

# Approaches to Customer Analysis

## 6.1 LEARNING OBJECTIVES

When you have read this chapter you should be able to understand:

- (a) the factors that influence consumer behaviour;
- (b) the structure of the consumer buying decision process;
- (c) the nature of organizational buying;
- (d) how an understanding of buying processes can be used in the development of marketing strategy;
- (e) why relationship marketing is becoming an increasingly important strategic marketing tool and how a relationship marketing programme can be developed.

## 6.2 INTRODUCTION

*The great illusion of the marketplace is a simple one: that it is supply-based; that those who produce and those who create sustain the market; that if you build it, they come. The great reality of the marketplace is simpler still: nobody who produces is in control. Nobody who sells is in control. If you build it, they will come only if they want to, and if they decide to leave, there is nothing – not cutting your prices, not increasing your supply, not getting on your knees and begging for sales (or offering loyalty cards) – that can stop them. When the world gets tired of cappuccino machines, they are*

*gone. The great reality of the marketplace is that it is demand-based. Customers own it lock, stock and barrel.*

(Taylor and Watts, 1998)

It has long been recognized that marketing planning is ultimately driven by the marketing planner's perception of how and why customers behave as they do, and how they are likely to respond to the various elements of the marketing mix.

In the majority of markets, however, buyers differ enormously in terms of their buying dynamics. The task faced by the marketing planner in coming to terms with these differences is consequently complex. In consumer markets, for example, not only do buyers typically differ in terms of their age, income, educational levels and geographical location, but more fundamentally in terms of their personality, their lifestyles and their expectations. In the case of organizational and industrial markets, differences are often exhibited in the goals being pursued, the criteria employed by those involved in the buying process, the formality of purchasing policies, and the constraints that exist in the form of delivery dates and expected performance levels.

Despite these complexities, it is essential that the marketing planner understands in detail the dynamics of the buying process, since the costs and competitive implications of failing to do so are likely to be significant. In the case of new product development, for example, it is generally recognized that some 80 per cent of all new products launched fail, a statistic that owes much to a lack of understanding of customers' expectations. It is for these sorts of reasons that a considerable amount of research has been conducted in the post-war period in order to provide us with a greater understanding of buying patterns, and to enable us to predict more readily *how* buyers will behave in any given situation. Within this chapter we therefore focus upon some of the factors that influence buying behaviour and how subsequently they influence marketing strategy. It does need to be emphasized, however, that a series of interrelationships exist between this material and the areas covered in Chapter 9, in which we examine approaches to segmentation, targeting and positioning. The reader might therefore find it useful at this stage to turn briefly to Chapter 9 to identify the nature of these interrelationships before continuing.

### 6.3 COMING TO TERMS WITH BUYER BEHAVIOUR

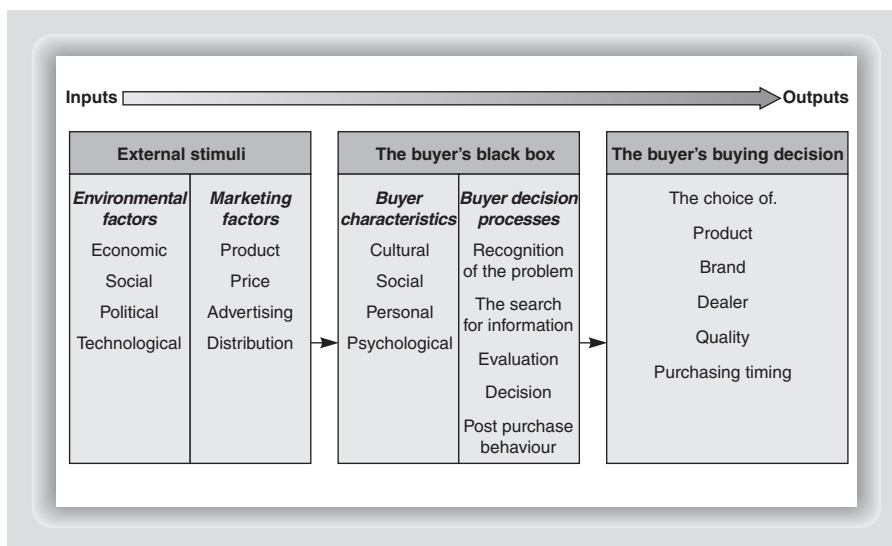
Irrespective of whether the marketing planner is operating in a consumer, industrial or organizational market, there are eight questions which underpin any understanding of buyer behaviour:

