

WARNING – Customers are perishable.

NOTICE FOR STAFF IN A FAST FOOD RESTAURANT

Relationship marketing

CHAPTER

eJEVERN

Chapter objectives

After reading this chapter, you should be able to:

- Define *customer value* and discuss its importance in creating and measuring customer satisfaction and company profitability.
- Discuss the concepts of *value chains* and *value delivery systems* and explain how companies go about producing and delivering customer value.
- Define quality and explain the importance of total quality marketing in building value-laden, profitable relationships with customers.
- Explain the importance of retaining current customers as well as attracting new ones.
- Discuss customer relationship marketing and the main steps in establishing a customer relationship programme.

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Prelude case ‘The most important part of a car is the distributor’

I read this car dealer’s poster advertising slogan with some understanding. The copy played on the word distributor: (a) a car dealer, and (b) an electrical component that is the usual cause of old cars not starting on a wet morning. It also resonates with a recent expensive and time-consuming experience buying a luxury car.

The slogan resonates with a recent expensive and time-consuming experience buying a luxury car.

Knowing exactly the car I wanted, I entered the city centre Mercedes dealership in a frame of mind reminiscent of Samuel Johnson’s observation on second marriage: ‘the triumph of hope over experience’. My last visit, three years ago, ended after an exasperating encounter with the dealer’s financial advisor. I asked him the best way of financing a car for a self-employed, top rate of tax payer who was registered for Value Added Tax and drove 16,000 miles (25,600 km) per year. The result of the question was a confusion of down payments, balloon payments, etc.

I tried putting the question simply to the financial advisor: ‘What option gives me the lowest cost of ownership of an E230 Estate?’.

Financial advisor: ‘We do not do it that way. You will have to ask your accountant.’

I left, asked my accountant, did the sums and leased a car from another dealer 50 minutes drive from where I work.

I had two reasons to believe the city centre dealer would be better this time. I had just bought a second-hand Yaris from Pentagon Toyota and the whole transaction had been quick, efficient and friendly. In addition, Mercedes had just purchased the city centre dealership so now the dealers and their splendid cars would be one.

In summer 2003 I re-entered the city centre dealers, wanting to buy an E270 CDi Estate for cash. The reviews of the new E270 CDi were fantastic – *What Car?* rated it as ‘Best Executive Car of the Year’. The Consumer Association’s *Which?* surprisingly showed Mercedes plummeting two categories from among Japanese cars rated the ‘Best’ in reliability to an ‘Average’ rating. However, other reports mentioned that with the new E-class, Mercedes looked to be overcoming their quality problems.

The dealer’s salesman explained to me that since the £1,950 (€3,237) ‘Cockpit Management and Navigation Display (COMMAND APS)’ used a DVD, I would not be able to play a CD while using the satellite navigation system. I commented that this sounded like a daft ‘design feature’ for something so expensive, but opted for a ‘CD changer in the central console’ (another £350) so I could drive and jive. For an agreed price of £36,000, delivery would be on

Friday 24 October. The date was after the old Mercedes’ lease expired but the Yaris could fill the gap. So far so good, but not for long.

1. Getting rid of the old car was not easy. The contract with DaimlerChrysler Services (DCS) expired on 12 October and the correspondence mentioned they would pick up the car on that day. I rang the Services company to find out when on Sunday the car would be picked up:

DCS: ‘We do not pick up cars on Sunday; a driver will be coming on Monday.’

‘But I will not be at home on Monday, it is a working day and I already have appointments made. Can they pick it up from work?’

DCS: ‘We have no way of contacting the driver now. If you are not at home when the driver arrives on Monday you will have to pay an extra charge.’

‘But the contract expires on the 12th.’

DCS: ‘We did contact you to arrange the pickup last week.’

‘You may have tried but I was in New Zealand and I know nothing about it.’

DCS: ‘We will try to contact the driver on Monday but he may have left by the time our office opens.’

After leaving faxes, emails and answerphone messages, I eventually contacted the driver and arranged the Monday pickup at work.

2. Dropping into the city centre dealer on the way in, I went to the sales desk to ask about having a Tracker (a system that tracks stolen cars) fitted to the new car, since a review I had read said the E-series estate would initially be very popular with professional thieves. There was no-one on the sales floor.

Snooping round, I found an office where several smartly dressed men stood chatting. One turned to help me: ‘Can I help? You will probably want the Service Department. That is the other entrance.’

‘No, I’m trying to buy a car. I need to specify a Tracker and check my car’s delivery date.’

In a small open office up some stairs a sales clerk asked: ‘Which Tracker do you want: Retrieve, Monitor or Horizon?’

After some discussion and being told that the top of the range Horizon was really only appropriate for expensive cars, such as a Ferrari, I opted for the Retrieve system for a one-off payment of about £300.

3. The car was ready on Monday 27 October rather than the 24th. Only three days later than promised, but it did mean that, lacking the larger car, I would have to drive to my daughter’s college on both 28 October and 2 November since we could not fit her bike,

grandparents and the rest of the family in another car that we would have to use, instead of the E-series estate.

4. On Monday 27th the car arrived at home and I paid an extra £299 for the Tracker. It was odd that it was not included on the bill for the car, but I assumed the Tracker was from a different company.

While checking over the car with me, the delivery driver showed me the DVD player for the navigator in the luggage compartment. 'Hang on, since the DVD player is in the luggage compartment, does that mean I could play CDs using the normal CD slot while navigating?'

Delivery driver: 'Yes, no problem. And the extra six-disc changer means you will be able to choose between seven CDs.'

'Whoops: there goes £350. Never mind, the way the changer flips open does look cool.'

Later that day, at the city centre dealer's Spares Department I buy a set of £130 carrier-bars for the roof of the estate and an £82 bicycle rack. It seems a lot to transport a bike that only cost £100 several years ago but we will probably use it many times in the car's life. I would have to pick them up the next day because they were not in stock.

5. The next Saturday, trying to fix a £40 bike to the £200 rack, I had difficulty following the instructions. With the bike on the roof of the car, I could not 'insert the anti-theft device (12) and lock the lock of the frame holder (11)'. With arms above my head, I could not feel anything like a lock although there was a cable corresponding to 'the anti-theft device'. After taking down bike, bike rack and all, I found there was no lock. 'What awful quality control to leave out the lock', I thought. I was wrong. Still, I did get the bike to my daughter's college but made secure with an old bicycle lock rather than 'the lock of the frame holder'.

6. Next Monday, back to the city centre dealer. 'This bike rack's got no lock.'

Sparesman: 'It should not have one.'

'But the instructions say here "lock the lock of the frame holder".'

The sparesman said: 'See here – this note in the manual "Locks for locking the bicycle carrier are not included and must be ordered separately."'

'Why didn't you tell me when I bought the rack? The system is incomplete without a lock.'

Sparesman: 'It is not standard.'

'Can I have a lock then?'

Sparesman: 'We don't have them in stock but we can order them for you. Do you want two or four?'

'I've only got one bicycle rack; can I have one?'

Sparesman: 'I am sorry but we only sell them in packs and they are £2.70 each, £5.40 for a pack of two.'

Two days later, I get a call to say I can pick up my locks.

7. In December 2003 the legislation changed to make it illegal to use a hand-held mobile phone while driving. I did not like using mobile phones while driving but since the car had numerous buttons with pictures of telephones on, I decided to have one fitted. Among the E-class accessories is listed a 'Mercedes-Benz

hands free system' for £182 or £210 depending on whether the car was with or without 'VDA pre-wiring'. I rang the Service Department of the city centre dealer.

'How much would it cost to fit a mobile phone?'

Service Department: 'Have you got a SatNav System fitted?'

'Yes.'

Service Department: 'I'll ring our Spares Department to check. . . .'

They say about £1,200 all included.'

'£1,200! What is the £200 system listed in the Accessories Guide?'

Service Department: 'I don't know about that. You had better talk to Spares.'

Spares Department: 'It will be between £1,000 and £1,200 depending upon the wiring needed. You need to bring your car in so we can check.'

'I think I'll wait until after Christmas at that price. Thanks.'

8. I receive a letter from Tracker saying they need a Direct Debit mandate since I opted to pay for my Tracker Network Subscription by annual payment. I rang Tracker.

'When I bought the car I asked for a one-off payment and paid about £299 when the car was delivered.'

Tracker agent: 'Will you check your pink Tracker Order Installation Form to see what network subscription option is ticked and can you give me your TVU Serial Number?'

'There is no box ticked.'

Tracker agent: 'Oh, they are always doing that. They think we know if they leave it blank. You need to contact your dealer.'

Dealer reception: 'Tracker? I'll put you through to Customer Services.'

Customer Services: 'You'll need to speak to Sales. . . . I am sorry there is no one free now. I have left a message with our used car salesman.'

'I don't want to buy a second-hand car but I am getting to understand why I want to sell this one.'

Customer Services: 'He is busy at the moment but he will get back to you in 15 minutes. What is your telephone number?'

Two days later, I am still awaiting his call. The car is great, but the dealer . . .

Questions

1. What do you understand by the slogan 'The most important part of a car is the distributor' and is such a distinction justified when the manufacturer owns the dealership?
2. How are retailers able to survive when providing the levels of customer service described when selling such expensive luxury products? Who is at fault?
3. At what points in the sales and service interaction could the individual contact, the dealer or Mercedes intervene to improve customer satisfaction?

SOURCES: www.whatcar.com (March 2003) and sub.which.net (October 2003).

