

# 8

## QUALITY DYNAMICS AND MARKETING

### **8.1 INTRODUCTION**

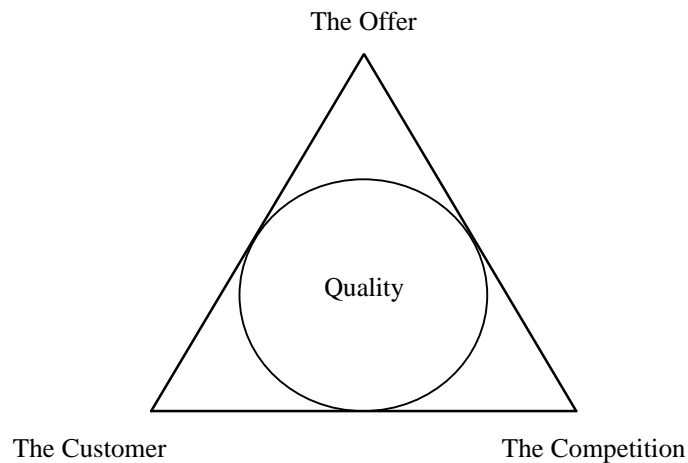
A firm can never improve product or service quality if it does not view quality as a "total approach".

Conformity to customer requirements and specifications, of course, is the basic requirement. From the marketing point of view, we have to consider quality in terms of three major elements: **the offer, the customer and the competition**, which are shown in (**Exhibit 8-1**):

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**Exhibit 8-1: Linkages between Quality, the Offer, the Customer and the Competition**

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**1. The Customer**

Increased public interest in product quality and safety began in the mid-1960s in the USA. In 1965, the American Law Institute issued its "Restatement of the Law of Torts," which defined strict liability, thus making manufacturers liable for product defects even without proof of negligence. In 1972, the US Congress passed the Consumer Product Safety Act, which aims at preventing hazardous or defective products from reaching the customer.

Customer demands and expectations for quality are never-ending. Insistence on better quality and adaptation to what is feasible can be expected to remain and enlarged indefinitely. Customers might even insist on producers "getting it right the first time" and "delivering Zero-defects products or services." Active customer demand for better quality induces producers to deliver higher quality products and services.