1. Who is in the market and what is the extent of their power with regard to the organization?

2. What do they buy?
3. Why do they buy?
4. Who is involved in the buying?
5. How do they buy?
6. When do they buy?
7. Where do they buy?
8. What are the customers' 'hot' and 'cold' spots? ('Hot' spots are those elements of the marketing offer that the customer sees as being particularly important and reassuring – and on which the organization delivers. 'Cold' spots are those elements that alienate the customer. An example of this might be poor or inconsistent service.)

It is the answers to these questions which should provide the marketing planner with an understanding of the ways in which buyers are most likely to respond to marketing stimuli. It then follows from this that the organization that makes the best use of the information should be in a position to gain a competitive advantage. For this reason, a considerable amount of time, effort and money has been spent over the past few decades in attempting to provide the marketing planner with a series of answers.

The starting point for much of this work has been a straightforward stimulus–response model of the sort illustrated in Figure 6.1. Here, stimuli



**FIGURE 6.1** A stimulus–response model of buyer behaviour

in the form both of the external environment and the elements of the marketing mix enter the buyer's 'black box' and interact with the buyer's characteristics and decision processes to produce a series of outputs in the form of purchase decisions. Included within these is the question of whether to buy and, if so, which product and brand, which dealer, when, and in what quantities. The task faced by the marketing planner therefore involves understanding how this black box operates. To do this, we need to consider the two principal components of the box: first, the factors that the individual brings to the buying situation; secondly, the decision processes that are used. We will therefore begin by focusing upon these background factors – cultural, social, personal and psychological – as a prelude to examining the detail of the decision process itself.

However, before doing this, we need to highlight just one of the major changes of the past few years, that of the emergence of what might loosely be termed 'the new consumer'. The new consumer is typically far more demanding and far more discriminating than consumers of the past, as well as being far less brand loyal and much more willing to complain. In many ways, the emergence of this new type of consumer represents one of the biggest challenges for marketers, since their expectations of organizations and their relationships that they demand are very different from anything previously experienced. The characteristics and marketing implications of the new consumer are examined in some detail at a later stage in the chapter (see pages 217–21), although Illustration 6.1 provides the reader with an overview of some of their key features.

Taking just one of the characteristics listed in Illustration 6.1 – the changed and changing roles of men and women – its significance can perhaps be appreciated by the fact that more than 40 per cent of new cars that are bought privately are now bought by women; this compares with less than 6 per cent in 1970. From the viewpoint of the car manufacturers, the implications have been enormous and have had to be reflected not just in terms of the design of cars, but also the nature of the market research that is conducted, the advertising and promotion that is carried out, and the approach to selling.

### **The new consumer and the youth market**

The differences that exist between the new consumer and the old are even more apparent – and more extreme – in the case of young(er) consumers (for our purposes here, we see these as being aged between 4 and 19), in that this segment, when compared with other customer groups, is also typically:

- Far more media literate
- Infinitely more advertising literate

### Illustration 6.1 The emergence of the new consumer

In many ways, the most significant and far-reaching legacies for marketing of the economic and social changes and turbulence of the late 1980s and early 1990s are reflected in what we might loosely refer to as the emergence of the 'new' consumer and the 'new' competitor (the dimensions of the new competitor are discussed in Chapter 7). Although neither is necessarily new in any absolute sense, they differ in a series of ways from traditional consumers and competitors in that their expectations, values and patterns of behaviour are all very different from that with which marketing planners traditionally had to come to terms. The consequences of this are manifested in several ways but, in the case of the new consumer, by the way in which the degree of understanding of customers' motivations must be far greater and the marketing effort tailored more firmly and clearly to the patterns of specific need. We can therefore see the new consumer as being characterized by:

- The development of new value systems
- A greater emphasis upon value for money
- Higher levels of price awareness and price sensitivity
- An increased demand for and a willingness to accept more and exciting new products
- Less technophobia
- Lower levels of brand and supplier loyalty, and the development of what might be referred to as customer and brand promiscuity
- A greater willingness to experiment with new products, ideas and delivery systems
- A generally far more questioning and sceptical attitude towards government, big business and brands
- Higher levels of environmental awareness
- Fundamental changes in family structures and relationships
- The changed and changing roles of men and women.

