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EXTERNAL FORWARD MARKETING

15.1 INTRODUCTION

In a **total quality setting**, **External Forward Marketing** is the same as the **traditional marketing** concept which stretches the marketing effort towards the external customers and prospects, i.e. the marketplace. However, due to the changes in the business environment, we need to develop a new marketing approach to meet the customer needs. The new challenges facing a marketer are as follows :

1. **CUSTOMER DECISION - MAKING**

Due to more advanced information technology, customers have **access to more information** and can be more selective in their decisions to choose an increasing variety of products and services. The advent of electronic purchasing is now popular with the rapid development in telecommunication, database technology and specialized systems.

2. **QUALITY COMPETITION**

In an increasingly **open and competitive market**, consumers' demand for quality will be higher. Those marketing practices and product quality, which are considered acceptable today, will gradually come to be viewed as unsatisfactory. In order to attain long-term success, many business firms have put **quality** as the **number one business strategy**, a priority given to the consumers who are expecting high quality goods and services, reliable and defect-free products, product safety, fair prices, and fast delivery.

3. **PRODUCT LIFE-CYCLE**

Product life-cycle will become **shorter** as technological changes accelerate. Competitors will imitate **successful innovations** more rapidly, and consumer tastes will grow more fickle. As attention to the customer grows, there will be more and more diversity among market segments. Economies of scale will disappear as there will be more variety of products—customization will occur with each sale. Processes suitable to products in one stage of the life-cycle **will not apply** to products in another stage.

4. **MARKET SEGMENTATION**

Micro-segmentation has become increasingly common due to the high product differentiation and shorter product life-cycle. Firms have to target smaller niches that have not yet been saturated by

competitive attractiveness. The **mass markets** are dissolving into hundreds of micro-markets characterized by diversified buyers pursuing varieties of products directed to different distribution channels. They are employing different communication channels.

5. **MARKET POSITIONING**

Not only are there now more segments to deal with, but the task of **positioning** within **segments** will become more complex. Multiple markets will show an extended proliferation in the product map. Pursuing customer demands for basic quality preferences, competition will focus on an increasingly subtle quality criteria, which grow in importance and the subsequent benefits are given to segmentation. This influences many companies to elaborate positioning variations within segments.

6. **MARKETING MIX**

As companies are **competing for quality**, time, cost efficiency and flexibility, the traditional marketing **product-mix**, price, promotion and territory, will be interactively linked with these competitive factors to deliver customer value. The traditional marketing mix represents a seller's point of view for influencing customers. However, under the new paradigm, each marketing mix is designed to deliver customer value. **World class companies** will be those who can meet customers' needs economically and conveniently and with effective communication.

7. **MARKETING STRATEGY**

Effective marketing **organizations** have identified multiple ways of linking with customers as partners rather than just procurers of goods and services. **Partnership with customers**, employees and suppliers will be pursued - an important strategic goal in the

marketing planning and **visioning** process. **Customer value** becomes the key **marketing strategy** in segmentation, targeting and positioning.

8. TOTAL ORGANIZATIONAL PERFORMANCE

Customer-driven organizations will dominate. They will pursue quality for customers through a coordinated total commitment to produce, sell, distribute, and service their products so that they can fully deliver their promised value to customers in the target market segments. Total customer satisfaction requires not only top support from top management, but also the cooperation (shared value) of all employees. They will be made to understand that success will come only if they satisfy their customers' needs better than what the competitors are doing.

15.2 CUSTOMER VALUE CREATION AND DELIVERY SYSTEM

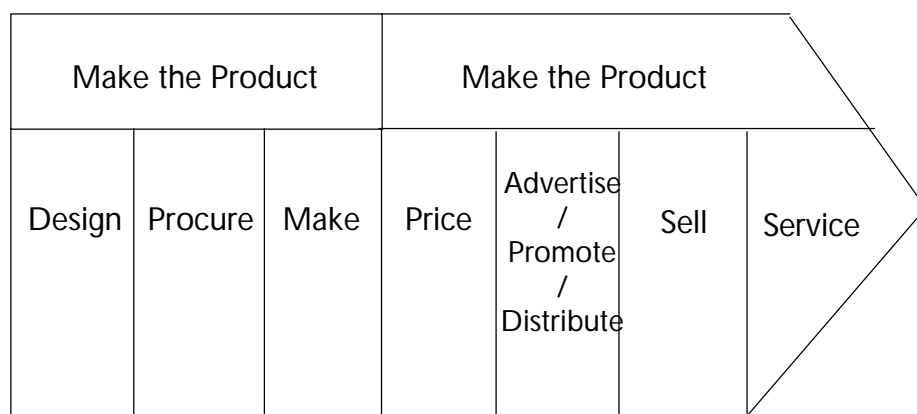
An organization can be viewed as a **system** of interrelated, **interdependent processes**, each of which contributes to the total functioning of the organization and to the achievement of its goals - **quality delivery products** and **services** to satisfy the customers' needs.

Michael Porter of Harvard proposed the **value chain** as a company tool for identifying ways to **create** more **customer value**. Products and services reach end-users through complex routes and relationships. The intermediate customers that make up the industrial chain are business organizations; some are producers and others are their channels to reach end-customers. These include distributors, transporters, re-marketers, wholesalers, or retailers. Although they are often remote, end-users are indirectly responsible for identifying demands, via supplier / customer linkages in the chain. Customers make decisions to buy products or services based on the delivery of superior value in terms of an acceptable balance between cost, value, and

quality. The **value chain** represents a means of identifying ways to the desired realization creation. To gain advantage over its rivals, a firm must work hard in a unique way that will deliver value to its customers.

Traditionally, **marketing process** is viewed as the process of **exchanging** or transferring **ownership** of products or services. It means the function of marketing is to perform business services that direct the flow of goods and services from producer to end-customers. For a long time, these activities were carried out in different company departments. There was an advertising department, a sales department, a marketing research department, and so on. Management proceeded to **assign** and held **marketing** responsible for bringing in sufficient **sales** to keep production going, see (**Exhibit 15-1**).