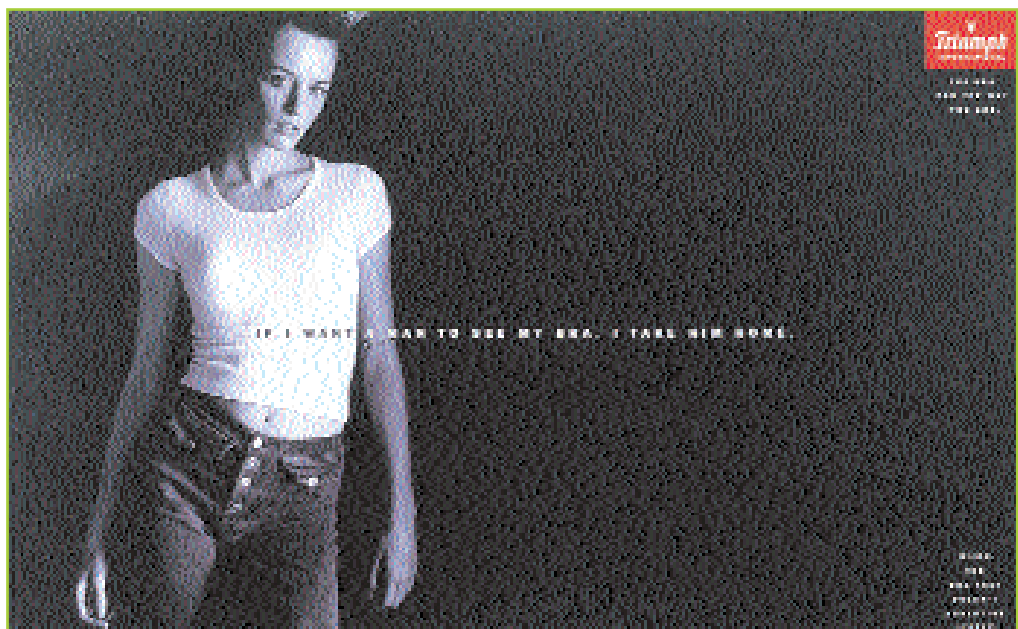
Introduction

Today's companies face tough competition and things will only get harder. In previous chapters, we argued that to succeed in today's fiercely competitive markets, companies have to move from a *product and selling philosophy* to a *customer and marketing philosophy*. This chapter looks in more detail at how companies can win at being better at *meeting and satisfying consumer and customer needs*. As the prelude case shows, even the world's leading companies have difficulty in providing the excellent product and service quality that customers demand.

Satisfying customers is not getting easier. People have come to accept that their consumption experience has become largely adversarial. Customers have got used to having products and services that deliver, so they object when companies fail to deliver the service they promise or fail to achieve what customers anticipate. Much of the frustration experienced by customers is a new *production orientation* that has occurred as firms try to cut costs by de-skilling or automating the customer interface. Few customers have avoided the frustration of having to press a series of digits to ensure their call is directed to the appropriate person, spending minutes listening to awful music while being told 'your call is important to us', then getting through to be told another number to ring.¹ The failure of many companies to give customers what they want is creating new opportunities for effective marketers. Recognising a widening gap between customers' expectations and service, NatWest Bank, a subsidiary of Royal Bank of Scotland, has hired an extra 6,000 staff so that its customers will no longer have to deal with answering machines.²

For much of history, there was little need for such concerns for customer relationships or satisfaction. In sellers' markets – characterised by shortages and near-monopolies – companies did not make special efforts to please customers. By contrast, in buyers' markets customers can choose from a wide array of goods and services. In these markets, if sellers fail to deliver acceptable product and service quality, they will quickly lose customers to competitors. In addition, what is acceptable today may not be acceptable to tomorrow's

Triumph communicates specific benefits that target consumers.
SOURCE: Triumph International Ltd.



ever more demanding consumers. Consumers are becoming more educated and demanding, and their quality expectations have been raised by the practices of superior manufacturers and retailers. The decline of many traditional western industries in recent years – cars, cameras, shipping, machine tools, consumer electronics – offers dramatic evidence that firms offering only average quality lose their consumer franchises when attacked by superior competitors.

Satisfying customer needs

To succeed or simply to survive, companies need a new philosophy. To win in today's marketplace, companies must be **customer-centred** – they must deliver superior value to their target customers. They must become adept in *building customer relationships*, not just *building products*. They must be skilful in *market engineering*, not just *product engineering*.

Too often, marketing is ignored in the boardroom of companies with the view that the job of obtaining customers is the job of the marketing or sales department. A survey conducted by the Chartered Institute of Marketing found that only 20 per cent of companies in the FTSE 100 had someone with a marketing background on their Board of Directors.³

Contrast this with the view of Sir John Browne of BP Amoco:

We have more than 10 million interactions with customers every day; and more than 100,000 staff in 100 countries. Every action and every activity is an act of marketing.



Like BP Amoco, winning companies have come to realise that marketing cannot do this job alone. Although marketing plays a leading role, it is only a partner in attracting and keeping customers. The world's best marketing department cannot successfully sell poorly made products that fail to meet consumer needs. The marketing department can be effective only in companies in which all departments and employees have teamed up to form a competitively superior *customer value-delivery system*.

This chapter discusses the philosophy of customer-value-creating marketing and the customer-focused firm. It addresses several important questions: What is customer value and customer satisfaction? How do leading companies organise to create and deliver high value and satisfaction? How can companies keep current customers as well as get new ones? How can companies practise total quality marketing?

Defining customer value and satisfaction

Forty years ago, Peter Drucker observed that a company's first task is 'to create customers'. However, creating customers can be a difficult task. Today's customers face a vast array of product and brand choices, prices and suppliers. The company must answer a key question: How do customers make their choices?

The answer is that customers choose the marketing offer that gives them the most value. Customers are value-maximisers, within the bounds of search costs and limited knowledge, mobility and income. They form expectations of value and act upon them. Then they

Customer-centred

company—A company that focuses on customer developments in designing its marketing strategies and on delivering superior value to its target customers.

Figure 11.1 Customer delivered value

	Total customer value	(Product, services, personnel and image values)
minus	Total customer cost	(Monetary, time, energy and psychic costs)
equals	Customer delivered value	(‘Profit’ to the consumer)

compare the actual value they receive in consuming the product to the value expected, and this affects their satisfaction and repurchase behaviour. We will now examine the concepts of customer value and customer satisfaction more carefully.

Customer value

Customer delivered value—The difference between total customer value and total customer cost of a marketing offer – ‘profit’ to the customer.

Total customer value—The total of the entire product, services, personnel and image values that a buyer receives from a marketing offer.

Total customer cost—The total of all the monetary, time, energy and psychic costs associated with a marketing offer.

Consumers buy from the firm that they believe offers the highest **customer delivered value** – the difference between *total customer value* and *total customer cost* (see Figure 11.1). For example, suppose that a farmer wants to buy a tractor. He can buy the equipment from either his usual supplier, Massey-Ferguson, or a cheaper east European product. The salespeople for the two companies carefully describe their respective offers to the farmer.

The farmer evaluates the two competing tractors and judges that Massey-Ferguson’s tractor provides higher reliability, durability and performance. He also decides that Massey-Ferguson has better accompanying service – delivery, training and maintenance – and views Massey-Ferguson personnel as more knowledgeable and responsive. Finally, the farmer places higher value on Massey-Ferguson’s reputation. He adds all the values from these four sources – *product, services, personnel* and *image* – and decides that Massey-Ferguson offers more **total customer value** than does the east European tractor.

Does the farmer buy the Massey-Ferguson tractor? Not necessarily. He will also examine the **total customer cost** of buying the Massey-Ferguson tractor versus the east European tractor product. First, he will compare the prices he must pay for each of the competitors’ products. The Massey-Ferguson tractor costs a lot more than the east European tractor does, so the higher price might offset the higher total customer value. Moreover, total customer cost consists of more than just monetary costs. As Adam Smith observed more than two centuries ago: ‘The real price of anything is the toil and trouble of acquiring it.’ Total customer cost also includes the buyer’s anticipated time, energy and psychic costs. The farmer will evaluate these costs along with monetary costs to form a complete estimate of his costs.

The farmer compares total customer value to total customer cost and determines the total delivered value associated with Massey-Ferguson’s tractor. In the same way, he assesses the total delivered value for the east European tractor. The farmer then will buy from the competitor that offers the highest delivered value.

How can Massey-Ferguson use this concept of buyer decision making to help it succeed in selling its tractor to this buyer? Massey-Ferguson can improve its offer in three ways. First, it can increase total customer value by improving product, services, personnel or image benefits. Second, it can reduce the buyer’s non-monetary costs by lessening the buyer’s time, energy and psychic costs. Third, it can reduce the buyer’s monetary costs by lowering its price, providing easier terms of sale or, in the longer term, lowering its tractor’s operating or maintenance costs.

Suppose Massey-Ferguson carries out a *customer value assessment* and concludes that buyers see Massey-Ferguson’s offer as worth €20,000. Further suppose that it costs Massey-Ferguson €14,000 to produce the tractor. This means that Massey-Ferguson’s offer potentially

generates €6,000 ($€20,000 - €14,000$) of *total added value*. Massey-Ferguson needs to price its tractor between €14,000 and €20,000. If it charges less than €14,000, it won't cover its costs. If it charges more than €20,000, the price will exceed the total customer value. The price Massey-Ferguson charges will determine how much of the total added value will be delivered to the buyer and how much will flow to Massey-Ferguson. For example, if Massey-Ferguson charges €16,000, it will grant €4,000 of total added value to the customer and keep €2,000 for itself as profit. If Massey-Ferguson charges €19,000, it will grant only €1,000 of total added value to the customer and keep €5,000 for itself as profit. Naturally, the lower Massey-Ferguson's price, the higher the delivered value of its offer will be and, therefore, the higher the customer's incentive to purchase from Massey-Ferguson. Delivered value should be viewed as 'profit to the customer'. Given that Massey-Ferguson wants to win the sale, it must offer more delivered value than the east European tractor does.⁴

Some marketers might rightly argue that this concept of how buyers choose among product alternatives is too rational. They might cite examples in which buyers did not choose the offer with an objectively measured highest delivered value. Consider the following situation:

The Massey-Ferguson salesperson convinces the farmer that, considering the benefits relative to the purchase price, Massey-Ferguson's tractor offers a higher delivered value. The salesperson also points out that the east European tractor uses more fuel and requires more frequent repairs. Still, the farmer decides to buy the east European tractor.

How can we explain this appearance of non-value-maximising behaviour? There are many possible explanations. For example, perhaps the farmer has a long-term friendship with the east European tractor salesperson. Or the farmer might have a policy of buying at the lowest price. Or perhaps the farmer is short of cash, and therefore chooses the cheaper east European tractor, even though the Massey-Ferguson machine will perform better and be less expensive to operate in the long run.

Clearly, buyers operate under various constraints and sometimes make choices that give more weight to their personal benefit than to company benefit. However, the customer delivered value framework applies to many situations and yields rich insights. The framework suggests that sellers must first assess the total customer value and total customer cost associated with their own and competing marketing offers to determine how their own offers measure up in terms of customer delivered value. If a seller finds that competitors deliver greater value, it has two alternatives. It can try to increase customer value by strengthening or augmenting the product, services, personnel or image benefits of the offer. Or it can decrease total customer cost by reducing its price, simplifying the ordering and delivery process, or absorbing some buyer risk by offering a warranty.⁵

Customer satisfaction

Consumers form judgements about the value of marketing offers and make their buying decisions based upon these judgements. *Customer satisfaction* with a purchase depends upon the product's performance relative to a buyer's expectations. A customer might experience various degrees of satisfaction. If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted.