In essence, therefore, one can see the new consumer to be very different from consumers of the past in that they are typically:

1. Far more demanding
2. Far more discriminating
3. Much less brand loyal
4. Much more willing to complain than customers in the past.

These themes are explored in greater detail in the Appendix to this chapter.

- Much more brand literate, brand aware, brand sensitive and brand discriminating
- Far more technologically literate.

To a large extent, these higher levels of media, advertising, brand and technological literacy can be seen to be the direct result of having been exposed to a far greater number and a much larger variety of media than any previous generation. Included within this are 24-hour television, satellite broadcasting, and a huge upsurge in the numbers of newspapers and far more finely-targeted magazines. The advertising literacy then follows directly from this in that the sheer number of advertisements to which they have been exposed is higher than ever before. Brand literacy emerges from brands having been an integral part of lifestyles for as long as this generation has been alive, something that was not always the case with older consumers. Equally, the technological literacy follows from their exposure to technologies such as the Internet and information technology from a very early age. The combined effect of this is the emergence of a very different type of young buyer who has very different and often much more unpredictable patterns of buying, and who is typically very aware of the subtleties of brand differences.

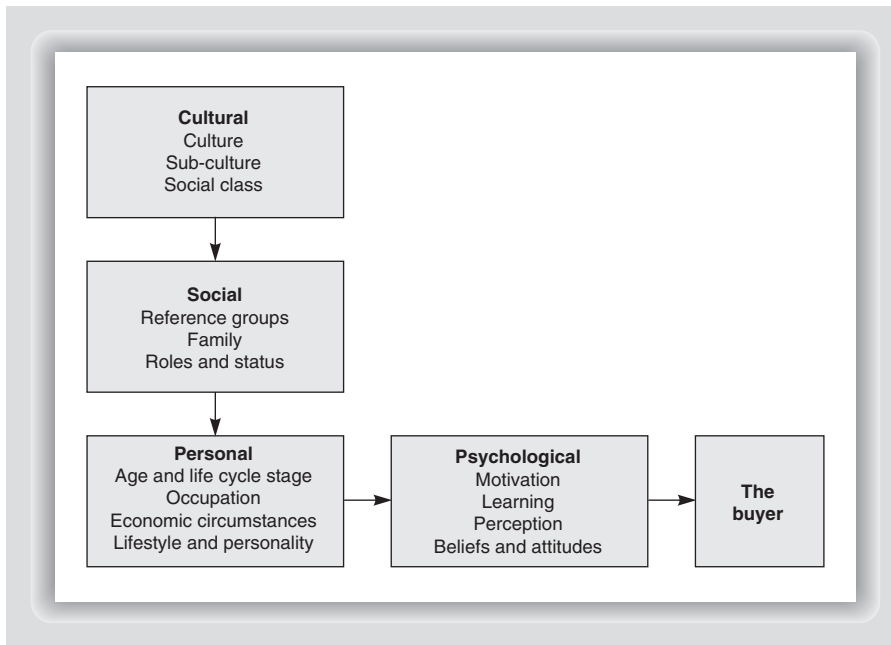
In many ways, the emergence of this new type of consumer, be it in the teen market or Generation Y, represents one of the biggest challenges for marketers, since their expectations of organizations and the nature of the relationships that they demand are very different from anything previously experienced. Recognizing this, if marketers fail to come to terms with this development, the implications for organizational performance and marketing planning are significant, something that is discussed at a later stage in the chapter (refer to pages 217–21).