## 2. THE OFFER

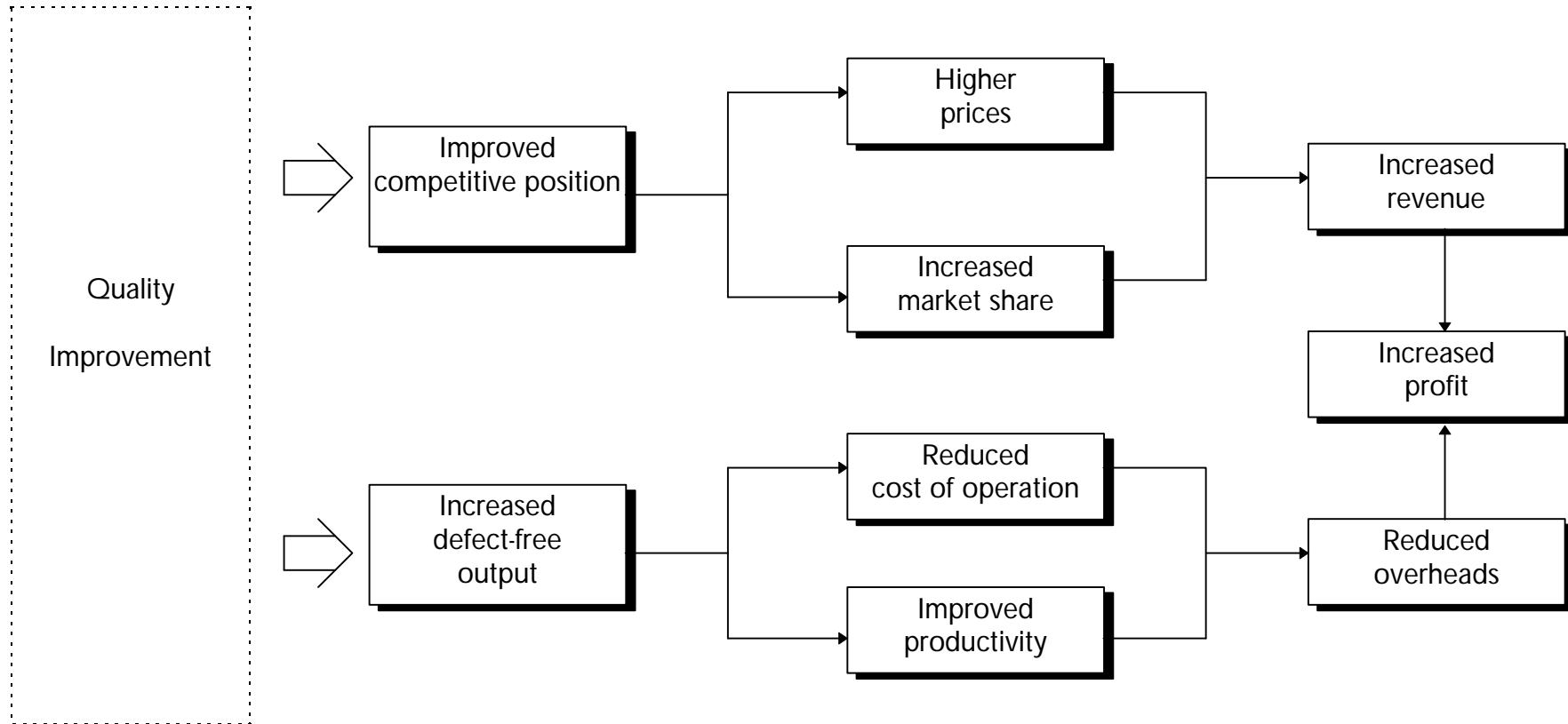
In its capacity to produce and supply quality products or services, the offer is restricted through available human, technological, and physical resources. But still, the potential for quality improvement and for meeting customer expectations is always larger than the actually exploited and utilized one. Firms are coming to expect that better quality will lower costs, while in some firms marketing continues to see improved quality as a cost-increasing but market-share-gaining entity.

Marketing has always lacked a linkage between customer wants and the offer of a firm. Quality is the missing link. Externally, better-quality products can charge more, with resulting higher profit margins. Internally, better-quality processes means less defects, and costs of operation can be reduced. (**Exhibit 8-2**) shows the benefits of quality improvements.

## 3. THE COMPETITION

"Quality competition" is probably the most fitting descriptive term for the new challenge. With higher demands for quality, many companies applied a defensive strategy. They tended to react to customer complaints and legal and regulatory challenges as they occurred. But in the 1980s, the quality emphasis shifted to an offensive strategy. The impetus was competition. Quality competition from Germany and Japan prompted many companies to meet all potential challenges. They must compete internally for reduction of wastes, and externally for customer satisfaction.

The challenges are enormous: conformance quality, on-time delivery performance, perceived quality, speed, product flexibility, after-sales service, price, broad (features), broad distribution, volume flexibility etc. The quality dimension has become a major strategic factor of business and marketing

**Exhibit 8-2: Benefits of Quality Improvement**

strategy. In traditional marketing management the question is: Given the array of environmental forces affecting my business, the past and the projected performance of the industry or market, and my current position in it, which kind of investments am I justified in making in this business? Under such a concept, market segments are defined by grouping customers according to marketing mix variables. Besides, corporate culture emphasizes short-term orientation, which by implication stresses a winning marketing mix rather than an accurate definition of the market.

In total quality marketing, on the other hand, the question is rather: Given the array of environmental forces affecting my business, what are the key constituents as an endeavor by a corporation to differentiate itself from its competitors, using its relative corporate strengths to better satisfy customer needs?

Total quality marketing focuses on ways in which the company can differentiate itself effectively from its competitors, capitalizing on its distinctive quality performance to deliver better value to its customers. A good quality-based marketing strategy should be characterized by:

- A. A clear definition of quality dimensions from the customer's point of view
- B. A good match between quality improvements and the needs of the customer
- C. Superior quality performance, relative to the competition
- D. A clear understanding of the critical factors to success

Essentially, within a given environment, quality-based marketing strategy deals with the interplay of three forces: the customer, the offer and the competition. All three are dynamic, living creatures with their own quality objectives to pursue.