But how do buyers form their expectations? Expectations are based on the customer's past buying experiences, the opinions of friends and associates, and marketer and competitor information and promises. Marketers must be careful to set the right level of expectations.

If they set expectations too low, they may satisfy those who buy, but fail to attract enough buyers. In contrast, if they raise expectations too high, buyers are likely to be disappointed. For example, Holiday Inn ran a campaign a few years ago called ‘No Surprises’, which promised consistently trouble-free accommodation and service. However, Holiday Inn guests still encountered a host of problems and the expectations created by the campaign only made customers more dissatisfied. Holiday Inn had to withdraw the campaign.

Still, some of today’s most successful companies are raising expectations – and delivering performance to match. These companies embrace *total customer satisfaction*. For example, Honda claims, ‘One reason our customers are so satisfied is that we aren’t’ or, as Dan Technology puts it, ‘We value your business. We want you to buy from us again.’ These companies aim high because they know that customers who are *only* satisfied will still find it easy to switch suppliers when a better offer comes along. In one consumer packaged-goods category, 44 per cent of consumers reporting satisfaction later switched brands. In contrast, customers who are *highly satisfied* are much less ready to switch. One study showed that 75 per cent of Toyota buyers were highly satisfied and about 75 per cent said they intended to buy a Toyota again. Thus *customer delight* creates an emotional affinity for a product or service, not just a rational preference, and this creates high customer loyalty.

Today’s winning companies track their customers’ expectations, perceived company performance and customer satisfaction. They track this for their competitors as well. Consider the following:

A company was pleased that it continued to find that 80 per cent of its customers said they were satisfied with its new product. However, the product seemed to sell poorly on store shelves next to the leading competitor’s product. Company researchers soon learned that the competitor’s product attained a 90 per cent customer satisfaction score. Company management was further dismayed when it learned that this competitor was aiming for a 95 per cent satisfaction score. ”

There are two reasons why historical rates of customer satisfaction do not serve in the long run. As the example shows, once-acceptable levels of customer satisfaction may be overtaken by competitors. This is occurring in the car market where Japanese manufacturers are setting new standards of quality and service. The quality of European cars is better than ever before but does not come close to those of pace-setting Toyota and Honda. At the same time, customers learn from the new levels of quality available in the marketplace and so expect higher standards than before. Unwary companies therefore face ‘backward creep’ in which their once-acceptable standards fall behind those of the competition and the customers’ increased expectations.⁶

For customer-centred companies, customer satisfaction is both a goal and an essential factor in company success. Companies that achieve high customer satisfaction ratings make sure that their target market knows it. These companies realise that highly satisfied customers produce several benefits for the company. They are less price sensitive and they remain customers for a longer period. They buy additional products over time as the company introduces related products or improvements. And they talk favourably to others about the company and its products.

Although the customer-centred firm seeks to deliver high customer satisfaction relative to competitors, it does not attempt to *maximise* customer satisfaction. A company can always increase customer satisfaction by lowering its price or increasing its services, but this may result in lower profits. In addition to customers, the company has many stakeholders,

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including employees, dealers, suppliers and stockholders. Spending more to increase customer satisfaction might divert funds from increasing the satisfaction of these other 'partners'. Thus the purpose of marketing is to generate customer value profitably. Ultimately, the company must 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. This requires a very delicate balance: the marketer must continue to generate more customer value and satisfaction, but not 'give away the house'. Many of the world's most successful companies build their strategies on customer satisfaction, but as Marketing Insights 11.1 shows, you do not have to be big to succeed.

Tracking customer satisfaction

Successful organisations are aggressive in tracking both customer satisfaction and dissatisfaction. Several methods are used.

Complaint and suggestion systems

A customer-centred organisation makes it easy for customers to make suggestions or complaints. Hospitals place suggestion boxes in the corridors, supply comment cards to existing patients and employ patient advocates to solicit grievances. Some customer-centred companies may set up free customer hotlines to make it easy for customers to enquire, suggest or complain. Virgin Trains immediately hand out customer complaint forms as soon as there is any reason for passengers to complain, such as a train being delayed.

Successful companies try very hard. All visitors to Richer Sounds shops get a card showing the shop's team and saying: 'We're listening.' It's a Freepost letter addressed to Julian Richer, the owner of the chain. Inside it reads:

Thank you for your support and making us the UK's most successful hi-fi retailer. In order to maintain No. 1 position, we need to know where we've gone wrong. Suggestions or comments regarding customer service, however small, are gratefully received. Every one has Mr Richer's personal attention . . . Please, please, please let us know, as we really do care! ”

Customer satisfaction surveys

Complaint and suggestion systems may not give the company a full picture of customer satisfaction. One out of every four purchases results in consumer dissatisfaction, but fewer than 5 per cent of dissatisfied customers complain. Rather than complain, most customers simply switch suppliers. As a result, the company needlessly loses customers.

Responsive companies take direct measures of customer satisfaction by conducting regular surveys. They send questionnaires or make telephone calls to a sample of recent customers to find out how they feel about various aspects of the company's performance.

Magazines and consumers' associations often conduct independent surveys. These are invaluable since companies can easily be deluded by their own results.

Bozell Worldwide's Quality Poll gives a league table and shows how biased local perceptions can be. Gallup conducted a study that asked 20,000 people in 20 countries to rate the quality of manufactured goods from 12 countries.

11.1 Cold turkey has got me on the run

'Oh dear! Am I in trouble now.' It was a week before Christmas as the recalcitrant academic trudged up and down Castle Street trying to buy a goose for Christmas dinner. Long before Charles Dickens' time, when Scrooge sent 'the prize Turkey . . . the big one' to Bob Cratchit's house, goose was the traditional English Christmas fayre. Introduced to Europe from America in the sixteenth century, turkey had displaced goose in all of Castle Street's butchers. Sick of having cold turkey salad, turkey sandwiches and that dreadful turkey curry for days after Christmas, the academic's family had decided to have goose 'for a change'. His job was to get one, but he had left it too late.

Butcher after butcher came out with the worn-out lines: 'You should have ordered one weeks ago', 'We can't get them anywhere' or 'There's no call for them these days.' Even 'A goose? They're so greasy. How about a nice fat turkey? It'll last you for days.' SCREAM!

Defeated, he slumped into his car to drive home. It was dark and on the way through a village he saw the lights of a small shop he had not noticed before – a small independent butcher, well stocked, brightly lit and full of customers. 'Funny', he thought, 'there aren't many of those these days. Still, let's have one last try.'

On joining the festive throng inside, he noticed a sign on the wall. It read:

The Ten Commandments of good business

1. The customer is the most important person in my business.
2. The customer is not dependent on us; we are dependent on him.
3. A customer is not an interruption of our work; he is the purpose of it.
4. A customer does us a favour when he calls; we are not doing him a favour by serving him.
5. The customer is part of our business, not an outsider.
6. The customer is not a cold statistic; he is a flesh and blood human being with feelings and emotions like ours.
7. The customer is not someone to argue or match wits with.
8. The customer brings us his wants; it is our job to fill those wants.
9. The customer is deserving of the most courteous and attentive treatment we can give him.
10. The customer is the lifeblood of this, and every other, business.

”

'Merry Christmas, what can I do for you?', asked the butcher.

'Have you a goose?', the academic asked timidly.

'I haven't got any in, but I'll get one for you. What size do you want?'

Later on, at a local inn, the talk turned to food. 'Have you come across that great butcher in the next village?'

'Great butcher? Come off it. A butcher's a butcher's a butcher!'

'Not this one, he will do anything for you. Nice guy, too.'

Lesson: You do not have to be big to be great.

SOURCES: Charles Dickens, *A Christmas Carol* (London: Hazell, Watson & Viney, 1843); John Lennon, *Cold Turkey* (London: Apple, 1969); Bill Bryson, *Made in America* (London: Black Swan, 1998).

All countries rated themselves higher than other people did. The French put French goods on top, while the Japanese gave themselves twice the rating (76 per cent) that the full sample did (38.5). All other countries were optimistic too: Germans gave themselves 49 per cent against the full sample's 36 per cent and the United Kingdom 39 per cent against 22 per cent.

Ghost shopping

This involves researchers posing as buyers. These 'ghost shoppers' can even present specific problems in order to test whether the company's personnel handle difficult situations well. For example, ghost shoppers can complain about a restaurant's food to see how the restaurant handles this complaint. Research International's Mystery Shopper surveys can measure many dimensions of customer performance. By telephoning it can measure a firm's telephone technique: how many rings it takes to answer, the sort of voice and tone and, if transferred, how many leaps it took before being correctly connected.

Managers themselves should leave their offices from time to time and experience first-hand the treatment they receive as 'customers'. As an alternative, managers can phone their companies with different questions and complaints to see how the call is handled.

Lost customer analysis

Companies should contact customers who have stopped buying or who have switched to a competitor, to learn why this happened. Not only should the company conduct such *exit interviews*, it should also monitor the *customer loss rate*. A rising loss rate indicates that the company is failing to satisfy its customers.⁷

Universities and colleges usually compete by putting on new or improved courses or attracting excellent teachers, but one college's lost customer survey found major reasons for prospective students deciding to study elsewhere that were far from academic. Many prospective students and parents who visited mentioned the unsatisfactory state of the toilets in the Students' Union. Others mentioned the state of the décor in some of the student halls of residence.

Delivering customer value and satisfaction

Customer value and satisfaction are important ingredients in the marketer's formula for success. But what does it take to produce and deliver customer value? To answer this, we will examine the concepts of a *value chain* and *value delivery system*.

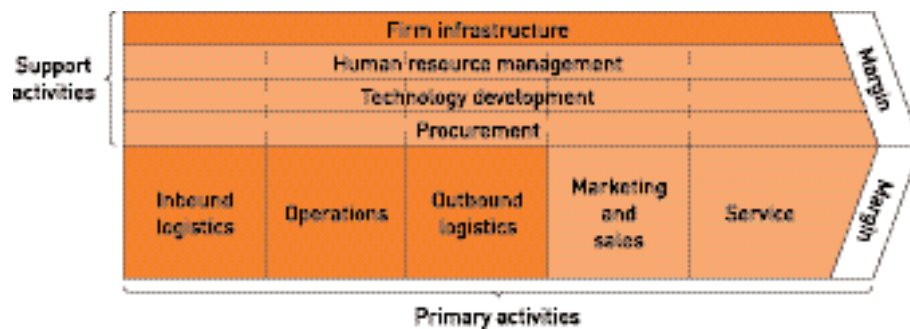
Value chain

Michael Porter proposed the **value chain** as the main tool for identifying ways to create more customer value (see Figure 11.2).⁸ Every firm consists of a collection of activities performed to design, produce, market, deliver and support the firm's products. The value chain breaks the

Value chain—A major tool for identifying ways to create more customer value.

