage**, a firm needs to look beyond its own value chain, into the value chains of its suppliers, distributors and, eventually its customers. Today, more companies are teaming up with other members of the supply chain to improve the performance of the:
 - **customer value delivery system**: the system made up of the value chains of a company and its suppliers, distributors and ultimately its customers, all working together to deliver value to customers.

3R

25

BUILDING CUSTOMER RELATIONSHIPS

Delivering customer value and satisfaction



3R

26

BUILDING CUSTOMER RELATIONSHIPS

Delivering customer value and satisfaction

- **Total quality management**
 - Customer satisfaction and **company profitability** are closely linked to **product and service quality** delivered through the whole value chain.
 - As higher levels of quality result in greater customer satisfaction, **quality improvement programs** normally increase profitability.

3R

27

BUILDING CUSTOMER RELATIONSHIPS

Delivering customer value and satisfaction

- **Performance quality, conformance quality**
 - Quality can be defined in many ways, and there are many aspects involved in quality. 2 important issues are:
 - **Performance quality**: refers to the level at which a product performs its functions, such as comfort, durability, easy handling ability, reliability, etc. (Ex.: Rolex vs. Casio)
 - **Conformance quality**: refers to freedom from defects and the consistency with which a product delivers a certain level of performance: Rolex delivers what its market expects, so does Casio.

3R

28

BUILDING CUSTOMER RELATIONSHIPS

Delivering customer value and satisfaction

- **PIMS on quality management**
 - Between 1970 and 1983 the Strategic Planning Institute in Cambridge, Massachusetts, in cooperation with the Harvard Business School, analyzed 2600 SBU's in 200 firms, a study known as **PIMS: Profit Impact of Market Strategy**. The study still continues, now analyzing > 4000 SBU's.

The study supplies data such as environment, strategy, competition and internal data, which can be used for bench marking purposes. It is mainly used by large firms.

3R

29

BUILDING CUSTOMER RELATIONSHIPS

Delivering customer value and satisfaction

- **PIMS on quality management**
 - Initial **PIMS** findings pointed out that market share was the most important profitability driver. Compared to competitors, firms that create better returns on investment typically have higher market shares. Also, market leadership yields economies of scale that reduce operating costs. Market leadership also leads to loyal customers, allowing firms to charge higher prices, and to obtain higher profit margins. **PIMS** also found that product quality has a strong correlation with profitability.

3R

30

BUILDING CUSTOMER RELATIONSHIPS

Delivering customer value and satisfaction

- **Total quality management**
 - **Total quality management** consists of 5 basic components:
 - **intense focus on the customer**: not only external customers, but internal customers as well: those who interact and serve others in the organization;
 - **concern for continuous improvement**: the commitment to never being satisfied.
Quality can always be improved.

32

31

BUILDING CUSTOMER RELATIONSHIPS

Customer value

- **Profitable customer / customer lifetime value**
 - As there is no limit to how much a firm could spend to improve quality, or in other marketing efforts, to acquire and keep customers, the critical question arises:

"how much is a customer worth?"
 - In view of this question, two concepts should be considered: **profitable customer** and **customer lifetime value**.

32

32

BUILDING CUSTOMER RELATIONSHIPS

Customer value

- **Profitable customer / customer lifetime value**
 - **Profitable customer**: a person, household or company whose revenues over time (to the firm) exceed, by an acceptable amount, the firm's costs of attracting, selling and servicing that customer.
 - **Customer lifetime value**: the amount by which revenues from a certain customer over time, will exceed the firm's costs of attracting, selling and servicing that customer.

32

33

BUILDING CUSTOMER RELATIONSHIPS

Customer value

- **Profitable customer / customer lifetime value**
 - **Customer lifetime value**, as a formula:

$$LTV = \sum_{\rightarrow n} \frac{\text{Profit}_{\text{customer}}}{[1 + \%_{\text{inflation}}]^n}$$

- Determining the lifetime values may result in **shedding of less profitable customers** (such as certain banks have been doing). Although **financially defensible**, the logical conclusion of focusing on only profitable customers can be **socially unacceptable**.

3R

34

BUILDING CUSTOMER RELATIONSHIPS

Relationship marketing

- **Relationship marketing aspects**
 - **Relationship marketing**: the process of creating, maintaining and enhancing strong, value-filled relationships with customers and their stakeholders.
 - **5 different relationship-levels**:
 - 1/ **Basic**: sales have taken place but no follow up.
 - 2/ **Reactive**: sales have taken place, and the customer is encouraged to contact the firm whenever there may be a question or a problem.

3R

35

BUILDING CUSTOMER RELATIONSHIPS

Relationship marketing

- **Relationship marketing aspects**
 - **5 different relationship-levels**: (cont'd)
 - 3/ **Accountable**: shortly after the sales have taken place, the customer will be contacted to determine the customers satisfaction.
 - 4/ **Pro-active**: the customer will be contacted from time to time to be informed about new or improved products.
 - 5/ **Partnership**: the firm works continuously with its customers to discover ways to deliver better value.

3R

36

BUILDING CUSTOMER RELATIONSHIPS

Relationship marketing

- **Customer Relationship Management**
 - **Customer relationship management (CRM) systems**: IT-based applications that integrate a firm's information about customers with the knowledge of how to use that information.
 - **CRM systems**, are based on the basic marketing belief that an organization that knows its customers and how to treat them, has an advantage in the market. These systems are often **capital investments** that integrate strategy, marketing and IT.

32