If what the customer wants does not match the process capability of the company, the latter's long-term viability may be at stake. Positive matching of the needs and objectives of the two parties involved is required for a lasting good relationship. But such matching is relative, and if the competitor is able to offer a better fit, the company will be at a disadvantage over time. In other words, the matching of needs between the customer and the offer must not only be positive, but also better or stronger than that between the customer and the competitors. When the company's offer to the customer is identical to that of the competitors, the customer cannot differentiate between them and the result could be a price war.

A crucial part of every business plan is the marketing plan. There are two levels of marketing plan:

1. Strategic Marketing Plan: The broad marketing objectives and strategy based on an analysis of the current customers. Competitive situation and opportunities.
2. Tactical marketing Plan: The specific marketing tactics for the period, including pricing, product, distribution, promotion, service, and so on.

Based on the marketing plan, companies will start the marketing process to improve their marketing effectiveness and efficiency so as to implement a sound marketing plan.

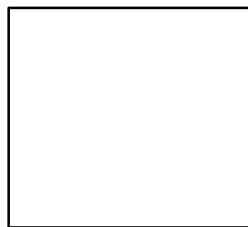
## **8.2 QUALITY AND MARKET POSITIONING**

Quality strategy is to search the business strategy and functional strategies (marketing and operation strategies) related to total quality; to provide the theoretical guideline for the strategic decision of the firm. Quality is now the core strategy of business strategies for many world-class organizations. It links the internal quality activities with the external environment of competition, through better meeting the market demands.

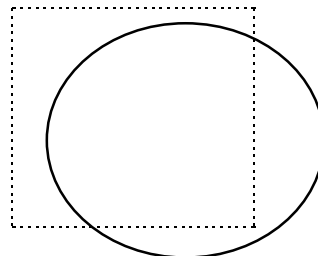
In order to identify the target market, we must examine the following questions:

1. What demand of customers and markets must be met (choosing of market segment)?
2. What are the quality gaps (the offer and customer expectation)?
3. What are the quality dimensions to emphasize to be targeted?
4. What is the relative perceived price?
5. What are the cost structure and the quality costs?

Let's begin with a selected segment or target market by a circle and the offer by a square. The challenge of the firm is to cover expected performance levels better than the competition. By doing so, the task of marketing and design team is to position the square on the circle so as to cover it fully as possible. This match is represented by the following diagram :



Offer to be designed



Needs for the target segment

The effect of quality on target market is likely to depend on the "dimensions of quality" or "quality characteristics". To attain a sustainable competitive advantage in the offer, a firm must understand what "dimension of quality" customers perceive to underlie differences across products. The quality dimensions listed in the **(Exhibit 8-3)** apply to manufacturers.

These quality dimensions are achieved by reinforcing the design department, carefully selecting materials and components, producing conformance

products, while maintaining a high level of service. If quality is defined as reliability, esthetics (how a product looks and feels), or conformance (degree to which the product meet prescribed standards), then the relationship to target market is apt to be positive.

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### **Exhibit 8-3 : Dimensions of Product Quality**

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|                                   |  |
|-----------------------------------|--|
| • Performance                     | How well does the washing machine wash clothes?  |
| • Durability                      | How long will the lawn mower last?   |
| • Conformance with specifications | What is the incidence of product defects?  |
| • Features                        | Does an airline flight offer a movie and dinner?   |
| • Reliability                     | Will each visit to a restaurant result in consistent quality?                                  |
| • Serviceability                  | Is the product easy to service?<br>Is the service system efficient, competent, and convenient? |
| • Fit and finish                  | Does the product look and feel like a quality product?   |
| • Brand name                      | Is this a name that customers associate with quality?<br>What is the brand's image?            |

Source : Adapted from "What Does Product Quality Really Mean?" by David A. Garvin, *Solan Management Review*, Fall 1984, pp. 95-143.