## 6.4 FACTORS INFLUENCING CONSUMER BEHAVIOUR

From the viewpoint of the marketing planner, the mix of cultural, social, personal and psychological factors that influence behaviour (illustrated in Figure 6.2) is largely non-controllable. Because of the influence they exert upon patterns of buying, it is essential that as much effort as possible is put into understanding *how they interact* and, ultimately, *how they influence* purchase behaviour. In doing this, it is important not to lose sight of the differences that exist between customers and consumers, and the implications of these differences for strategy. The term ‘consumer’ is typically taken to mean the final user, who is not necessarily the customer (the buyer). In the case of foodstuffs such as breakfast cereals, for example, the buyer (generally still the housewife) acts on behalf of her family. For the marketing mix to be effective, it is quite obviously essential that the strategist therefore understands not just what the *customer* wants (e.g. value for money), but also what the *consumer* wants (e.g. taste, free gifts, image).

### The significance of culture

The most fundamental of the four influencing forces, and hence the logical starting point for any analysis of behaviour, is the buyer’s set of *cultural*



**FIGURE 6.2** Factors influencing consumer behaviour

factors. These include culture, sub-culture and social class. Of these, it is the culture of the society itself that typically proves to be the most fundamental and enduring influence on behaviour, since human behaviour is very largely the result of our socialization, initially within the family and then, increasingly, within a series of other institutions such as schools, friendship groups, clubs, and so on. It is from this that we learn our set(s) of values, perceptions, preferences and behaviour patterns. Schiffman and Kanuk (1983, pp. 404–20), for example, suggest that, in the Western world at least, these include achievement, success, efficiency, progress, material comfort, practicality, individualism, freedom, humanitarianism, youthfulness and practicality. It is these which, to a very large extent, determine and drive our patterns of behaviour.

This broad set of values is then influenced in turn by the sub-cultures in which we develop. These include nationality groups, religious groups, racial groups and geographical areas, all of which exhibit degrees of difference in ethnic taste, cultural preferences, taboos, attitudes and lifestyle.

The influence of sub-cultures is subsequently affected by a third set of variables: that of *social stratification* and, in particular, *social class* and reflects the view that:

1. People within a particular social class are more similar than those from different social classes

2. Social class is determined by a series of variables, such as occupation, income, education and values, rather than by a single variable
3. Individuals can move from one social class to another.

Although research in recent years has led to a modification of these ideas as the degree of overall social mobility has increased, the most important single implication of social class is the still valid assumption that it exerts a significant degree of influence in areas such as clothing, cars, leisure pursuits and media preferences.

### Social factors

Against this background of cultural forces, the strategist needs then to turn to an examination of the influence exerted by a series of social factors, including reference groups, family, social role and status.

Reference groups can be divided into four types:

1. *Primary membership groups*, which are generally informal and to which individuals belong and within which they interact. These include family, neighbours, colleagues and friends.
2. *Secondary membership groups*, which tend to be more formal than primary groups and within which less interaction typically takes place. Included within these are trade unions, religious groups and professional societies.
3. *Aspirational groups*, to which an individual would like to belong.
4. *Dissociative groups*, whose values and behaviour the individual rejects.

The influence exerted by reference groups tends to vary considerably from one product and brand to another, as well as at different stages of the individual's life stage. Among the products and brands that typically have been found to be influenced most directly by reference group behaviour are cars, drinks, clothing and cigarettes. The influence of reference groups does, however, change over the course of the product life cycle. In the introductory stage, for example, the question of *whether* to buy is heavily influenced by others, although the influence upon the choice of brand may not necessarily be particularly significant. In the growth stage, the group influences both product and brand choice, while in maturity it is the brand but not the product that is subject to this influence. The influence of reference groups in the decline stage is almost invariably weak in terms of both the product and brand choice.

The implications of these findings are significant and provide the marketing planner with a series of guidelines, the most important of which centres around the need to identify the *opinion leaders* for each reference



group. Our understanding of opinion leadership has developed considerably over the past few years, and whereas at one time it was believed that opinion leadership was limited primarily to prominent figures within society, this is no longer seen to be the case. Rather, it is recognized that an individual may well be an opinion leader in certain circumstances, but an opinion follower in others. Quite obviously, this makes the task of identifying opinion leaders more difficult and gives emphasis to the need to understand not just the demographic but particularly the psychographic characteristics of the group that the strategist is attempting to influence.