Figure 11.2 The generic value chain

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firm into nine value-creating activities in an effort to understand the behaviour of costs in the specific business and the potential sources of competitive differentiation. The nine value-creating activities include five primary activities and four support activities.

The primary activities involve the sequence of bringing materials into the business (inbound logistics), operating on them (operations), sending them out (outbound logistics), marketing them (marketing and sales) and servicing them (service). For a long time, firms have focused on the product as the primary means of adding value, but customer satisfaction also depends upon the other stages of the value chain.⁹ The support activities occur within each of these primary activities. For example, procurement involves obtaining the various inputs for each primary activity – only the purchasing department does a fraction of procurement. Technology development and human resource management also occur in all departments. The firm's infrastructure covers the overhead of general management, planning, finance, accounting and legal and government affairs borne by all the primary and support activities.

Under the value-chain concept, the firm should examine its costs and performance in each value-creating activity to look for improvements. It should also estimate its competitors' costs and performances as benchmarks. To the extent that the firm can perform certain activities better than its competitors, it can achieve a competitive advantage.

The firm's success depends not only on how well each department performs its work, but also on how well the activities of various departments are coordinated. Too often, individual departments maximise their own interests rather than those of the whole company and the customer. For example, a credit department might attempt to reduce bad debts by taking a long time to check the credit of prospective customers: meanwhile, salespeople get frustrated and customers wait. A distribution department might decide to save money by shipping goods by rail; again the customer waits. In each case, individual departments have erected walls that impede the delivery of quality customer service.

To overcome this problem, companies should place more emphasis on the smooth management of *core business processes*, most of which involve inputs and cooperation from many functional departments. These core business processes include the following:

- *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, semi-finished materials and finished goods, so that adequate supplies are available while the costs of high overstocks are avoided.
- *Order-to-payment process.* All the activities involved in receiving orders, approving them, shipping the goods on time and collecting payment.
- *Customer service process.* All the activities involved in making it easy for customers to reach the right parties within the company to obtain service, answers and resolutions of problems.

Chapter 11 Relationship marketing

Successful companies develop superior capabilities in managing these and other core processes. In turn, mastering core business processes gives these companies a substantial competitive edge.

Many Internet companies have fallen at the final, *customer service*, stage of the value chain. The fear of a faceless company is real among customers, especially in France and Italy, yet a recent survey found that only one-fifth of websites had human contact available through them. Across Europe only a minority of Internet users are willing to make a purchase without some personal contact, even from a well-known company. This reliance on a single, impersonal link with customers is said to account for the slow uptake of Internet shopping in Europe and, according to Datamonitor, is likely to cost European companies €150 billion by 2004.¹⁰

In its search for competitive advantage, the firm needs to look beyond its own value chain, into the value chains of its suppliers, distributors and, ultimately, customers. More companies today are ‘partnering’ with the other members of the supply chain to improve the performance of the **customer value delivery system**. For example:

Online Music Recognition and Searching (OMRS) is a new service that will help record stores find what people want. Many customers enter stores with a snippet of a tune in their mind and depend upon the store’s staff to recognise a few lyrics or a half-remembered tune. Unfortunately, few people in record stores have the archivist’s memory of the enthusiasts running the record store in Nick Hornby’s *Hi-Fidelity*. OMRS overcomes the problem. Customers can hum a part of a tune that is mathematically analysed and compared with a database of recordings. The result: the customer gets the music they want, the record store makes the sale and OMRS gets a reward for their services.¹¹ ”

Customer value delivery system

—The system made up of the value chains of the company and its suppliers, distributors and ultimately customers, who work together to deliver value to customers.

As companies struggle to become more competitive, they are turning, ironically, to greater cooperation. Companies used to view their suppliers and distributors as cost centres and, in some cases, as adversaries. Today, however, they are selecting partners carefully and working out mutually profitable strategies. Increasingly in today’s marketplace, competition no longer takes place between individual competitors. Rather, it takes place between the entire value delivery systems created by these competitors.

Therefore, marketing can no longer be thought of as only a selling department. That view of marketing would give it responsibility only for formulating a promotion-oriented marketing mix, without much to say about product features, costs and other important elements. Under the new view, marketing is responsible for *designing and managing a superior value delivery system to reach target customer segments*. Today’s marketing managers must think not only about selling today’s products, but also about how to stimulate the development of improved products, how to work actively with other departments in managing core business processes and how to build better external partnerships.¹²

Total quality management

Customer satisfaction and company profitability are linked closely to product and service quality delivered through the whole value chain. Higher levels of quality result in greater customer satisfaction, while at the same time supporting higher prices and often lower costs. Therefore, *quality improvement programmes* normally increase profitability. The Profit Impact of Marketing Strategies studies show similarly high correlation between relative product quality and profitability for Europe and the US (see Figure 11.3).¹³

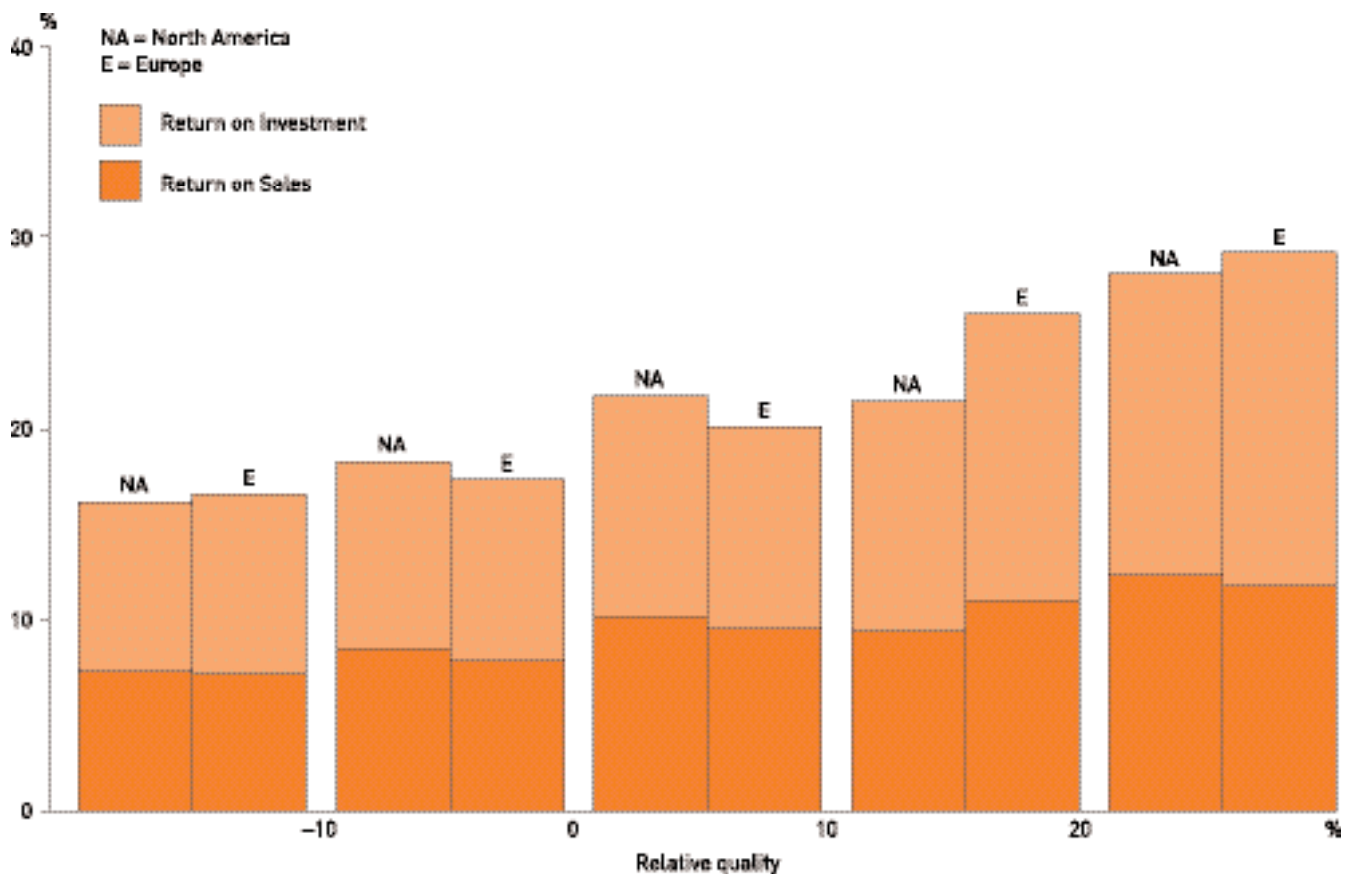


Figure 11.3 Relative quality boosts rate of return

SOURCE: Bob Luchs, 'Quality as a strategic weapon: measuring relative quality, value and market differentiation', *European Business Journal*, 2, 4 (1990), p. 39

The task of improving product and service quality should be a company's top priority. Most customers will no longer tolerate poor or average quality. Companies today have no choice but to adopt total quality management if they want to stay in the race, let alone be profitable. According to GE's chairman, John F. Welch, Jr: 'Quality is our best assurance of customer allegiance, our strongest defense against foreign competition and the only path to sustained growth and earnings.'¹⁴

Quality—The totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs.

Quality has been variously defined as 'fitness for use', 'conformance to requirements' and 'freedom from variation'.¹⁵ The American Society for Quality Control defines quality as the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs. This is a customer-centred definition of quality. It suggests that a company has 'delivered quality' whenever its product and service meets or exceeds customers' needs, requirements and expectations.