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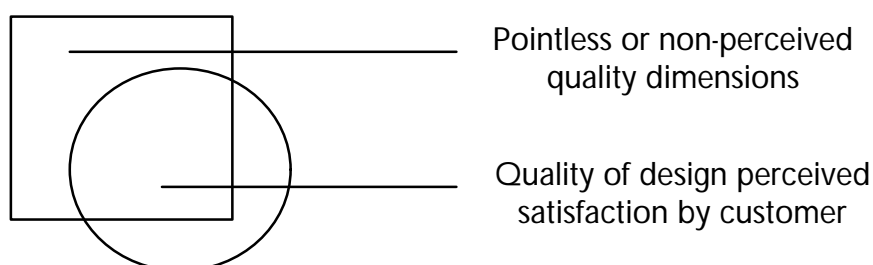
But quality is multi-dimensional, products can be differentiated in many ways. Customers choice criteria are typically limited to fewer than eight dimensions of quality. This implies that many companies will do better to

focus on a limited number of quality dimensions rather than to seek high performance on most or all dimensions. This assumes, however, that the dimensions selected are compatible with the choice criteria of the target segment or segments.

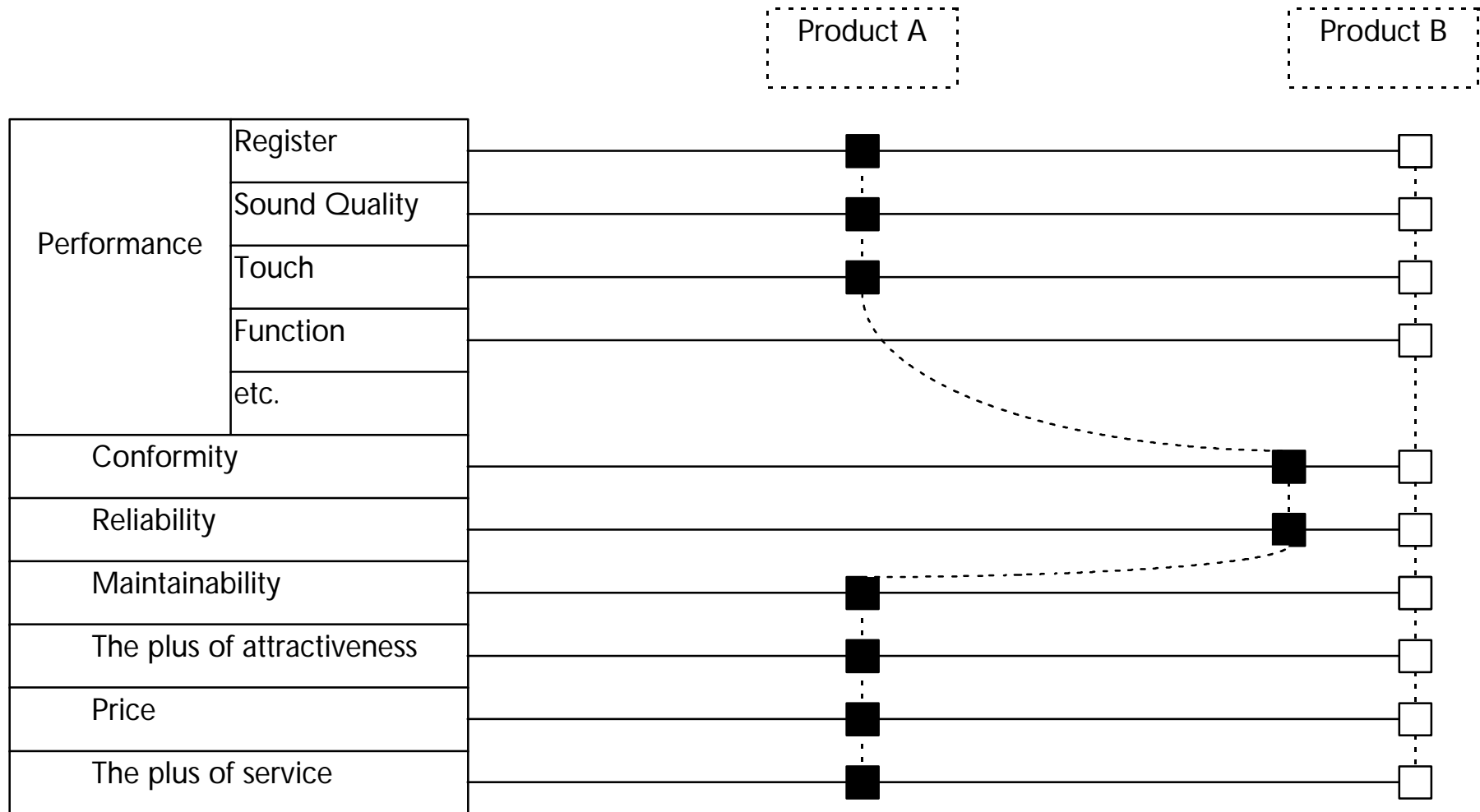
A business's marketing positioning is influenced by its decisions concerning what quality dimensions to emphasize on a given product. This determination derives largely from the targeting and positioning steps. European manufacturers of prestige automobiles, such as Mercedes-Benz and Porsche, have emphasized the first dimension of quality – functional performance. These auto makers have designed cars that provide excellent performance on such attributes as handling, acceleration, and comfort. Volvo, on the other hand, has emphasized on durability. The Japanese cars have emphasized on conformance.