For many products, however, it is the family that exerts the greatest single influence on behaviour, even though, as we suggest elsewhere in this chapter, the size and structure of the family unit has changed considerably over the past 20 years. This includes both the *family of orientation* (parents, brothers and sisters) and the *family of procreation* (spouse and children). The significance of the family as a determinant of buying behaviour has long been recognized, and for this reason it has been the subject of a considerable amount of research in order to identify the roles and relative influence exerted by different family members. Although it is not our intention to examine this area in detail, there are several general conclusions that have emerged from this research:

- The involvement of both partners within a relationship upon purchase decisions varies greatly from one product category to another, with women still playing the principal role in the purchasing of food and clothing. Although this has changed somewhat over the past few years as the proportion of working women has increased and divorce rates have escalated, the Institute of Grocery Distribution has estimated that, in the UK, women still account for some 80 per cent of food purchases.
- Joint husband and wife (or partner) decision-making tends to be a characteristic of more expensive product choices, where the opportunity cost of a 'wrong' decision is greater.

At a more general level, however, research in the USA has identified three patterns of decision-making within the family and the sorts of product category with which each is typically associated. These are:

1. Husband-dominant – life insurance, cars and consumer electronics
2. Wife-dominant – washing machines, carpets, kitchenware and non-living-room furniture
3. Equal – living-room furniture, holidays, housing, furnishings and entertainment.

Although this research is useful in that it distinguishes between the different decision-making patterns, the results need to be treated with a degree of

caution, if only because of the ways in which roles within the family have changed (and indeed still are changing) significantly.

The final social factor that typically influences purchase behaviour consists of the individual's actual and perceived *roles* and *statuses*, both within society in general and within groups in particular. The significance of status symbols and the messages they communicate has long been recognized. The obvious implication, however, for the marketing strategist is to position products and brands in such a way that they reinforce the messages suited to particular individuals and groups.

### Personal influences on behaviour

The third major category of influences upon behaviour is made up of the buyer's set of *personal characteristics*, including age and life-cycle stage, occupation, economic circumstances, lifestyle and personality. The majority of these factors have been used extensively by marketing strategists in segmenting markets; this is discussed further on pages 350–2 and 357–65.

### Psychological influences

The fourth and final set of influences upon behaviour consists of the four principal *psychological factors* – motivation, perception, learning, and beliefs and attitudes. The first of these, motivation, is in many ways both the most important to understand and the most complex to analyse. The starting point involves recognizing the differences between *biogenic* needs, which are physiological (hunger, thirst and discomfort), and psychogenic needs, which are essentially psychological states of tension (these include the need for esteem and the desire for recognition or belonging). It is these needs which, when they become sufficiently intense, create a motivation to act in such a way that the tension of the need is reduced. The search to understand the detail of this process has led to a considerable amount of research over the past 100 years and, in turn, to a variety of theories of human motivation. The best known of these are the theories of Marshall, Freud, Veblen, Herzberg, Vroom and Maslow.

The first of these, the Marshallian model, is in many ways the most straightforward and is based on the idea that a person's behaviour is inherently rational and motivated by economic factors. The economic individual therefore attempts to maximize total satisfaction by buying goods and services from which the marginal utility is, in theory at least, equivalent to the marginal utility of the alternatives. Although such an overtly rational view of behaviour has long been criticized as being too partial and inadequate an explanation, it has been argued that the Marshallian model contributes the following to our understanding of buyer behaviour:

1. It is axiomatic that every buyer acts in the light of his own best interest. The question is whether an economist would describe these actions as 'rational'.

2. The model is normative in the sense that it provides a logical basis for purchase decisions, (i.e. how one *should* decide rather than how one *actually* decides).
3. The model suggests a number of useful behavioural hypotheses, e.g. the lower the price, the greater the sales; the lower the price of substitute products, the lower the sales of this product; the lower the price of complementary products, the higher the sales of this product; the higher the real income, the higher the sales of this product, provided that it is not an 'inferior' good; the higher the promotional expenditure, the higher the sales.