It is important to distinguish between performance quality and conformance quality. *Performance quality* refers to the *level* at which a product performs its functions. Compare Smart Car and Lexus, Toyota's luxury brand. A Lexus provides higher performance quality than a Smart Car: it has a smoother ride, handles better and lasts longer. It is more expensive and sells to a market with higher means and requirements. *Conformance quality* refers to freedom from defects and the *consistency* with which a product delivers a specified level of performance. Both Lexus and Smart have exceptional reliability records and could offer equivalent conformance quality to their respective markets, since each consistently delivers what its market expects. A €100,000 car that meets all of its requirements is a quality car; so

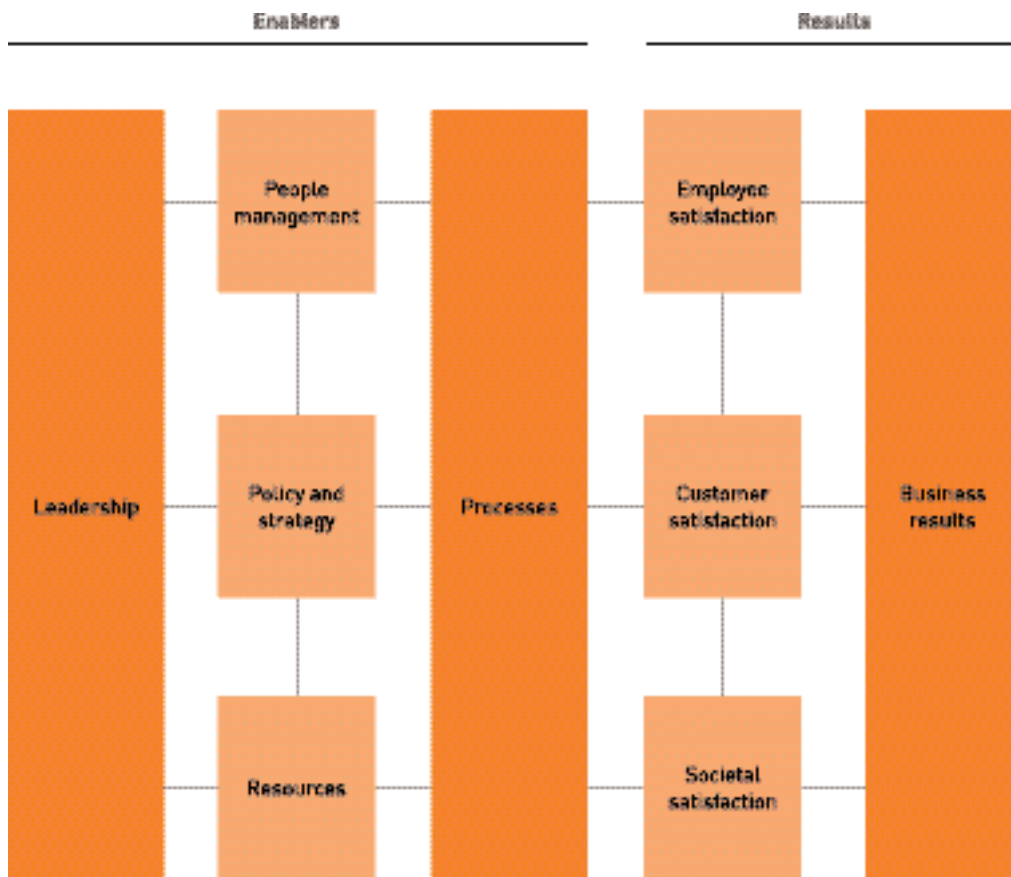


Figure 11.4 The European Foundation for Quality Management's model of business excellence

is a €10,000 car that meets all of its requirements. However, if the Lexus handles badly or if the Smart Car gives poor fuel efficiency, then both cars fail to deliver quality, and customer satisfaction suffers accordingly.

In the European Foundation for Quality Management's excellence model (Figure 11.4) marketing shares the responsibility for striving for the highest quality of a company, product or service. Marketing's commitment to the whole process needs to be particularly strong because of the central role of customer satisfaction to both marketing and **total quality management (TQM)**. Within a quality-centred company, marketing management has two types of responsibility. First, marketing management participates in formulating the *strategies and policies* that direct *resources* and strive for quality excellence. Secondly, marketing has to deliver marketing quality alongside product quality. It must perform each marketing activity to consistently high standards: marketing research, sales training, advertising, customer services and others. Much damage can be done to customer satisfaction with an excellent product if it is oversold or is 'supported' by advertising that builds unrealistic expectations.

Within quality programmes, marketing has several roles. Firstly, it has responsibility for correctly identifying customers' needs and wants, and for communicating them correctly to aid product design and to schedule production. Secondly, marketing has to ensure that customers' orders are filled correctly and on time, and must check to see that customers receive proper instruction, training and technical assistance in the use of their product. Thirdly, marketers must stay in touch with customers after the sale, to make sure that they remain satisfied. Finally, marketers must gather and convey customers' ideas for product and service improvement back to the company.

Total quality management (TQM)—Programmes designed to constantly improve the quality of products, services, and marketing processes.

TQM has played an important role in educating businesses that quality is more than products and services being well produced, but is about what marketing has been saying all the time: *customer satisfaction*. At the same time, TQM extends marketing's view to realise that the acquisition, retention and satisfaction of good employees is central to the acquisition, retention and satisfaction of customers.¹⁶

Total quality is the key to creating customer value and satisfaction. Total quality is everyone's job, just as marketing is everyone's job:

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, marketing strategists – we have to think of ourselves as customer satisfiers – customer advocates focused on whole processes.¹⁷

Marketers must spend time and effort not only to improve external marketing, but also to improve internal marketing. Marketers must be the customer's watchdog or guardian, complaining loudly for the customer when the product or the service is not right. Marketers must constantly uphold the standard of 'giving the customer the best solution'.

Customer value

There is no limit to how much a company could spend to improve quality, or in other marketing efforts, to obtain and retain customers. This raises the critical question: how much is a customer worth? Companies are increasingly realising that the answer is a great deal. AOL's Internet acquisitions, and Orange's telecommunications acquisitions, suggest values approaching €10,000 per customer.¹⁸

Internet companies are willing to pay a high price for prospective customers because they hope to turn them into *profitable customers*. We define a **profitable customer** as a person, household or company whose revenues over time exceed, by an acceptable amount, the company's costs of attracting, selling and servicing that customer. Note that the definition emphasises lifetime revenues and costs, not profit from a single transaction. Here are some dramatic illustrations of **customer lifetime value**:

Tom Peters, noted author of several books on managerial excellence, runs a business that spends \$1,500 a month on Federal Express service. His company spends this amount 12 months a year and expects to remain in business for at least another 10 years. Therefore, he expects to spend more than \$180,000 on future Federal Express service. If Federal Express makes a 10 per cent profit margin, Peters' lifetime business will contribute \$18,000 to Federal Express's profits. Federal Express risks all of this profit if Peters receives poor service from a Federal Express driver or if a competitor offers better service.

Profitable customer—

A person, household or company whose revenues over time exceed, by an acceptable amount, the company's costs of attracting, selling and servicing that customer.

Customer lifetime value—

The amount by which revenues from a given customer over time will exceed the company's costs of attracting, selling and servicing that customer.

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Few companies actively measure individual customer value and profitability. For example, banks claim that this is hard to do because customers use different banking services and transactions are logged in different departments. However, banks that have managed to link customer transactions and measure customer profitability have been appalled by how many unprofitable customers they find. Some banks report losing money on over 45 per cent of their retail customers. It is not surprising that many banks now charge fees for services that they once supplied free.

Customer retention

In the past, many companies took their customers for granted. Customers often did not have many alternative suppliers, or the other suppliers were just as poor in quality and service, or the market was growing so fast that the company did not worry about fully satisfying its customers. A company could lose 100 customers a week, but gain another 100 customers and consider its sales to be satisfactory. Such a company, operating on a 'leaky bucket' theory of business, believes that there will always be enough customers to replace the defecting ones. However, this high *customer churn* involves higher costs than if a company retained all 100 customers and acquired no new ones.

Companies must pay close attention to their customer defection rate and undertake steps to reduce it. First, the company must define and measure its retention rate. For a magazine, it would be the renewal rate; for a consumer packaged-goods firm, it would be the repurchase rate. Next, the company must identify the causes of customer defection and determine which of these can be reduced or eliminated. Not much can be done about customers who leave the region or about business customers who go out of business. But much can be done about customers who leave because of shoddy products, poor service or prices that are too high. The company needs to prepare a frequency distribution showing the percentage of customers who defect for different reasons.

A satisfaction study can show how a company has been misplacing its effort.

A satisfaction benchmarking study for a restaurant showed that customers rated highly the restaurant's *décor* and the *size of the portions* served. However, the customers did not rate these two criteria as important. In contrast customers thought that the *quality of food* and *cleanliness of toilets* were very important but dimensions on which the restaurant performed poorly. On other dimensions that the customers thought important, the restaurant did fine: *overall cleanliness*, *speed of service* and *helpfulness of staff*. The benchmarking study clearly showed how the restaurant could improve customer satisfaction and, maybe, cut costs by reducing portions. ”

It is well known in service industries, where de-skilled McJobs abound, that employee satisfaction and retention precede customer satisfaction and retention. The relationship is also strong in rapid growth industries where the poaching of staff drives up wages and in many markets where making sales depends on the continuity of long-term relationships with key accounts. The SAS Institute, the world's largest software company, sees a close relationship between its performance and labour turnover. Its employee-oriented management keeps annual labour turnover at 4 per cent compared with an industry average of 20 per cent. SAS's methods go beyond the €65,000 of M&Ms it doles out to its 7,500 employees each year. The company keeps working hours down, has free healthcare on

‘campus’, plus gyms, tennis courts, theatres and other benefits. Employees sing the praises of the company and keep customers well satisfied – 98 per cent of them renew their licences on SAS software each year!¹⁹

Customers incur switching costs when they change suppliers. Switching costs are beyond the purchase price and include learning how to use a new product or service, the time selecting a new supplier and the difficulty of operating the new product alongside products already owned. This ‘self-incompatibility’ or ‘weak lock-in’ is very common and faced by many consumers when they switch banks, Internet service providers, Microsoft versions, from vinyl or cassette to CDs, or from VCR to DVD. Despite the cost, customers do switch when a better offer comes along. There is little evidence of any ‘strong lock-in’ where incompatibility gives a leading company a lasting advantage.²⁰ Having the best product or service is more important than being the first to market, or having a large customer base. Customers accept ‘self-incompatibility’ and switch when better offers come along.

By reducing customer defections by only 5 per cent, companies can improve profits by anywhere from 25 to 85 per cent.²¹ Unfortunately, classic marketing theory and practice centre on the art of attracting new customers rather than retaining existing ones. The emphasis has been on creating *transactions* rather than *relationships*. Discussion has focused on *pre-sale activity* and *sale activity* rather than on *post-sale activity*. Today, however, more companies recognise the importance of retaining current customers by forming relationships with them.

Relationship marketing

Relationship marketing—

The process of creating, maintaining and enhancing strong, value-laden relationships with customers and other stakeholders.