Exhibit 15-1 : Marketing Process: Traditional View

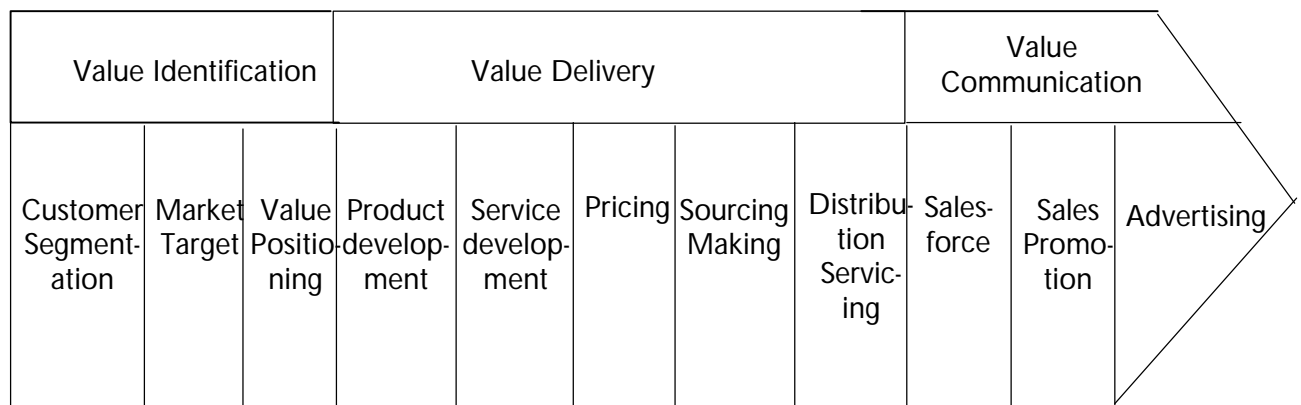


Instead of a **make / sell and looking around**, the new paradigm requires a marketer to view the business process as a system to deliver customer value: choose the **value**, provide the value and communicate the value. The concept of customer value requires a firm to identify customer needs, select the target market, and develop the seller's value of positioning. The formula - segmentation, targeting, and positioning, is the essence of **strategic marketing**.

Once a firm has chosen the value to deliver to the targeted market, it is ready to deliver to the chosen market, well-prepared to transfer the value to the customer. It requires a total commitment of everybody to produce, sell, distribute and service its products so that it can fully deliver the promised value to its targeted customer segment. This is the **essence** of tactical marketing.

Finally, further **tactical marketing** occurs in utilizing the sales-force, sales promotion, advertising, and promotional information about the offer geared towards its market. It requires the communication of customer needs for the entire **value chain**; which means, the process should start with the definition of customer requirements, and move from there passing through collection, storage, distribution, receipt, and use of the customer **voice**. (see **Exhibit 15-2**).

Exhibit 15-2 : Marketing Process: Emerging View



Once a firm has **chosen** the value to deliver to the target market, a **target price** together with other **marketing mix** (place, product, promotion, people and so on) will be established. The value-creation and value-delivery processes should be accomplished by the following **quality management concepts** :

1. **Zero defects**: The product should be defect-free after purchase

and during usage.

2. **Zero customer complaints:** Customer feedback should be continuously collected after purchase to know how to improve the product and its marketing.
3. **Zero delay:** The product should be delivered right away at the time the customer has placed the order.
4. **Zero product-improvement time:** The firm should evaluate all the customers' improvement idea as well as employees' ideas, and introduce the most valuable and feasible improvements as soon as possible aiming at zero improvement time.

Marketing processes, that involve direct contact with customers, have been taken over by the functions of marketing, sales and service. Today, these processes cut across many functional areas.

In the new paradigm, external forward marketing should develop a total communication system that provides an effective method of organization and control of all communications with the customers (internal and external) - exerting maximum efforts to build, maintain, and to ensure growth of broad-based, successful customer relationships. Some of the tools and enablers are as follows:

- Customer relationship database.
- Frequent buyer programs.
- Point-of-sale systems tied to individual customer purchases.
- Expert systems for data and trend analysis.
- Statistical modeling of dynamic market environments.
- Close linkages to external marketing firms.

A **customer-driven** organization **should redesign** its marketing process to identify its market segments and capture more information about their customers. Besides, it should also develop the following **marketing programs**:

1. Developing marketing **plans** based on quality, cost, delivery and flexibility.
2. Identifying **opportunities** for improvement in the quality of design, quality of conformance and quality of performance.
3. Making customer **loyalty** a priority.
4. Adopting **relationship** marketing.
5. Providing **total** business **solutions**.
6. Maximizing **marketing mix** through quality, time and flexibility.
7. Enhancing **customer service** with quality.
8. Developing a planned **customer care** program.

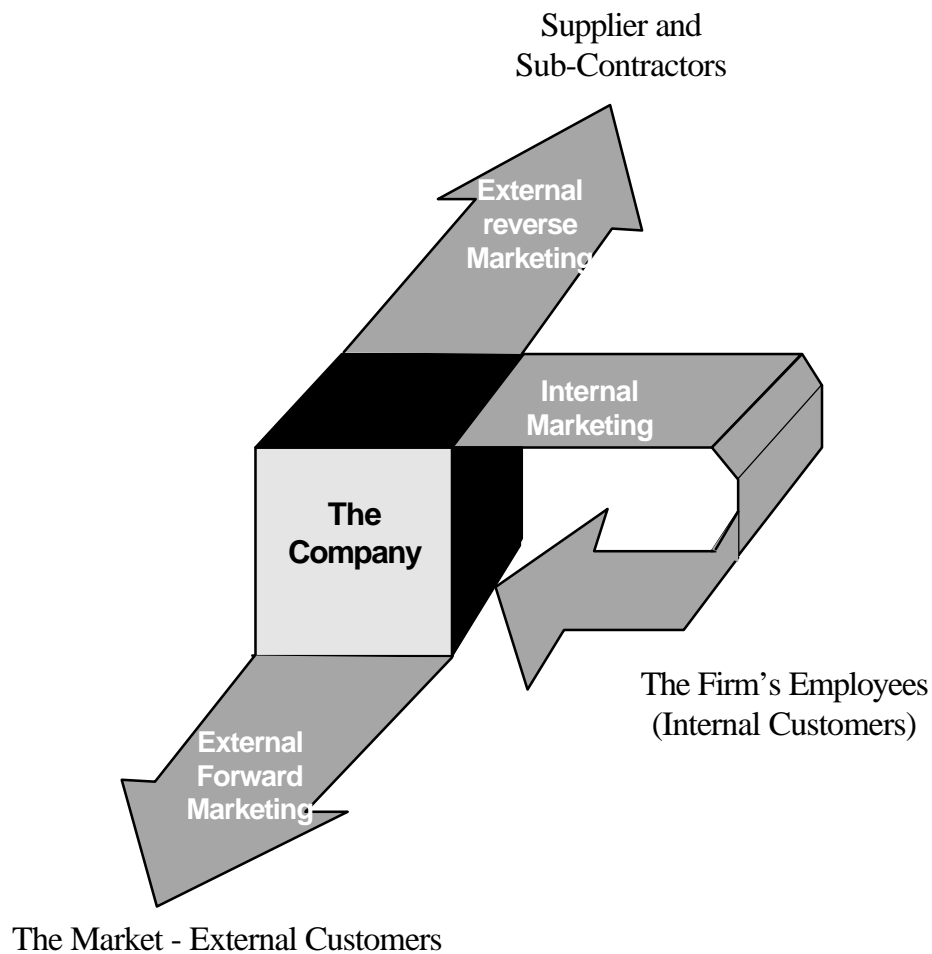
15.3 CUSTOMER RELATIONSHIP MARKET

Relationship Marketing is concerned with **attracting, developing, and retaining** customer relationships with the central tenet to create "**true**" or **loyal customers**. "True" customers perceive to have received value and feel valued; they are glad to have selected the product or service; they spend more money and buy additional goods and services; they are unlikely to defect to the competition; they spread favorable word-of-mouth publicity; and they are willing to pay a premium price.