Freud's work, by contrast, suggests that the psychological factors that influence behaviour are for the most part unconscious and that, as a consequence, we can only rarely understand our true motivations. Equally, in the process of growing up and conforming to the rules of society, we repress a series of urges. The obvious implication of this for marketing is that a consumer's *stated* motive for buying a particular brand or product may well be very different from the more fundamental *underlying* motive. Thus, in the case of a fast car, the stated motive might be the ability to get from A to B quickly. The underlying motive, however, might well be the desire for status and to be noticed. Similarly, with an expensive watch, the stated motive might be the product's reliability while the real – and unconscious – motive might again be status and the desire to impress others.

The best-known exponent of Freudian theory in marketing was Ernest Dichter who, in the 1950s, developed a series of techniques, under the general heading of *motivational research*, designed to uncover consumers' deepest motives. Motivational research was subjected to a considerable amount of criticism on the grounds that buyers were subsequently being manipulated and persuaded to act against their own interests. Two of the most vociferous opponents of motivational research proved to be Galbraith and Packard. Galbraith (1958), for example, levelled a series of criticisms against the development of the consumer society, arguing that consumers were being persuaded to act against their true interests. Packard's criticisms, in his book *The Hidden Persuaders* (1957), were aimed even more specifically at techniques of motivational research and raised the spectre of the wholesale manipulation of society by marketing people for their own ends. Largely because of the subsequent publicity, motivational research became a less acceptable research technique and this, coupled with a whole series of problems experienced in its use, led to its gradual decline.

The Freudian view that a consumer's stated motives may well be very different from the true motives is echoed in Veblen's (1899) socio-psychological interpretations of behaviour. Many purchases, he argued, are motivated not by need but by a desire for prestige and social standing. Although Veblen's views, and in particular his emphasis upon conspicuous consumption, have subsequently been modified by research findings, his

contribution to our understanding of buyer behaviour is significant, not least because it stresses the importance of social relationships as an influence upon choice.

The fourth major theory of motivation, one which has received considerable attention from marketing analysts over the past 30 years, was developed by Herzberg. Labelled the 'two-factor theory' of motivation, it distinguishes between *satisfiers* (factors that create satisfaction) and *dissatisfiers* (factors that create dissatisfaction). In the case of a car, for example, the absence of a warranty would be a dissatisfier. The existence of a warranty, however, is not a satisfier since it is not one of the principal reasons for buying the product. These are more likely to be the car's looks, its performance and the status that the buyer feels the product confers upon the driver.

There are several implications of this theory for marketing, of which two are particularly significant. First, the seller needs to be fully aware of the dissatisfiers which, while they will not by themselves sell the product, can easily 'unsell' it. The second implication, which follows logically from this, is that the strategist needs to understand in detail the various satisfiers and then concentrate not just upon supplying them, but also giving them full emphasis in the marketing programme.

The fifth and final principal theory of motivation was put forward by Maslow, who suggested that behaviour can be explained in terms of a hierarchy of needs starting with an individual's *physiological needs* (hunger and thirst) and then moving successively through *safety needs* (protection and security), *social needs* (a sense of love and belonging), *esteem needs* (self-esteem, status and recognition by others), and culminating in *self-actualization needs* (the individual's self-development and self-realization).

The model suggests that a person begins by concentrating upon satisfying the most important and most basic physiological needs before moving on to the higher levels of need. Thus, as each level is satisfied, the next level is likely to become the focus of attention.

Although, from the viewpoint of the marketing strategist, Maslow's theory is arguably of less direct value than that of, say, Herzberg, it is of value in that it provides yet another insight into the ways in which products fit into the goals and lives of consumers.