Relationship marketing involves creating, maintaining and enhancing strong relationships with customers and other stakeholders. Increasingly, marketing is moving away from a focus on individual transactions and towards a focus on building value-laden relationships and marketing networks. Relationship marketing is oriented more towards the long term. The goal is to deliver long-term value to customers and the measure of success is long-term customer satisfaction. Relationship marketing requires that all of the company’s departments work together with marketing as a team to serve the customer. It involves building relationships at many levels – economic, social, technical and legal – resulting in high customer loyalty.

We can distinguish five different levels or relationships that can be formed with customers who have purchased a company’s product, such as a car or a piece of equipment:

- *Basic.* The company salesperson sells the product, but does not follow up in any way.
- *Reactive.* The salesperson sells the product and encourages the customer to call whenever he or she has any questions or problems.
- *Accountable.* The salesperson phones the customer a short time after the sale to check whether the product is meeting the customer’s expectations. The salesperson also solicits from the customer any product improvement suggestions and any specific disappointments. This information helps the company continuously to improve its offering.
- *Proactive.* The salesperson or others in the company phone the customer from time to time with suggestions about improved product use or helpful new products.
- *Partnership.* The company works continuously with the customer and with other customers to discover ways to deliver better value.

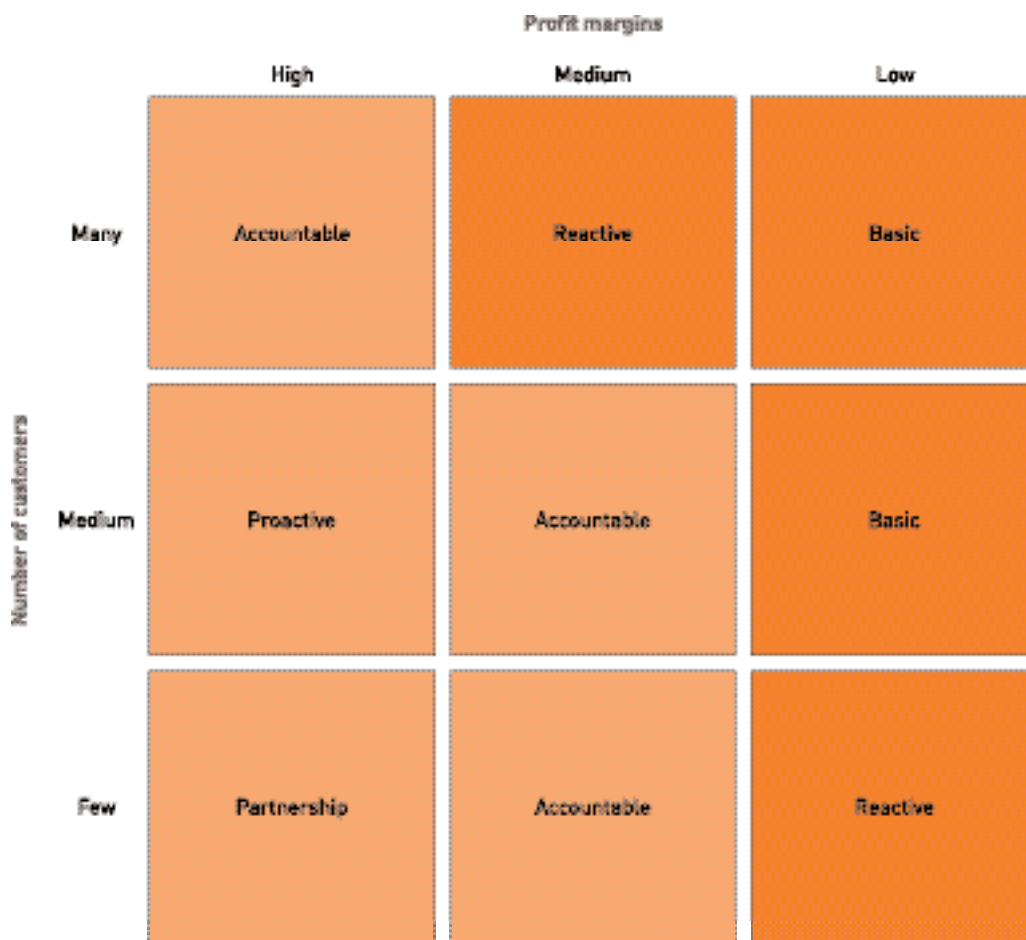


Figure 11.5 Relationship levels as a function of profit margin and number of customers

Figure 11.5 shows that a company’s relationship marketing strategy will depend on how many customers it has and their profitability. For example, companies with many low-margin customers will practise *basic* marketing. Thus Heineken will not phone all of its drinkers to express its appreciation for their business. At best, Heineken will be reactive by setting up a customer information service. At the other extreme, in markets with few customers and high margins, most sellers will move towards partnership marketing. In exploring the Airbus A340–500 and A340–600, a very large commercial transport, Airbus Industries will work closely with the aero-engine manufacturers as well as with Lufthansa, Virgin Atlantic, Ryanair and KLM, who have shown interest in buying the aircraft. For these businesses, the emphasis has to be on *network marketing*, where the interdependence of firms means they are part of an interdependent network. Marketing Insights 11.2 explores this approach.

What specific marketing tools can a company use to develop stronger customer bonding and satisfaction? It can adopt any of three customer value-building approaches.²² The first relies primarily on adding *financial benefits* to the customer relationship. For example, airlines offer frequent-flyer programmes, hotels give room upgrades to their frequent guests, and supermarkets give patronage refunds.

Although these reward programmes and other financial incentives build customer preference, they can be easily imitated by competitors and thus may fail to differentiate the company’s offer permanently. The second approach is to add *social benefits* as well as financial

11.2 Network marketing: we are not alone . . .

Most companies do not sell to final consumers, but provide products and services to other businesses to which they have to be closely allied. For example, Messier Dowty, makers of landing gear for aircraft, cannot design or market its products in isolation since its landing gear is only of any use if 'designed into' an aircraft. The company, therefore, is part of a *network* including airforces as well as the supplier of tyres for its landing gear. Messier Dowty itself is the result of another network, since it is an Anglo-French joint venture between the TI group and Snecma.

Originating from Scandinavian research, network marketing accepts the influence of a web of interdependencies between firms. Relationship marketing has a clear focus on a business managing the relationship life cycle with its customers, while network marketing recognises interdependencies and a wider range of stakeholders. Exhibit 11.1 compares both network and relationship marketing with the traditional marketing based on discrete transactions. It shows that transaction and relationship marketing are similar in that they are both 'done by the seller to the buyer'. In contrast, network marketing is only prescriptive in emphasising the importance of networks in understanding how firms behave rather than telling of a winning strategy. The alternative use of the term 'markets-as-networks' in place of network marketing gives a better impression of its passive role.

Exhibit 11.1 Comparison of transactional, relationship and network marketing

	Transactional marketing	Relationship marketing	Network marketing
Focus	Profitable transactions	Profitable relationships	Links between organisations
Players	Buyers and sellers in an open market	Buyers and sellers in a relationship	Seller, buyer and other organisations
Communications	Firm to market	Individual to individual	Organisation at many levels
Communications style	Arm's length	Interpersonal	Multipersonal
Duration	Discrete	Life cycle	Continuous but of varying intensity
Formality	Formal	Managed	Interactive
Power	Active seller	Seller manages	Reciprocal relationships

Interest in markets-as-networks grew out of the general trend in business for firms to emphasise 'partnership' and 'strategic alliances'. This trend goes beyond marketing to include buying, distribution, R&D and manufacturing. Long before relationship marketing was recognised, leading businesses had developed 'relationship buying', where Japanese companies in particular established very close links with a few preferred suppliers. Many leading companies, including retailers, have now adopted this approach to the extent that the buyer dictates the R&D and product, as well as the sales and marketing of the seller.

When firms and people find relatively simple two-way networks very complicated, it is not surprising that multi-member networks are hard to manage. In high-spending sectors, such as defence and aerospace, Europe's national competitors are failing against the rapidly integrating US industry as reflected in the Boeing-MacDonnell Douglas combine. Airbus hopes to compete with Boeing's 777 and smaller 747 with its Airbus A340-600, but for it to do so the owners of Airbus have to agree. That means obtaining the agreement of Britain's BAe, France's Aérospatiale, Germany's DASA and Spain's Casa, as well as the governments which will have to pay one-third of the development costs. Because of the UK government's reluctance to provide \$120 million, BAe is talking to manufacturers in Italy, China, Taiwan, Malaysia and North America, in the hope that their governments will be more generous. As a result of this confusion, European politicians have called for a swift restructuring of Airbus. Some network! No wonder the Eurofighter is struggling to stay in the air!

SOURCES: Roderick J. Bridie, Nicole E. Coviello, Richard W. Brohner and Victoria Little, 'Towards a paradigm shift in marketing? An examination of current marketing practices', *Journal of Marketing Management*, **13**, 5 (1997), pp. 383-406; Lars-Gunnar Mattson, 'Relationship marketing' and 'The markets-as-networks approach – a comparative analysis of two evolving streams of research', *Journal of Marketing Management*, **13**, 5 (1997); 'Eurofighter partner nations want to renegotiate price of aircraft', *AXA Europe (Focus)* (19 September 2003); 'EADS suggest production integration for Eurofighter', *Le Figaro* (12 November 2002); 'Airbus A340-500 gets European take-off permission', *Les Echos* (10 December 2003); 'Airbus appeals for cost cuts', *Le Figaro* (2 June 2003).

benefits. Here company personnel work to increase their social bonds with customers by learning individual customers' needs and wants, and then individualising and personalising their products and services.

The third approach to building strong customer relationships is to add *structural ties* as well as financial and social benefits. For example, a business marketer might supply customers with special equipment or computer linkages that help them manage their orders, payroll or inventory. An investment banker, J.P. Morgan, provides its RiskMetrics financial risk measurement system free of charge to its customers. It has two reasons for doing so. First, says the company, it will promote greater transparency to risk and so help identify problems. Second, J.P. Morgan must also be hoping that the association of its name with a widely accepted benchmarking system will yield long-term commercial advantages, partly through

strengthening ties with existing customers. There are clear customer needs here. In the 12 months prior to RiskMetrics' release, estimated derivatives losses by firms, including Metallgesellschaft and Kashima Oil, approached €20 billion.²³

The main steps in establishing a relationship-marketing programme in a company are as follows.