In order to achieve its aim to create loyal customers, **relationship marketing** not only has to concentrate on marketing to a firm's external customers, but also to its internal customers - its employees - and to the firm's suppliers and

sub-contractors, called Reverse Marketing, as illustrated in the **Three-Way Marketing Model** in (Exhibit 15-3).

Exhibit 15-3 : Three-Way Marketing Model



External customer relationships belong to the **External Forward Marketing**, which is concerned with developing **long-term relationship** with customers by customer partnership, **total quality** and **customer care** programs. Good relationships with customers will safeguard a firm's competitive strategy or advantage for a company to win the market in the 1990's. The main objectives of **customer relationship marketing** are as follows:

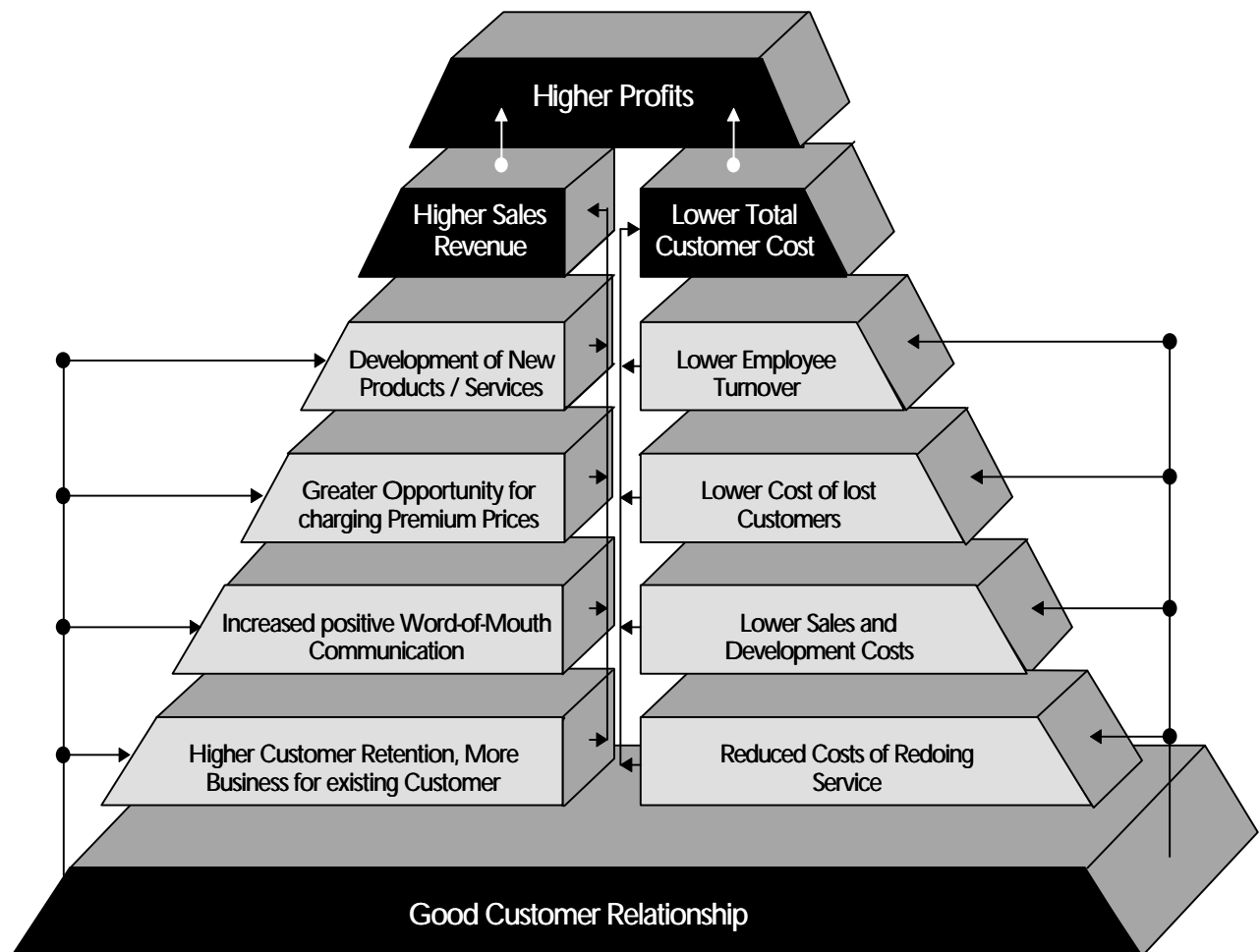
1. To improve **long-term** business **performance**.

2. To increase customer **retention**.
3. To ensure **repeat purchase**.
4. To build customer **loyalty**.
5. To **shorten** customer's **purchase cycles**.
6. To improve **product development**.
7. To **satisfy** the customer throughout the period of ownership.
8. To identify **opportunities** for additional **sales**.
9. To minimize the total customer **cost** (full burden cost to customers).
10. To reduce levels of competition.

15.3.1 To Improve Long-term Business Performance

A firm can **gain** comparative **advantage** as long as it can meet the customers' **needs** more efficiently and cost-effectively than its competitors. This competitive advantage stems from gaining **high quality** products and services, reducing total customer cost, and providing the best **customer value**. It is this dependence on long-term performance that drives companies to set strategic targets that are customer-focused. **Quality** is **defined** by the **customer**, the customer wants products and services that, throughout their life-time, will meet his or her needs and expectations at a cost which commensurate with the value. The key phrase is **throughput their life-time** because **retaining customers for life** is the key to long-term profitability. It provides a firm with the basis for planning, developing new products/markets, and investing in the business. (**Exhibit 15-4**) shows the potential benefits of customer relationship.

Exhibit 15-4: Benefits of Good Customer Relationships



15.3.2 To Increase Customer Retention

A **customer-focused** organization will **develop long-term relationships** with customers by means of customer partnerships, customer care and total quality service programs to retain its customers. Traditional marketing theory and practice are centered on **creating transactions** rather than **relationships**. Transaction-oriented marketing is to attract new customers rather than **retaining** existing ones, which has focused on **presale** activity and sale activity rather than on **post-sale** activity. However, the cost of attracting a new customer may be five times the cost of keeping an existing customer,

because it requires much effort and cost to induce satisfied customers to switch away from their current suppliers.

This means that a company needs to **protect** its **regular customers** to ensure long-term stability. The findings that 80 percent of a company's business comes from 20 percent of its customers demonstrates the power of **repeat** business and customer loyalty.

15.3.3 To Ensure Repeat Business

Satisfied customers generate word-of-mouth **referrals**. The objective of relationship marketing is to enhance customers' satisfaction who then will **recommend** the company to friends, relatives, and acquaintances. By their comments, they can assist in developing and augmenting a company's positive reputation in the marketplace.

Relationship marketing not only creates and maintains customer loyalty, but also restores loyalty; it can win brand loyalty, confidence, and repurchase intention of customers who may have experienced before some problems. Repeat business is the life-blood of any company. The cost of winning new customers can be high, but repeat business can often pay-off when customers feel being cared for by the company or given importance through consultation, dialogue and feedback.