**(Exhibit 8-4)** shows the two different profiles for two segments of the market. In both cases, the market positioning is clear and fits the needs of their chosen customers. Product A chooses a different positioning from Product B. The performance level of Product A is less high, but is in conformity with specifications where there are no defects, but good reliability. The price is attractive.

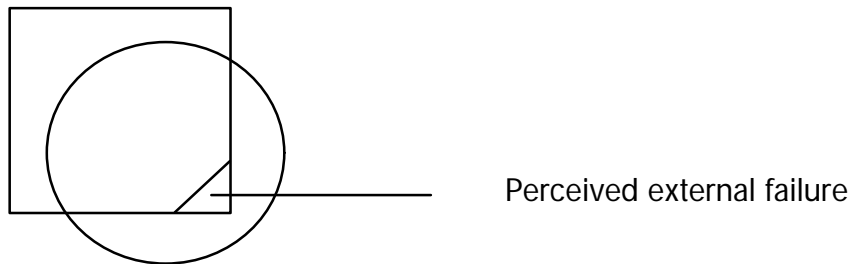
Unperceived quality dimensions are not part of customer satisfaction. If certain quality dimensions are in fact pointless, it will be "over-quality."



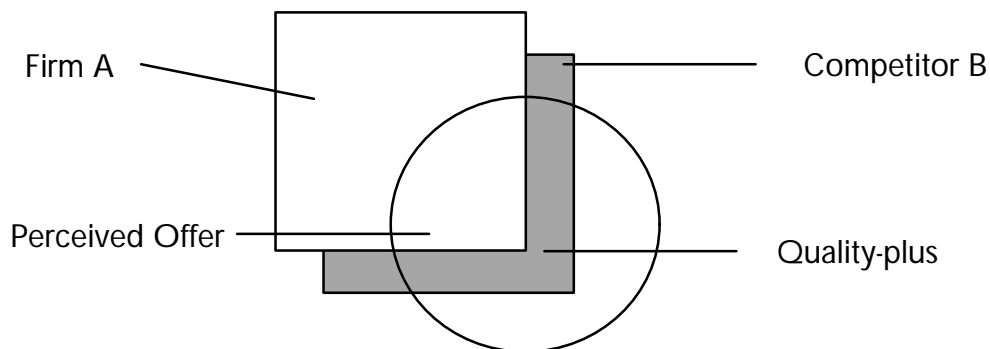
**Exhibit 8-4: Dimensions of Quality and Market Segmentation**



If an error, a mistake or a failure occurs, it means non-conformity. Non-conformity measures the "quality gap" between the initial design or promise and the product or service actually delivered; which can be a "negative" or a "minus" to quality.



If every producer conforms to customer's requirements, how can customers choose one product over another? It should be the "quality-plus" (critical quality dimensions) which wins the market. This quality-plus will position the product or service to the company's advantage, which is a differential wedge or a competitive edge.



In the markets where technical features or up-to-the minute styling are key attributes to the customers, functional performance may play a positive role in determining the success of a prospector strategy. On the other hand, in markets where the critical quality dimensions are reliability or brand familiarity, the firm has to offer more or "better" choices (quality-plus) to customers than its competitors.