- *Identify the key customers meriting relationship management.* Choose the largest or best customers and designate them for relationship management. Other customers can be added that show exceptional growth or pioneer new industry developments.
- *Assign a skilled relationship manager to each key customer.* The salesperson currently servicing the customer should receive training in relationship management or be replaced by someone more skilled in relationship management. The relationship manager should have characteristics that match or appeal to the customer.
- *Develop a clear job description for relationship managers.* Describe their reporting relationships, objectives, responsibilities and evaluation criteria. Make the relationship manager the focal point for all dealings with and about the client. Give each relationship manager only one or a few relationships to manage.
- *Have each relationship manager develop annual and long-range customer relationship plans.* These plans should state objectives, strategies, specific actions and required resources.
- *Appoint an overall manager to supervise the relationship managers.* This person will develop job descriptions, evaluation criteria and resource support to increase relationship manager effectiveness.

Volvo's Oncore and Care programmes recognise that the company has multiple relationships with its customers and ensure systematic approaches and consistent treatment across them:²⁴

	Corporate clients	Drivers (corporate clients' employees)	Dealers
Volvo	Relationships govern Volvo's inclusion on entitlement list (the make of employee's company cars)	Volvo maintains a direct marketing relationship with all drivers of its cars	Volvo works hard with all its dealer network to maintain and improve its standards
Dealers	Local dealers usually deliver and service the cars	Dealers are the front line of meeting the drivers' expectations	
Drivers	Agreements reached affect which models are available to clients' employees		

When it has properly implemented relationship management, the organisation begins to focus on managing its customers as well as its products. At the same time, although many companies are moving strongly towards relationship marketing, it is not effective in all situations:

When it comes to relationship marketing . . . you don't want a relationship with every customer. . . . In fact, there are some bad customers. [The objective is to] figure out which customers are worth cultivating because you can meet their needs more effectively than anyone else can.²⁵

In the end, companies must judge which segments and which specific customers will be profitable.

Customer relationship management

Companies are awash with information about their customers. Smart companies capture information at every possible customer *touch point*. These touch points include customer purchases, sales force contacts, service and support calls, website visits, satisfaction surveys, credit and payment interactions, market research studies – every contact between the customer and the company.

The trouble is that this information is usually scattered widely across the organisation. It is buried deep in the separate databases, plans and records of many different company functions and departments. To overcome such problems, many companies use customer relationship management (CRM) to manage detailed information about individual customers and carefully manage customer 'touchpoints'. In recent years, there has been an explosion in the number of companies using CRM. One research firm found that 97 per cent of businesses plan to boost spending on CRM technology within the next two years.²⁶

CRM consists of sophisticated software and analytical tools that integrate customer information from all sources, analyse it in depth, and apply the results to build stronger customer relationships. CRM integrates everything that a company's sales, service and marketing teams know about individual customers to provide a 360-degree view of the customer relationship. It pulls together, analyses and provides easy access to customer information from all of the various touch points. Companies use CRM analysis to assess the value of individual customers, identify the best ones to target, and customise the company's products and interactions to each customer.

CRM analysts develop data warehouses and use sophisticated data mining techniques to unearth the riches hidden in customer data. A data warehouse is a company-wide electronic storehouse of customer information – a centralised database of finely detailed customer data that needs to be sifted through for gems. The purpose of a data warehouse is not to gather information – many companies have already amassed endless stores of information about their customers. Rather, the purpose is to allow managers to integrate the information the company already has. Then, once the data warehouse brings the data together for analysis, the company uses high-powered data mining techniques to sift through the mounds of data and dig out interesting relationships and findings about customers.

Companies can gain many benefits from customer relationship management. By understanding customers better, they can provide higher levels of customer service and develop deeper customer relationships. They can use CRM to pinpoint high-value customers, target them more effectively, cross-sell the company's products, and create offers tailored to specific customer requirements. Consider the following examples:²⁷

- MVC uses CRM in conjunction with its More Card to maintain its market position in the recorded music and video market against discounters and megastores. Besides giving regular customers discounts on purchases, their CRM identifies customer's buying patterns and targets special promotions and deals. A recent European campaign coincided with the annual Country Music Awards in Nashville. This ceremony interests few

European music lovers but MVC knew which of their customers bought country music and anticipated that they would read, hear or see news of the ceremony in the media. Their promotion attracted country music followers to their store by promoting the back catalogue of Lonestar, Alan Jackson, Alison Krauss, and others. Once at the store the country music fan faced the promoted products on a display close to the entrance and many albums available for instore sampling.

- Ping, the golf equipment manufacturer, has used CRM successfully for about two years. Its data warehouse contains customer-specific data about every golf club it has manufactured and sold for the past 15 years. The database, which includes grip size and special assembly instructions, helps Ping design and build golf clubs specifically for each of its customers and allows for easy replacement. If a golfer needs a new nine iron, for

CRM is big business with many companies, such as PeopleSoft, offering to help 'capitalise on every customer interaction across your enterprise'.

SOURCE: People Soft UK & Ireland.



Customers are an investment. Maximize your return.

PeopleSoft Customer Relationship Management lets you capitalize on every customer interaction across your enterprise.

Only PeopleSoft CRM is fast to implement, easy to use, and delivers smart business processes for managing your customer relationships. It integrates real-time information across your organization to help determine the most profitable ways to manage customers. Simply, PeopleSoft CRM turns every point of customer contact into a profit opportunity. Learn more by visiting us at www.peoplesoft.com/realtime or call 1-888-773-8277.

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example, he can call in the serial number and Ping will ship an exact club to him within two days of receiving the order – a process that used to take two to three weeks. . . . This faster processing of data has given Ping a competitive edge in a market saturated with new products. ‘We’ve been up; the golf market has been down’, says Steve Bostwick, Ping’s marketing manager. Bostwick estimates the golf market to be down about 15 per cent, but he says Ping has experienced double-digit growth.

CRM benefits do not come without cost or risk, not only in collecting the original customer data but also in maintaining and mining it. Worldwide, companies will spend an estimated €25 billion to €50 billion this year on CRM software alone from companies such as PeopleSoft, Siebel Systems, SAP, Oracle and SPSS. Yet more than half of all CRM efforts fail to meet their objectives. The most common cause of CRM failures is that companies mistakenly view CRM only as a technology and software solution.²⁸ But technology alone cannot build profitable customer relationships. ‘CRM is not a technology solution – you can’t achieve . . . improved customer relationships by simply slapping in some software’, says a CRM expert. Instead, CRM is just one part of an effective overall *customer relationship strategy*. ‘Focus on the R’, advises the expert. ‘Remember, a relationship is what CRM is all about.’²⁹

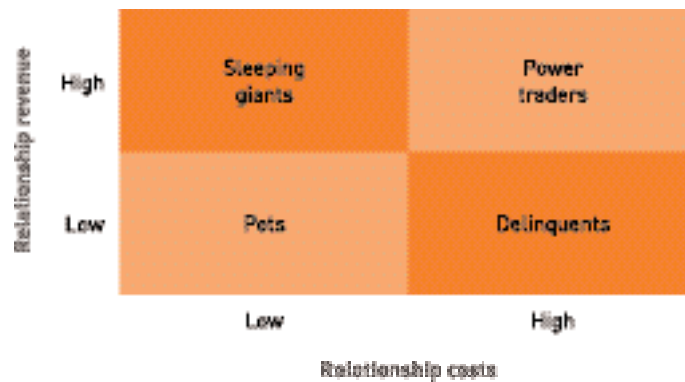
When it works, the benefits of CRM can far outweigh the costs and risks. Based on regular polls of its customers, Siebel Systems claims that customers using its CRM software report an average 16 per cent increase in revenues and 21 per cent increase in customer loyalty and staff efficiency. ‘No question that companies are getting tremendous value out of this’, says a CRM consultant. ‘Companies [are] looking for ways to bring disparate sources of customer information together, then get it to all the customer touch points.’ The powerful new CRM techniques can unearth ‘a wealth of information to target that customer, to hit their hot button.’³⁰

When to use relationship marketing

Relationship marketing is not effective in all situations, although CRM systems are reducing the value threshold at which it becomes appropriate. Transaction marketing, which focuses on one sales transaction at a time, is more appropriate than relationship marketing for customers who have short time horizons and can switch from one supplier to another with little effort or investment. This situation often occurs in ‘commodity’ markets, such as steel, where various suppliers offer largely undifferentiated products. A customer buying steel can buy from any of several steel suppliers and choose the one offering the best terms on a purchase-by-purchase basis. The fact that one steel supplier works at developing a longer-term relationship with a buyer does not automatically earn it the next sale; its price and other terms still have to be competitive. Global e-procurement systems, like the motor industry’s Covisint and aerospace’s Exostar, where buyers flag their requirements on the Internet, are tightening profit margins and breaking down close relationships between buyers and suppliers. For example, by using Internet auctions and exchanges BAe decreased its purchasing bill by 5 per cent and its number of suppliers from 14,000 to 2,000.³¹

In contrast, relationship marketing can pay off handsomely with customers that have long time horizons and high switching costs, such as buyers of office automation systems. It can also be part of an e-procurement system, such as Covisint, that will involve suppliers in new product development. When buying complex systems, buyers usually research competing suppliers carefully and choose one from whom they can expect state-of-the-art technology and good long-term service. Both the customer and the supplier invest a lot of money and time in building the relationship. The customer would find it costly and risky to switch to another supplier and the seller would find that losing this customer would be a considerable loss. Thus each seeks to develop a solid long-term working relationship with the other. It is with such customers that relationship marketing has the greatest pay-off.

Figure 11.6 Comparing customer relationship revenues with relationship costs



In these situations, the ‘in-supplier’ and ‘out-supplier’ face very different challenges. The in-supplier tries to make switching difficult for the customer. It develops product systems that are incompatible with those of competing suppliers and installs its own ordering systems which simplify inventory management and delivery. It works to become the customer’s indispensable partner. Out-suppliers, in contrast, try to make it easy and less costly to switch suppliers. They design product systems that are compatible with the customer’s system, that are easy to install and learn, that save the customer a lot of money, and that promise to improve through time.

The appropriateness of transaction versus relationship marketing depends on the type of industry and the wishes of the particular customer. Some customers value a high-service supplier and will stay with that supplier for a long time. Other customers want to cut their costs and will switch suppliers readily to obtain lower costs.