15.3.4 To Build Customer Loyalty

Customer retention is closely linked to **repeat purchase**, but it may be built around **product** or **price consideration** rather than customers. For example, marketers may offer cash rebates, extra coupons or special discount to retain customers. However, price is the most easily imitated and frequently used element of the marketing mix and does not offer a sustainable competitive advantage. It will not be so, in the long run.

Customer loyalty programs, on the other hand, focus on the real and **changing needs** of customers so that the organization is driven by **customer**

concern and **not** by **products**. Processes like consultation, customer feedback, customer care and customer partnership are all employable powerful tools to ensure that customer relationship can be built.

Customer relationship programs give the company the opportunity to contact their customers at regular intervals to maintain the right level of **customer satisfaction**, to stay close with the customers, and to be aware of any competitive emergence with the changing needs of the customers.

15.3.5 To Shorten Customer's Purchase Cycles

The term **purchase cycles** is used to describe the intervals between purchases. The **gaps** between purchases are **dangerous periods** when customers can forget about a company and competitors can make inroads on your business. Customer relationship programs increase the level of customer contact and can reduce the risk of losing customers. Some of the customer relationship programs are as follows:

- Developing a planned customer care program after the sale.
- Providing a training program to make effective use of your products.
- Analyzing complaints and taking corrective action so that you can overcome problems, rather than lose customers.
- Studying and interpreting your customer's business life cycles so that you can identify more opportunities to develop new products.
- Giving special offers to established customers.

15.3.6 To Improve Product Development

A company with loyal customers has demonstrated that it understands customers' **needs continuously**. Analyzing the way customers buy products

through customer satisfaction surveys gives vital information to the development of new products and services.

Every **product** goes through a product **lifecycle** and this can give important clues to the additional products and services customers may be needing. Customers' needs change as they progress through their life cycle. Customer relationships can help improve product development. Before it launches a **new product**, the company should go through a **consultation program** - notifying customers of the broad direction of the new product, inviting comments and then building in customer-sourced modification wherever they are practical.

15.3.7 To Satisfy Customers Throughout The Period Of Ownership

Quality is **acceptable** to the customer by the company's meeting and improving continuously the needs of customer. The customer's perception of quality includes more than satisfaction obtained from the primary product or service. It is more than that. It is more complex and may require more inputs or suggestions. Therefore, quality means the total composite product and service characteristics being offered by marketing, engineering, manufacture, maintenance, delivery and after-sale service. Through the product and service innovations, the company is expected to meet the expectations of the customer.

Owning a product ensures a **memorable** experience at all levels - not just at the point of purchase, but throughout the **period of ownership**. Satisfying the customer throughout the period of ownership adds value to a product and helps to favor it more than other competitors. It provides customers with high levels of satisfaction and is an essential element for building additional sources of revenue and profit.

15.3.8 To Identify Opportunities For Additional Sales

Customer relationship programs **encourage repeat purchase** and they also provide a valuable channel for selling additional products and services. For example, companies who sell durable consumer products have an immediate **opportunity to sell parts, service and accessories** over an extended period of time. And if they diversify their product range, they can offer new products and services to the same customers.

Relationship marketing looks at **retaining customers** for life-time. It estimates the number of sales on a customer over his or her life-time. It is built on the belief that a loyal customer will make repeat purchases from a company which values a life-time relationship. The shift is from the traditional marketing concept or market-focus orientation, to a **customer-driven priority**.

15.3.9 To Minimize The Total Customer Cost

The art of relationship marketing revolves around the delivery of **value** to customers. Value reflects the total benefit customers receive for the total cost they incur. To illustrate, the basic service of a haircut is only one component of benefit. The decor and comfort of the shop, the personableness of the hair stylist, the grooming tips the hairstylist might suggest - these also help define the benefit side of the value equation. Similarly, price is only one component of total cost, which represents the full burden customers must bear to obtain the product or service. It includes the customer's waiting time, inconvenience, energy, monetary price and opportunity cost.

From the customer's point of view, the perceived quality and value will be increased only if the total **customer** cost is **reduced**. Total customer cost cannot be reduced unless a company can reduce the **cost of poor quality**, such as rework, scrap, delay, complaint. In addition to reducing the cost, this will help winning new business.

Relationship marketing looks for **internal quality** improvement to retain customers. This will require reduction of sales development cost - research,

prospecting, making of proposals as well as the burden of administrative costs.

15.3.10 To Reduce Levels Of Competition

Customer **relationship programs** provide a **long term competitive advantage** to an organization to differentiate its products and services from the competitors. By **adding value** to the relationship, a company can build close relationships with its customers and **discourage** them from going to **other sources**.

To make the best use of the product, customers may need training, advice, support and many other services. Obtaining services from different suppliers is time-consuming. Offering customers a total business solution builds greater loyalty than just delivering a product. In addition to providing its customer with a total business solution, by maintaining customer relationships, the company can make itself a dependable supplier and beneficial recipient of additional revenues.

15.4 A MODEL OF CUSTOMER RELATIONSHIP MARKETING

What **specific marketing tools** can a company use when it wants to develop customer relationship programs? **Berry and Parasuraman** have distinguished **three customer value-building** approaches.¹⁰

1. Level One Relationship Marketing

Marketers primarily make use of **financial bonds** or **incentives** in form of pricing, incentives to attract more customers. This can be done in forms of discounts, cash rebates, coupons, frequent flyer programs etc. However, price is the most easily employed

¹⁰ Leonard L. Berry and A. Parasuraman, Marketing Services : Competing Through Quality.” New York : The Free Press, 1991, us, pp. 136-42.

element of the marketing mix and **does not offer a sustainable competitive advantage.**

Frequency Marketing Programs (FMP) are designed to provide rewards to customers who buy frequently and/or in substantial amounts. **American Airlines (AA)** was one of the first companies to pioneer a FMP when they decided to offer free mileage credit to their customers in the early 1980s. As more flyers switched to AA, the other airlines, such as United Airlines, were compelled to offer the same program. After competitors responded, FMPs became a burden to all the offering companies. By this time, most customers belong to most of the FMPs. The companies find that they are giving away many flights, rooms, and so on.

2. **Level Two Relationship Marketing**

The **second level** consists of adding **social benefits** as well as **financial rewards** to the customers. It emphasizes Personalized Service Delivery. Here, marketers stress the need to stay close with the customers, learning about their wants and needs, customizing the relationship by demonstrating a **cooperative and responsive attitude.**

This level requires that the customer-supplier relationship is **built on mutual trust.** Suppliers are listening to customers and being **sensitive** to their **concern**, disclosing accurate information relevant to transaction, and keeping promises.

It also requires the concept of **internal marketing.** Internal marketing is attracting, developing, motivating and retaining qualified employees through job-products that will satisfy their needs. The satisfaction of employees strongly influences the quality of services extended to **external customers.** The winning companies, if any, are those who run their programs more efficiently, or attract the most business based on their program's

distinctive benefits, or who build a sophisticated database system to design forceful and relevant offers to specific customers.