The quality-plus can be in the form of the quality of service a firm is offering. Such quality of service (e.g. customer care service) might take many forms, including engineering and design services, alternations, installation, training of customer personnel, or customer relationship programs. Quality of service is particularly appropriate in well-established markets for differentiated defenders.

The key to a differentiation strategy based on providing quality of service to meet or exceed target customers' expectations is the major issue in quality strategy. The first step in understanding the quality dimensions of service should be connected with the operational definitions of quality. One series of studies of customer perceptions of service quality in industries, such as retail banking, appliances repair, and securities brokerage, identifies a number of quality dimensions, eight of which are summarized in (**Exhibit 3-5**).

From the marketing strategy's view point of view, the quality of service is to bring perceived performance and customer expectations into line. Complaint analysis is a very useful measuring device for service quality. Successful companies track complaints by type (employee attitude, quality of product, speed of delivery etc.), by frequency, and by department.

**Service recovery** should be an integral part of quality management. Unless good recovery processes exist, customers will rightly assume that the company does not care about them, and they will slowly defect to the competition. Service recovery requires an organizational environment within employees understand the value of retaining customers for a lifetime.

Companies that make great service recoveries tend to be those with service guarantees. Guarantees make service recoveries possible. Service guarantees together with service recoveries encourage customer loyalty. Service guarantee is unconditional, whether the customer is satisfied or not.

A company's marketing efforts will not be effective if it continuously delivers non-conforming products or services to the customer. For a competitive

position to be sustainable in the long run, a company should try to deliver superior quality of products and services to the customers at lower prices.

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### **Exhibit 8-5 : Dimensions of Service Quality**

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|                                 |  |
|---------------------------------|--|
| • Tangibles                     | Physical facilities, equipment, and the appearance of personnel.   |
| • Reliability                   | Ability to perform the promised service properly the first time.<br>Consistency of service from purchase to purchase                       |
| • Responsiveness                | Willingness to help customers and provide prompt service.  |
| • Competence                    | Knowledge and skill of employees and their ability to convey trust and confidence  |
| • Credibility/trustworthiness   | The believability and honesty of employees.  |
| • Empathy<br>attention the firm | The amount of caring, individualized provides its customers.   |
| • Courtesy                      | The friendliness of customer contact.  |
| • Communication                 | Personnel listen to customers and attempt to understand their needs.<br>The firm keeps customers informed in language they can understand. |

Source : Based on A. Parasuraman, Valarie A. Zeithaml, and Leonard L. Berry, "A Conceptual Model of Service Quality and Its Implications for Future Research", Report 84-106 (Cambridge, Mass : Marketing Science Institute, 1984); and A. Parasuraman, Valarie A. Zeithaml, and Leonard L. Berry, "SERQUAL : A Multi-Item Scale for Measuring Customer Perceptions of Service Quality", Report 86-108 (Cambridge, Mass : Marketing Science Institute, 1986).

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Today many companies view the task of improving product and service quality to be their top priority. World-class organizations are striving for market leadership based on the principles of Total Quality Management (TQM). The TQM concept is much wider than product quality. Its approach towards quality is in all its forms, in people and process, in products and costs, in planning and management, and all the operations of a company, in market research, in needs of the customer, in optional use of raw materials and other inputs, in products design, in manufacturing, in sales and after sales service.

Today's companies are struck by the fact that the cost attracting a new customer may be five times the cost of keeping a current satisfied customer. In order to retain their customers, the companies must be able to deliver better quality products, better quality service and lower price than their competitors, in order to achieve total customer satisfaction. Unfortunately, traditional marketing theory and practice center on the art of attracting new customers rather than retaining existing ones.

Quality is judged by the customers. All product and service attributes that contribute to value to the customers lead to customer satisfaction and affect customer purchase preferences. Value, satisfaction, and preference may be influenced by many factors throughout the overall purchase, ownership, and service experiences of customers. This includes the relationship between the company and the customers.

The concept of quality includes not only the product and service attributes that meet basic requirements, it also includes those that enhance them and differentiate them from competing offerings. Such enhancement and differentiation may include unique product-product, service-service, or product-service combinations.