Thus relationship marketing is not the best approach in all situations. For it to be worthwhile, relationship revenue needs to exceed relationship costs. Figure 11.6 suggests that some customers are very profitable *sleeping giants*, which generate significant revenue and are profitable but relatively undemanding. Much of the relationship marketing activity is taken up by the *power traders*, which provide significant revenue but are demanding. These are as profitable as the *pets*, which provide little revenue but have appropriately small relationship costs. Transaction marketing is probably adequate for these. The most difficult group is the *delinquents*, which provide little revenue but are demanding. What can a company do about these? One option is to shift the *delinquent* customers to products that are likely to be less difficult to operate or less complicated. Prepaid mobile phone services do this by providing contracts to less well-off customers who prepay for the phone’s use. Banks’ high charges on unnegotiated overdrafts are a way of doing this. If these actions cause the unprofitable customer to defect, so be it. In fact, the company might benefit by *encouraging* these unprofitable customers to switch to competition.

Summary

Today's customers face a growing range of choices in the products and services they can buy. They base their choices on their perceptions of *quality*, *value* and *service*. Companies need to understand the determinants of *customer value* and *satisfaction*. *Customer delivered value* is the difference between *total customer value* and *total customer cost*. Customers will normally choose the offer that maximises their delivered value.

Customer satisfaction is the outcome felt by buyers who have experienced a company performance that has fulfilled expectations. Customers are satisfied when their expectations are met and delighted when their expectations are exceeded. Satisfied customers remain loyal longer, buy more, are less price sensitive and talk favourably about the company. To be known, customer satisfaction has to be measured and there are several established ways of doing this.

To create customer satisfaction, companies must manage their own *value chains* and the entire *value delivery system* in a customer-centred way. The company's goal is not only to get customers, but, even more importantly, to retain customers. *Total quality management* has become a leading approach to providing customer satisfaction and company profitability across the whole value chain. Delivering quality requires total management and employee commitment as well as measurement and reward systems. Marketers play an especially critical role in their company's drive towards higher quality.

Customer relationship marketing provides the key to retaining customers and involves building financial and social benefits as well as structural ties to customers. *Customer relationship marketing* systems integrate strategy, IT and relationship marketing to deliver value to customers and treat them individually. Companies must decide the level at which they want to build relationships with different market segments and individual customers, from such levels as basic, reactive, accountable and proactive to full partnership. Which is best depends on a customer's lifetime value relative to the costs required to attract and retain that customer.

Discussing the issues

1. Describe a situation in which you became a 'lost customer'. Did you drop the purchase because of poor product quality, poor service quality or both? What should the firm do to 'recapture' lost customers?
2. Recall a purchase experience in which the sales assistant or some other representative of an organisation went beyond the normal effort and 'gave his/her all' to produce the utmost in service quality. What impact did the noticeable effort have on the purchase outcome?
3. Total quality management is an important approach to providing customer satisfaction and company profits. How might total quality be managed for the following product and service offerings: (a) a packaged food product; (b) a restaurant meal; (c) a public utility (such as power supply or garbage collection); (d) a family holiday; (e) a university education?
4. Recall incidents when you have purchased, or tried to purchase, similar items through two or more of the Internet direct marketing call centres or bricks-and-mortar stores. How does the meaning of service quality differ across the three channels and how did they compare in operation?
5. Thinking of the operation of a not-for-profit organisation, such as a charity, propose some ways in which relationship marketing could help them collect money from donors.

Applying the concepts

1. Write a letter of complaint to a firm about one of its products or services. What was the firm's response? Did you receive a refund or replacement product, a response letter or no reply at all? How does the type of response affect your attitude towards the company?
2. Determine two or three relatively obscure subjects on which you could need to purchase a book, for example house prices, the history of puppetry or Portuguese cooking. Then visit several Web book retailers and compare the quality of their service and the mechanisms they use to build relationships into their service (sites could include amazon.com, amazon.co.uk, bol.com, barnesandnoble.com). Compare the best with a search at a local bricks-and-mortar bookstore.

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Concluding concepts 11

National Gummi AB



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National Gummi has problems. For them it is a new problem, but it is close to that being faced by many small to medium-sized companies these days as their major local customers become part of major multinational companies. Years spent building up relationships with them are in danger of being devalued as their customer's HQ is suddenly centred in a new culture oceans away. What is even more worrying is the standardisation of products; the rationalisation of suppliers and the use of alien e-purchasing systems often follow the consolidation of companies into global giants. All this is happening to National Gummi AB whose major customers, Ford and GM, have swallowed Saab and Volvo, respectively.

National Gummi make rubber seals that go round the doors and windows of vehicles.

National Gummi is a small company situated in the south of Sweden. Founded in 1941, it is now managed by the third generation of the founding family. It has 145 employees and a turnover of SKr 175 m (€20m). National Gummi's main business is making rubber seals that go round the doors and windows of vehicles. Between them Saab and Volvo account for two-thirds of National Gummi's turnover, so to lose their business would be catastrophic. Through

close personal relationships over the last 40 years the two Swedish carmakers have learned to trust National Gummi and recognise that the company that can solve their door and window sealing problems.

The product

Most sealing systems are made of rubber, a material with some drawbacks. Rubber cannot be recycled, it is expensive, complicated to handle in manufacture and is seen by final consumers as being environmentally unfriendly. National Gummi's aim is to change from using rubber to more environmentally friendly Thermo Plastic Elastomers (TPE) that are partly plastic and part rubber. Being a compound, its properties can be changed to fit the needs of doors and windows, while rubber has fixed properties. TPE is also recyclable either as waste material left over from manufacturing or as recovered from a scrapped vehicle, is easy and fast to use in production,

has lower production costs and is generally more environmentally friendly than rubber. TPE's main disadvantage is that it is less 'elastic' than rubber so does not form an effective seal in some parts of all cars, which means that it will have to be used alongside rubber in car assembly.

National Gummi aims to solve TPE's elasticity problem but expects that everyone else in the industry is trying to do the same thing. Following the tradition of past partnerships, in 1998 National Gummi, Saab and Volvo set up a joint project team to develop better TPE seals. After some discussion, the team was made up of two National Gummi engineers, one engineer from each of Saab and Volvo, a polymer-researcher from IFP Research Ltd and a marketer from Halmstad University. Members of the project team all contributed different skills. The National Gummi engineers knew a lot about seals but had little experience with the rest of car assembly. In contrast, the Saab and Volvo engineers had limited experience of seals but knew a lot about cars generally. The IFP researcher had expertise in plastics and rubber generally rather than in their use as seals.

It is common for the Swedish carmakers to work with suppliers on new projects. For components such as floor mats or light bulbs there is little reason to involve suppliers until late in product development. However, with a component such as a seal, which will affect both design and assembly, early participation of all parties in design is very important. The engineers do not have it all their own way in design. The carmakers' marketing people will be championing their customers' requirements, while the purchasing department will be fighting to get costs down.

A relationship without marketing

It is very difficult to become a new supplier to either Saab or Volvo. New 'partners' have to fill all technical requirements, have a low price and be someone that the companies can trust. The relationships are important since the quality and value of the final product are only as good as the components. Of course, National Gummi's 40 years of service and numerous long-standing personal friendships with the carmakers' people give National Gummi a great advantage. Saab and Volvo feel that the people at National Gummi are more than just business partners. They are friends with whom they have worked for many years and who have cooperated in solving many

business problems. Through long partnership, National Gummi know the needs of Saab and Volvo and how to work with them.

Of course, National Gummi's relationship with the carmakers has changed over the years. One of National Gummi's early advantages was their extreme proximity to the car plants. When that was the case it was possible to make a visit and solve design or manufacturing problems within hours. Over the years, Saab and Volvo had become more international with operations all over Europe. In some markets National Gummi had to deal with Saab and Volvo through agents and the business had shifted from one with a single language and culture to a multilingual, multicultural entity. IT had started to play a bigger role in routine communications between the carmakers and their suppliers. Meeting the needs of quality management and just-in-time management had also applied pressures, and National Gummi had to establish representation and extra facilities adjacent to car plants. It had become harder and harder for a small independent company to survive in a rapidly changing and increasingly global industry.

Increasingly, communications between National Gummi and the carmakers were electronic: email, telephone, fax and shared software to handle orders and design drawings. However, personal communications remained paramount in maintaining understanding between National Gummi and its customers. Video-conferencing had been used to work with more geographically distant partners and National Gummi knew of several cases of small companies exploiting global markets through the World Wide Web.

The closeness of National Gummi to its customers had allowed the company to develop without the need for conventional marketing skills. Engineers did technical selling and new customers had always found National Gummi rather than the other way round. This worked fine as long as Saab and Volvo remained good partners who respected the profit margins needed by subcontractors. The threat now was the tendency of the industry to seek system solutions rather than components; for example, subcontracting the provision of whole door assemblies, window and door seals included, rather than lots of bits and pieces. These jobs were hard for a small company like National Gummi to tender for and demanded lots of skills that they did not have.

Saab and Volvo were also part of large American companies that put less emphasis on the personal relationships that had been National Gummi's major advantage for so long. Saab and Volvo retained marketing operations in Sweden but these were becoming servants to the global

operations, such as Ford's Berkeley Square-based Premier Automobile Group which manages Volvo alongside the Aston Martin, Jaguar, Land Rover, Lincoln and Mercury brands. Covisint, the giant electronic automobile component exchange with its headquarters in Michigan, was also being set up by DaimlerChrysler, Ford, GM, Nissan and Renault. Expected to have a turnover of \$250 billion (€280 billion), the Internet exchange would have at least one office in Europe. One of the aims of establishing Covisint is to squeeze margins out of suppliers to the tune of \$1,000 to \$4,000 per car in the US where costs are already low.

As a small components company with limited potential for systems solutions or advanced research, National Gummi knew it would have to change in order to survive. Advisers had suggested several alternative ways ahead for National Gummi:

1. To become a sub-subcontractor and supply one of the major subcontractors with components. In this case, National Gummi's customers would become the car manufacturer's prime vendors who supplied door assemblies.
2. To specialise in components that are not a part of a system so are sold separately to carmakers.
3. To increase that part of their activities that does not go to Volvo or Saab by finding new customers or selling more to existing customers. Aside from Saab and Volvo, National Gummi has about 2,000 smaller customers.
4. For National Gummi to be more proactive in trying to find customers instead of waiting for customers to find them.

Questions

1. Why is National Gummi facing the problems it is and what could it have done to avoid them?
2. Since National Gummi survived for so long without any marketing activities, would it have been an unnecessary luxury to develop them until recently?
3. How did National Gummi add value to its service to its past clients and how can it continue to do so? Does the development of electronic exchanges mean that relationships between customers and suppliers are history?
4. Since the close relationships between National Gummi and the Swedish carmakers were the foundation of its past success, does the company's present state suggest a danger in relationship marketing? Does relationship marketing differ from what National Gummi has been doing?
5. Examining the strengths and weaknesses of National Gummi, what strategy would you propose for them?