3. **Level Three Relationship Marketing**

This level seeks to add both **structural bonds** and **financial and social incentives** to the customers. Well-designed **structural bonds** are often **technology-based**. It raises the **customer's costs** for switching to the competitors. Such a customized technical service also makes it easier for the **professional buyer** to accept and **justify a price premium**.

For example, the company may supply customers with **special equipment** or computer linkages which help customers manage their orders, payroll, inventory, and so on. A good example is **Federal Express** which gave a free computer system to its long-term, steady customers to link up to federal Express's headquarters. These customers can follow up and check on the status of the packages they sent on a particular date.

The **level three relationship marketing** implies a shift from the traditional **mass-marketing** to **micro-marketing**. It requires a company to treat the customer as a market segment of one, which is known as **one-on-one marketing**, e.g. computerized Data-base Marketing to target individual customers, Electronic Data Interchange (EDI) for fast tracking of customers' requirements, Just-in-Time (JIT) deliveries, etc. These can be seen as the necessary **technological systems** for the foundation for One-on-One Marketing.

A conceptual model of the relationship marketing, published in 1991 by Leonard Berry and A. Parasuraman, has been redesigned into a much more comprehensive model applicable to most industries by G. Wolf in 1995. The model contains the three marketing elements of Forward Marketing, Internal Marketing, and Reverse Marketing, as well as elements of Relationship

Building and Customer Perception. The model distinguishes the three levels of relationship marketing. The lowest, inner level (1) is embraced by two higher levels (2) and (3). The higher the level, the higher the commitment to the customer, the more intense the relationship between the firm and the customer, and the more efforts companies have to spend on the establishment and maintenance of their relationships with their clients. All components concerning customer perception are shown in black triangles. The triangle shape illustrates that higher levels of practiced relationship marketing will lead to customers having higher quality perception, higher perceived value, and higher satisfaction. The (+) sign shows that the relationship is positive, i.e. a higher perceived value is expected to result in a higher intention to buy again. A negative sign (-) shows that the relationship between two components is considered negative, i.e. the higher the customer's total cost, the lower his or her perceived value of the product or service.

"Only by listening to customers and responding quickly and professionally to their needs, will **Dell** continue to be successful. Customer care and service is our number one priority and any customer with an issue to resolve is only ever one step away from myself. " - Martin Slagter, Managing Director, Dell Computer Corporation, U.K.

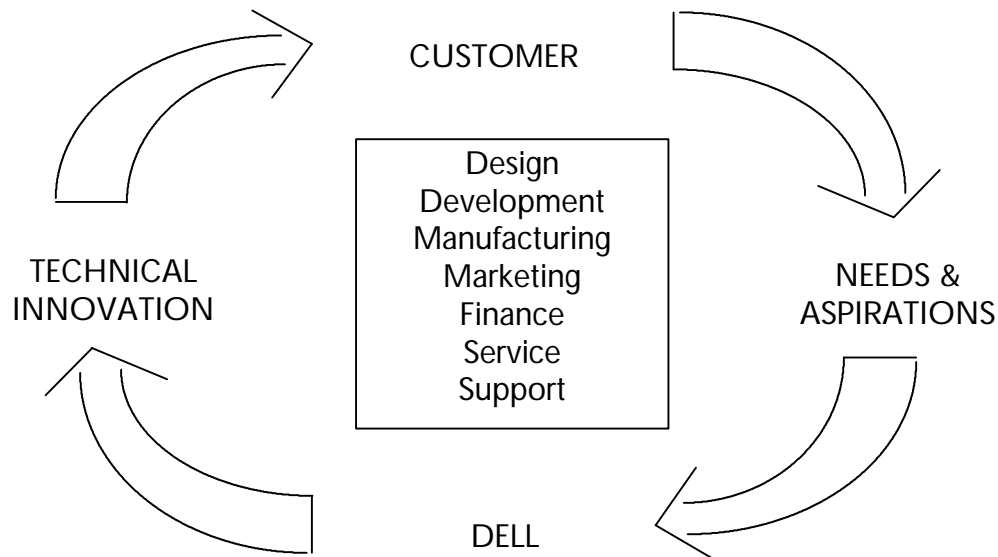
Dell is a company recognized for its **dedication to customer care** and service. At Dell, a supportive and continual relationship between the customer and the supplier is fundamental to its approach to business. Dell is extraordinarily successful because it designs, develops, manufactures, sells, services and supports high performance, customized, configured personal computers of unusually high quality and value. Dell calls it "direct relationship marketing", see (**Exhibit 15-5**).

The characteristics of Dell's direct relationship marketing are as follows:

1. It involves holding regular dialogues with customers that extend far beyond the simple sales transaction of buying a personal computer.

2. Customer care and service is a long-term goal of Dell Computer Corporation to secure competitive advantage.
3. The management style at Dell is one of leadership which energizes and empowers teamwork. Its training is geared to having all staff appreciate what happens from a customer's point of view.
4. At Dell, customer satisfaction means satisfaction with the quality of every Dell product and service it provides; satisfaction with the price and with the extensive maintenance and support package.
5. Its direct working relationship with customers not only cuts out the costly dealer channel but also makes Dell's production, marketing and support operation much more efficient than those of manufacturers selling via dealers and distributors.
6. Design, development, manufacturing, sales, marketing, servicing and support all remain under Dell's control. This offers a "total business solution" to the customers.
7. Dell interacts directly with customers, installing free phone technical support lines to support the customers over the phone; providing an on-site service at the customer's location, and responding quickly in research and development as the customer's needs evolve.
8. Dell also warrants each system free of defects in both material and workmanship, and all of this for one full year at no extra cost.
9. A customer database is created to keep track of what the individual customer bought, when it was bought and what configuration was included. The main objective is to establish and maintain a long-term one-on-one relationship with each customer.

Exhibit 15-5 : Dell's Direct Relationship Marketing



15.5 CUSTOMER RELATIONSHIP PROGRAMS

The **customer relationship** programs can be different from company to company, and from industry to industry. However, we can classify the customer relationship programs into **three major** categories :

- Customer partnership program.
- Customer care program.
- Total quality service program.

To **implement** the customer relationship program, the customer must be the **number one focus** and all corporate policies must be driven by customer needs. Without customer focus and involvement, the quality strategy becomes meaningless. Attracting, serving, and retaining customers is the ultimate purpose of any company, and those customers help the organization frame its quality consciousness and guide its improvement effort. The quality

of a product or service is defined by customer's behavior and response. Quality improvement must be guided by a clear understanding of customer's needs and expectations.

A. CUSTOMER PARTNERSHIP PROGRAM

A typical **relationship marketing** program leads to closer working relationships with internal customers, suppliers and external customers. **Customer partnership** is a term that describes a business relationship between a company and its customers. It is a relationship in which companies cooperate formally or informally in areas critical to customers. The customer enjoys consistent quality of products and services, as well as continuity of contact. Some of the customer relationship programs are as follows :

- Inviting customers to a series of strategy seminars.
- Encouraging feedback on the quality of product and service.
- Encouraging customers to get involved in the research and development integrating customer loyalty into all your communications.
- Carrying out customer satisfaction surveys to measure satisfaction and build two-way communications.
- Adding value to a product or service.