Customer-driven quality is a strategic concept. In order to meet customer requirements and expectations continually in competitive markets, companies need to respond more rapidly to customers by ever shorter product and service introduction cycles, and shorter lead times. Reduction in lead times and cycle

times and repaid response to customers can occur only when quality systems and processes are designed to meet both quality and response goals. This requires that everybody, every activity and every function to seek opportunities for improvement in quality.

In the total quality revolution, marketing is not a separate function and marketing people are no longer specialists in an isolated field. Marketing people must play several major roles in helping their company define and deliver high quality goods and services to target customers.

1. They bear the major responsibility of identifying the customer's needs, requirements and expectations.
2. They must communicate customer requirements and expectations correctly to product designers.
3. They must communicate customer requirements and expectations to other operational staff.
4. They must be part of the quality improvement teams.
5. They must take on new, wider responsibilities, for which they need new skills.
6. They need to involve themselves in the building and maintenance of external and internal customer (employees) relationships.
7. They need to consider fragments of fragments, micro-marketing for micro-markets, so as to satisfy the needs of even an individual customer.
8. They must perceive quality first, not quantity or sales first.

Total quality is everybody's business, just as marketing is everybody's job. Marketing people must get involved in the total quality process. This was expressed well by Daniel Beckham<sup>7</sup>:

"Marketers who don't learn the language of quality improvement, manufacturing, and operations will become as obsolete as buggy whips. The days of functional marketing are gone. We can no longer afford to think of ourselves as market researchers, advertising people, direct marketers, strategists – we have to think of ourselves as customer satisfiers – customer advocates focus on whole processes."

Total quality marketing is a new concept, approach and methodology to replace the traditional functional marketing. Total quality marketing will flourish, with the quality focus and responsibility to those who work through TQM organizations. De-massifying the company's infrastructure, and leaving the marketing function as a central resource, apart from distancing sales and marketing, is not the best solution for a customer-driven company. Total quality marketing, based on the principles of total customer satisfaction and total quality management, provides strategic quality programs to help the company win through total quality excellence.

Total quality management is a total approach to marketing quality. Each marketing activity – marketing research, sales training, advertising, customer service and customer care – must be performed to high quality standards. This involves total management and employee commitment.

Total quality marketing, based on the principles of total quality management, provides strategic marketing programs to help the organization achieve total customer satisfaction. It works horizontally across functions and departments, involving employees, top to bottom, and extends backwards and forwards to include the supply chain and the customer chain.

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<sup>7</sup> J. Daniel Beckham, "Expect the Unexpected in Health Care Marketing Future", The Academy Bulletin, July 1992, p.3.

Companies that have successfully implemented total quality marketing share a number of common characteristics:

1. **Customer-driven quality:** A company with customer-driven quality will have a common vision committed to customer satisfaction, and that customer needs take precedence over internal needs.
2. **Alignment with customers:** Customers' requirements are deployed into every process within the organization. Employees understand what product attributes the customers value most, and customer feedback and input are incorporated into the product development process.
3. **Use of customer information:** All employees know how the customer defines quality, employees at different levels are given opportunities to meet customer requirements. They use customer requirements and feedback to communicate in order to make improvement.
4. **A value creation approach:** Internal processes, procedures, and systems that create no value for customers are identified and eliminated.
5. **Reaching out to customers:** Reaching out to customers means that:  
(a) making it easy for customers to do business, (b) encouraging employees to go beyond the normal call of duty to please customers, (c) attempting to resolve all customer complaints, and (d) making it convenient and easy for customers to make their complaints known.
6. **Competence, capability and empowerment of people:** Employees are treated as competent, capable professionals and are empowered to use their skills in doing what is necessary to satisfy customer needs.

7. Continuous improvement of products and processes: Internal functional groups cooperate to reach shared goals, best practices are studied, R&D cycle times are continually reduced, problems are solved immediately and investments are made in the development of innovative ideas.

Nowadays, more and more companies have moved from traditional marketing approach to total quality marketing approach.

"At IBM, we have evolved a Total Quality Management (TQM) approach to meet those challenges that we are convinced will ensure a transformation of the company, linking to positive business results. We call our quality approach Market-Driven Quality or MDQ," said Stephen B. Schwartz, IBM Senior Vice President.