The following steps can be served as guidelines for the implementation of a customer relationship program:

1. Making customers to be the **number one focus** for everybody in the organization.
2. Getting **top management commitment** to ensure that the programs have adequate support and resources.

3. Setting **quality standards** so that everybody understand what to achieve.
4. Identifying **customer requirements** by ranking the quality characteristics.
5. Setting key **performance objectives** as a basis for planning.
6. Identifying opportunities for improvement and responding to research and customer **feedback**.
7. Issuing a vision and **mission statement** in line with customer relationship.
8. Allocating **responsibility** for managing the action plans and individual activities.

Relationship marketing is used **to ensure** that each of the key contacts in a partnership holds the **right perceptions** of a company. The sales force is the key to the success of partnership and their attitudes must be changed. A company must introduce training in managing customer relationships for the sales force. Besides, it should explain why they have to adopt a longer-term perspective, and look at future customer relationships rather than just short-term sales potential. To achieve this goal, the company must provide the sales force with the information and support material they need to give customers the right quality of service.

In addition to the sales force, everybody in the organization, from the highest executive to the front-line employee, need to understand and really appreciate **how** things look and feel to the **customer**. Partnership requires a continuous communication effort to sustain the new relationship. Top management must be committed to making it work because partnership involves trust and cooperation, as well as the sharing of confidential information.

Open communication is a critical success factor for customer partnership, which requires a company to :

- Identify what each member of the partnership team needs to know and set up formal communication channels to ensure that information is carefully targeted.
- Set up a formal procedure for meetings and consultation to increase the level of effective communication.
- Audit the communications to ensure they convey the key messages and positioning statements that the company needs to get across.

Federal Express has compiled a **database** of more than 20,000 companies who are its steady customers. They have built a customer-relationship program called "Powership" to keep from losing these customers to such rivals as United Parcel Service. Each of these customers has been given a free computer, linked to Federal Express's headquarters in Memphis. When these customers have a concern or a question, they can do their own checking with their Fedex-supplied computer on the status of packages they sent on a given day.

Every month Federal Express polls another 1,000 of its Powership customers on ways the company's relationship with them might be improved, "There has been an outpouring of customer loyalty," said Vice-President Laurie Tucker, "and we have seen increased volume because of the system."

B. CUSTOMER CARE PROGRAM

Building customer relationship is not an extra activity - it is an integral part of marketing activity. The **post-sale** activity provides the greatest opportunity for building customer relationship through regular quality contact with customers. Instead of just supplying the equipment and

leaving installation and management to the customer, a customer-care organization should **provide** all the **services** and support to ensure successful use of the equipment.

After a customer has **bought** a product, he may need help in **getting started**. The customer care programs may includes :

- Installation.
- Initial training for users.
- Project management to provide additional start-up services.

The customer care programs can be taken further to build customer relationship, due to the change in the business environment and the change in customer requirements. This may include :

- Customer research.
- Customer complaints analysis.
- Optimization studies.
- Upgrades.
- Performance monitoring.
- Consultancy.

Staff training should not be separated from the development of customer care skills; they are integrated. Technical training, for example, has its main objectives of repairing a customer's product. Functional training ensures that staff will be able to demonstrate a better understanding of the customers' needs, and gives assurance to the customer that he will get the best possible solution. This leads to higher levels of customer satisfaction.

Customer **complaint resolution** is part of the customer care program. Companies profit from complaint resolution because they earn customer loyalty. With this, customers continue to buy instead of deserting to competitors. Total loss of time from failing to resolve a complaint, equals loss from future purchases plus loss from word-of-mouth comments. It will mean also a minus-savings from not resolving one-time complaints. "During 1980," says a report from a White House study of complaint handling procedure, "1.56 customers were gained as a result of positive word-of-mouth for every customer lost because of negative word-of-mouth." But Warren Blanding, a leading customer service consultant, believes that, "On the average, a company loses **four times** as many sales through negative word-of-mouth as it gains through positive word-of-mouth."

C. **TOTAL QUALITY SERVICE PROGRAM**

The name, **Total Quality Service** (TQS), was originally focused on the needs of organizations in so-called "service" industries. But it soon became compellingly clear that the quality paradigm must embrace both **tangibles** and **intangibles**. There is very little difference between relative proportion of tangibles and intangibles involving the customer's experience of value. What makes one different from another?

Intangible elements are vital to customer satisfaction. These include reliability, responsiveness, assurance, timeliness, and empathy. The **service revolution** and the quality revolution will merge to become a single revolution, a total business solution to the customer's needs. It is important to combine and unify the two separate issues thought processes of **quality** and **service** into one **total** issue. Total Quality Service is the correct concept of creating and delivering superior customer value from both manufacturing and service industries.

Quality is a **prerequisite** for customer loyalty, but it is not a self-contained activity. Quality should be integral to every company activity. Whenever a customer comes into contact with a company, there is a **moment of truth**, the outcome of which shapes the customer's entire opinion of the company. Any lapse of time, when a customer interacts with a product or service a company provides, this greatly influences his or her level of satisfaction affecting the total experience.

Jan Carlzon, president of Scandinavian (SAS), wrote in his book, *Moment of Truth* (Ballinger, 1987): "Last year, each of our 10 million customers came in contact with approximately five SAS employees. Each contact lasted an average of 15 seconds. Thus, SAS is 'created' in the minds of our customers 50 million times per year, 15 seconds at a time."

These 50 million moments of truth when customers are made aware of the quality of SAS service, are the moments that ultimately determine whether SAS will succeed or fail as a company. "We have oriented ourselves to become a customer-driven company that recognizes that its only true assets are satisfied customers, all of whom expect to be treated as individuals and who won't select us as their airline unless we do just that," said Carlzon.

Customers are **making their choice** on the basis of their **perceptions** of **quality, service, and value**. It becomes more and more apparent that the old distinction between **product** and **service** is obsolete. What exists is **total customer value** - the combination of the tangible and the intangible experienced by the customer at the various moments of truth that become his or her perception of doing business with an organization.

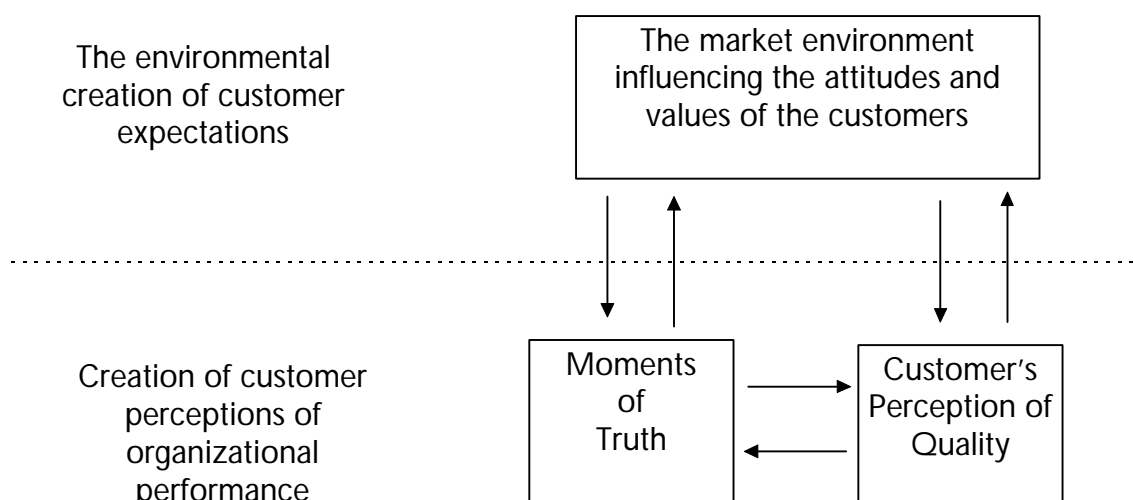
Customer **satisfaction** results when customer expectations are **equal** to the **perceptions** formed during all the processes associated with selection, purchase and consumption of the desired offer. By defining

the moments of truth and by focusing particularly on the ones most critical to the customer's perception of quality, you can see things as the customer sees them. The moment of truth must be the focus for defining, delivery, and measuring quality.

Total Quality Service (TQS) is, therefore, the total moments of truth contributing to the customer's total perception of quality. To ensure that all aspects of organizational behavior can influence the customer's total perception of quality, it is necessary for the marketers to develop a **complete map** of all the activities associated with the service selection, provision and consumption process. It is imperative that this knowledge be formulated through customer survey, complaint analysis, competitive benchmarking, and inviting customers to participate in group discussions.

(**Exhibit 15-6**) shows the interaction between customer and the organization. The interface components comprise of all the moments of truth to the customer's total perception of quality. The moments of truth may be an event which the customer can directly observe, or may occur at a location removed from the customer (e.g. administration of an insurance claim).

Exhibit 15-6 : The Interaction of Customer and Organization

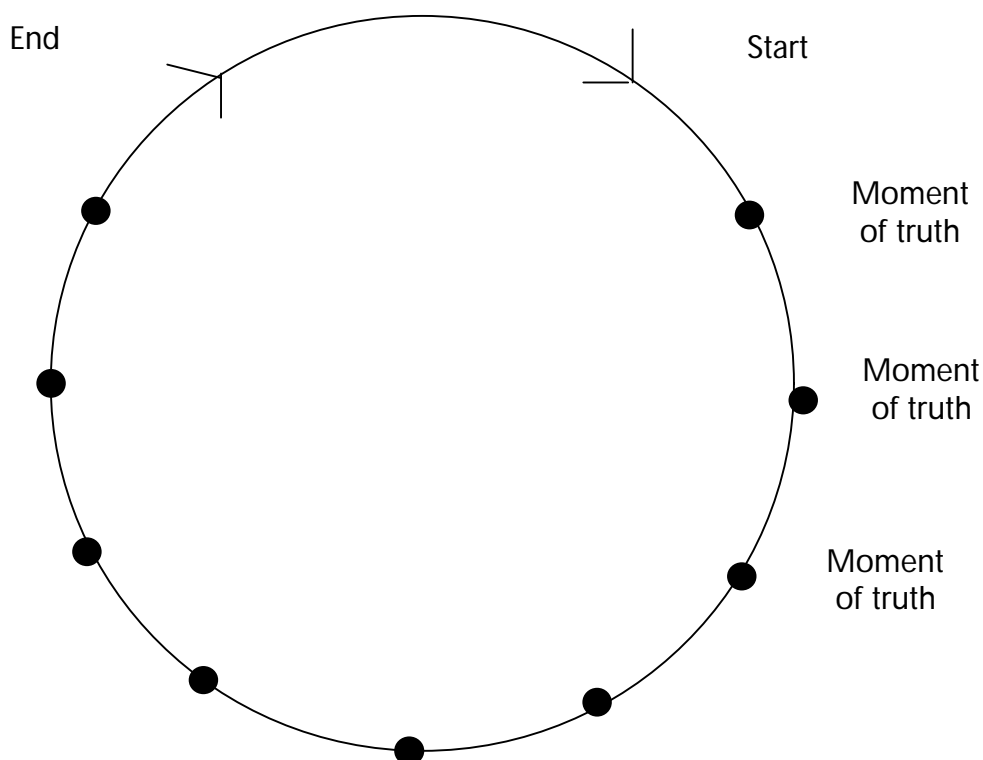


A **moment of truth** is whenever a customer comes in contact with the service delivery system i.e. during the cycle of service. Therefore, the delivery **service quality** is a function of all the previous moments of truth experienced by the customer. This can be expressed as follows:

$$\text{Service quality} = f(\text{moments of truth})$$

(**Exhibit 15-7**) shows the cycle of a service diagram which gives us an obvious way to start looking at subjective quality: event by event in the cycle. For each moment of truth, we can identify the experience that customers consider satisfactory, unsatisfactory and superior.

Exhibit 15-7: The Cycle of Service



Customers do not see themselves as buying individual moments of truth, but rather getting needs met by going through a whole process from beginning to end. It is all of these moments of truth that contribute to the customer's **total**

perception of quality. In an organization that is driven by the customer, quality should be applied to every customer-frontage activity. The company has to look at all aspects of its operations to see whether there are any critical processes which should be included in the quality process.

Total quality service does not happen because top management created a quality strategy. There must be a **recognition** coming from the customer, both internal and external, and their rights and expectations from the organization. Customer bill of rights is the foundation of total customer service. The following should act as an important guidance toward constructing a customer bill of rights:

TOYOTA -

CUSTOMER BILL OF RIGHTS:

1. The right to a clear explanation of the reasons for all recommended repairs and adjustments.
2. The right to know in advance the cost of repairs to your car.
3. The right to approve any work done on your car beforehand.
4. The right to a clear-cut, understandable schedule of charges.
5. The right to quality repairs.
6. The right to the lowest cost repairs with good quality, safety of operation, and compliance with emission control and safety legislation.
7. The right to delivery of your car when promised.
8. The right to deal with courteous and concerned people.

AIR CANADA -

THE CUSTOMER BILL OF RIGHTS

Accurate information, courtesy, comforts and punctuality. These are some of the basic rights to which Air Canada customer is entitled to. And no one is more qualified than you to see to it than these rights are protected.

1. The Customer has the right to get through to reservations without waiting and to receive prompt, friendly, courteous service and accurate information.
2. The Customer has the right to cheerful and efficient service at the sales offices, cargo terminals, airport check-ins, and departure gates.
3. The Customer has the right to a hassle-free flight, a comfortable seat, a good meal, friendly service, and an entertainment system that works.
4. The Customer has the right to depart and arrive on time.
5. The Customer has the right to be serviced in the official language of his or her choice.
6. The Customer has the right to receive his or her baggage and/or cargo promptly and in good condition.
7. The Customer has the right to be kept informed when there are delays or when things go wrong, and to be treated with extra care in these circumstances.
8. The Customer has the right to receive prompt decisions concerning compensation.
9. The Customer has the right to be treated with care and compassion.