The Market-Driven Quality of IBM aimed at encompassing every aspect of customer satisfaction improvement, including the continuous improvement of all business processes, the elimination of defects, the speed of delivering and implementing a solution, its usability, the availability of support, the efficiency of service, and even the simplicity of calls and prompt, and courteous telephone service.

In 1984, Xerox launched an ambitious quality improvement program to stop its decline in the business products and systems. The Xerox total quality initiative was called Leadership Through Quality. Key initiatives of Xerox's total quality marketing are the benchmarking of its performance against its competitors and industry leaders; employee involvement to fully realize all of their people's talents and capabilities to satisfy customers, and the use of quality tools and processes to achieve continuous quality improvement. Xerox suppliers are made full partners with Xerox through continuous supplier involvement. 55,000 customers are surveyed monthly about performance in equipment, sales, service and administrative support.

In the early 1980s, dramatic changes in the global marketplace caused Westinghouse Electric Corporation to adapt the total quality marketing

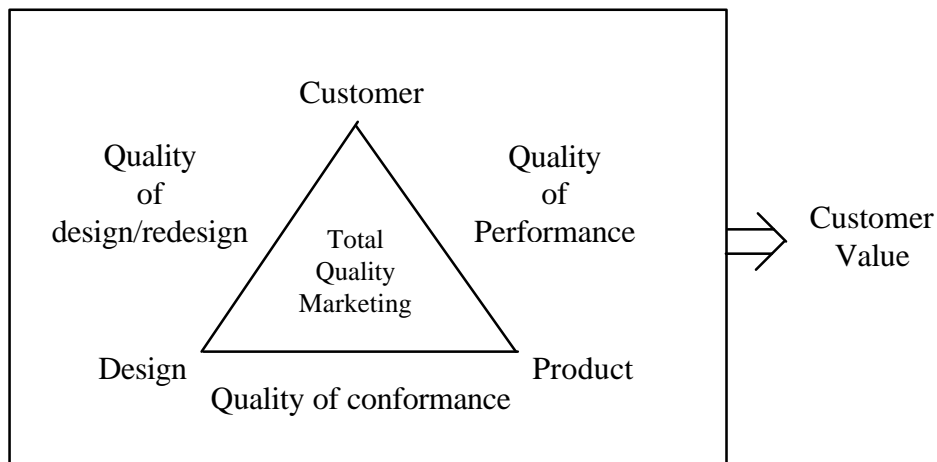
approach. The new vision of Westinghouse was based on a marketing strategy independent of changes in technology or market conditions. It was based on the principle of "value creation" – create value for the people who have a stake in the corporation, primarily its customers, stockholders, employees, and the community. "Quality First" is the fundamental strategy for value creation. It concentrates on quality performance in every facet of a business as the primary strategy to achieve and maintain competitive advantage.

In order to maximize customer value, total quality marketing looks for the continuous improvement in quality of design, quality of conformance and quality of performance. (**Exhibit 8-6**) shows the life-cycle approach to customer value.

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### **Exhibit 8-6: Quality Improvement for Customer Value**

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**Apply quality improvement process throughout**

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Quality of design is a measure of product effectiveness perceived by the customer. By selecting specific dimensions of quality, a product manager can try to position the offer to achieve the greatest possible competitive edge over the competition.

Quality of conformance means meeting all specifications at the design stage during the production and operation, with minimum defects or errors.

Quality of performance is determined by the actual use, application, and consumption of an offer by the customer, and the perception of satisfaction or dissatisfaction with the product supplied or service rendered.

Customers can be internal as well as external to the organizational system (e.g. products or services may flow to the person at the next desk or work area rather than to people outside of the immediate organization). Process improvement must be guided by a clear understanding of both external and internal customer needs and expectations. TQM can influence both the process elements (e.g. designing out failure points) and people elements (e.g. managing "moments of truth" in the customer encounter). It is this notion of total quality, in the sense of providing customer perceived value, that creates an opportunity to turn "transaction based" marketing into "relationship-based" marketing. The term "internal marketing" is often used to recognize that everybody working within an organization has both a supplier and a customer. All staff work together in a manner to improve levels of customer service and quality levels within the organization.