The following **quality programs** may help improve the total quality service of an organization:

1. Making contact easier.
2. Improving the quality of response.
3. Providing rapid access to information.
4. Using customer information to improve quality.
5. Setting out quality standards for customers.
6. Providing customers with additional services.
7. Offering higher value than your competitors.
8. Providing your staff with the right skills to make an effective contribution to customer service.
9. Resolving customer complaints.
10. Benchmarking quality, service and process against best performers.

15.6 MICRO MARKETING MANAGEMENT

Traditional **marketing management** takes the macro approach to market segmentation, promotion, pricing, selling and distribution. **Joel D. Weiner**, senior vice president of marketing services at **Kraft USA**, said, "The mythological homogeneous America is gone. We are a mosaic of minorities. All companies will have to do more stratified or tailored or niche marketing."

Traditional **market segmentation** uses a market aggregation strategy. Segmentation descriptors specific to consumer markets include age, sex, family life cycle, income, occupation, culture and social class. This makes it

easier to define a market and to develop specific products and marketing programs to appeal to it.

Unfortunately, many possible segmentation variables do not define accessible **customer groups**. That is, the variables do not identify customer groups in ways that facilitate accessing the segment members. For example, assume that a firm attempts to market frozen “Wiener Schnitzel” to a **target** market defined as Americans of German descent. This market segment would not be very accessible because few unique advertising media or distribution channels are frequented by third or fourth generation German Americans. They watch the same TV programs, read the same magazines, live in the same suburbs, and shop at the same stores as Americans. Therefore, there would be no gain in marketing efficiency in designing a marketing program to reach this group of customers.

Mass marketing grew because it was more efficient than traditional direct selling. Mass media - magazines, radio and television - grew because advertisers could reach audiences more and more efficiently. However, the cost of reaching an individual prospect dropped with each new medium. Duplication occurs whenever a marketer purchases a second medium. There may have been waste but no one really cared. However, now, as markets fragment, waste and therefore cost grow.

Micro marketing is an activity-based approach. With timely and detailed information, marketers can divide target markets into **infinitesimal segments**. Purchase influence, benefits sought, loyalty, and purchase pre-dispositions relate to the behavior of individuals. They are identified in the purchasing decision.

Micro-marketing management requires the marketers to identify **micro-segmentation** descriptors, the characteristics of the individuals who influence the purchasing decision. A computer program might help a salesperson track and analyze customer's buying patterns, allowing him to get a jump on the most appropriate products and services to offer. Micro-marketing

management also requires an activity-based approach for performance measurement. Activity-based approach measurement analyzes the cause and effect of any activities within the organization in order to provide focused information for the purpose of decision making. Activity-based product costing generally includes all costs affected by the cost drivers that are associated with the provision of the product or service. By attributing costs to the activities, management can prioritize areas where effort should be focused to enable working practices to be made both more efficient and effective and where costs could be reduced or performance improved.

The **cost** of providing the **mix predicted** and services to a customer or type of customer is usually based on product cost information, but may be enhanced to reflect those costs that can be attributed directly to individual customers or customer groups. The value given to this information, depends, to a large extent, on how it will be used and this generally reflects the importance of the individual customer relationship to the company.

Unlike the traditional marketing approach which tracks the macro variables of a large market segment, micro-marketing approach **tracks** the **quality characteristics** of **individual customers** and develops a marketing management system to monitor the activities of these customers. Tracking the customer activities in the past may be a difficult job. However, thanks to the new technology, such as bar-code systems, networking, electronic-mail, it is now easier to do so. There are several marketing concepts that are related to micro-marketing:

1. **Micro-segmentation:** Within a macro-segment, customers are further distinguished on price, service or quality to generate many micro markets. Each micro market has its own wants, perceptions, preferences, and buying criteria.
2. **Niche-marketing:** A niche market is a narrowly defined group that may seek a special combination of benefits. As the marketer subdivides a market by introducing more defining characteristics,

the segments tend to devolve into a set of niches. The customers in the niche have a distinct and somewhat complex set of needs; they will pay a premium to the firm best satisfying their needs.

3. **Database marketing:** Instead of mass promotion and advertisement, many companies tend to collect information directly from end-users by using redeemed coupons, rebate forms, hot lines, etc. Data-base marketing uses database technology and sophisticated analytical techniques, combined with direct-marketing methods, to elicit a desired, measurable response from target groups and individuals.
4. **One-on-one marketing:** The goal of one-on-one marketing is to increase the retailer's sales and profits among selected customers, increase the number of transactions per customer, help to identify merchandise desired by customers, and motivate other members of the customer's household to become loyal customers. It is a state-of-the-art application of micro-marketing by using database technology to direct individualized messages to individual people. No two people would receive the same letter or catalog.
5. **Customized marketing:** Quality means conforming to customer requirements. However, in a very competitive business environment, product life cycles diminish. New products and services are quickly developed, variety is constantly proliferated and customization occurs with each sale. In such an environment, meeting customer requirements is not easy. As attention to the customer grows, there arises more and more differences between different market segments. Companies have to customize their products, services or delivery to differentiate themselves from the competition.

The **ultimate goal** of customized marketing is to satisfy the needs of individual customers. The new realms of marketing is to build every product for just one person, the person who is buying it.

In the **Fortune** magazine, October 22, 1990, there was an article written by Susan Moffat describing the mass-customization marketing approach of the National Bicycle Industrial Company, a subsidiary of the electronics giant Matsushita.

The **mass customization** marketing allows every individual customer to choose between 11, 231, 862 variations of his or her bicycle. The key is combining flexible manufacturing and CAD/CAM with highly skilled employees with modem links around the world.

Every individual customer's **requirements** are fed into the computer system and sent to the production floor by modem. The production process starts with a person being "fitted" for the bike. Data on arm length, leg length, foot size, body weight, torso length, sex, and kind of bike are entered into a DEC computer, which produces the blueprint and all necessary bar coding to track all the pieces.

From there, the **bike is assembled** by top-quality crafts people using the best automated equipment where appropriate and their own skills when needed. Total time for assembly: three hours. Costs to the customer: \$545 to \$3,200. A standard bike runs between \$250 and \$510.

Customized marketing relies on the capability of a company's production and operation system. It requires a radical change in the entire business system, including processes, jobs, organizational structure, management systems, and use of information technology to achieve dramatic improvement.

Customized marketing builds on three major competitive factors :

- Customer focus.
- Responsiveness.

- Flexibility.

The **interaction** of customer focus, responsiveness and flexibility provides a new competitive edge for the companies in the 1990s and beyond.

(**Exhibit 15-8**) shows the interaction of customer focus, responsiveness and flexibility.

Exhibit 15-8: Customized Marketing