### Issues of perception

Against the background of an understanding of the factors influencing motivation, the marketing strategist needs then to consider the influence of *perception*, since it is the way in which motivated individuals perceive a given situation that determines precisely how they will behave. It has long been understood that, because of the three elements of the perceptual process: selective attention, selective distortion and selective retention, individuals can perceive the same object in very different ways. It is the

failure to recognize and take account of this that often leads to a confusion of, for example, advertising messages. Research in this area has provided a series of insights into the perceptual process, and subsequently to a series of guidelines for marketers. In the case of *selective attention*, for example, simply because of the enormous number of stimuli that we are exposed to each day (more than 2200 advertisements alone), a substantial number are either ignored or given only cursory attention. If a marketing message is to succeed it therefore has to fight against this screening process. This can be done in one of several ways, including:

1. The use of black and white advertisements when others are in colour, or vice versa.
2. The use of shock messages – in 1990, for example, the RSPCA drew attention to the number of stray dogs being destroyed each year by showing a mountain of bodies. Equally, Benetton has over the years run a series of highly controversial advertisements, while French Connection UK coveted controversy with the ambiguity of the FCUK logo.
3. The sheer size of the advertisement.
4. Substantial money-off offers.
5. The unexpected – a glue manufacturer used his product to stick a car to a hoarding in London some 15 feet above the pavement.

However, even when a message does reach the consumer, there is no guarantee that it will be interpreted in the way that was intended. Each person modifies information in such a way that it fits neatly into that person's existing mindset. This process of *selective distortion* means that messages that confirm preconceived notions are far more likely to be accepted than those that challenge these notions. Although a mindset can be changed, this is typically both costly and time-consuming. However, one example of where this has been done with considerable success is with Japanese products. The image and reputation of the majority of Japanese products in the 1960s was generally poor, a factor that had implications for, among other things, distribution and pricing. Throughout the 1970s, 1980s and 1990s, however, the Japanese concentrated on quality and product innovation to the point at which even the most die-hard and conservative European or American was forced to admit that, in many markets, it is now the Japanese who set the pace.

A similar example is that of the car manufacturer, Skoda. Long seen as rugged, cheap and utilitarian, Skoda's takeover by Volkswagen in the 1990s and a heavy investment in new product development, manufacturing and marketing has led to a radical repositioning of the brand; this is discussed in Illustration 6.2.

**Illustration 6.2 The repositioning of Skoda**

Throughout the 1980s and into the early 1990s, Skoda was a byword for everything that was wrong with east European products in general and their cars in particular. With a reputation for being ugly, unreliable and for rusting away, the brand had little credibility in western markets. Following the collapse of communism and the Socialist Republic of Czechoslovakia in 1989, the new government immediately embarked on a programme of industrial privatization. Among the companies put up for sale was Skoda. In 1990, Volkswagen Group, intent on expanding into eastern Europe, took a 30 per cent share of the company and gained managerial control (it subsequently increased its shareholding to 70 per cent and then total ownership). Specialists from Germany were sent to the main Skoda factory to re-engineer the production line, retrain the workers, update the designs, and encourage suppliers to adopt just-in-time practices. Within the first 10 years of VW's control and with an investment of £1 billion and a further £1 billion planned, Skoda launched three new models and invested heavily in an advertising campaign designed to reposition the brand in consumers' minds. In doing this, the company decided to confront the problem head-on.

Typical of the poster campaign was a sleek image of a shadowy, powerful car with a Skoda badge and the line 'No, really ...'. In a television campaign, three stooges – a politician, a self-important car show official and a car park attendant – all mistake the gleamingly up-to-date new Skoda for something else. The pay-off line is, 'It's a Skoda. Honest.'

Underpinning the campaign was the fundamental recognition that any attempt at repositioning had to be based upon a series of radical changes and improvements to the product itself. In the absence of this, any attempt at repositioning would undoubtedly fail. The new Skoda models therefore emphasized quality, the driving experience, the Volkswagen link/heritage and value for money.

Previously, the traditional Skoda driver was a 56-year-old man with little interest in design or performance, and who wanted basic low-cost and no-frills transport. Although the company was intent on repositioning the brand by appealing to a younger market and more women (young, middle-class women make up the largest single group of customers for small cars), it also recognized it could not afford to alienate its traditional markets, which had a 76 per cent loyalty/repurchase rate.

*Source: Weekend FT Magazine, Financial Times, 29 April 2000, pp. 22–3, 40.*

The third element of perception is that of *selective retention*. Quite simply, individuals forget much of what they learn. Therefore, to ensure that a message is retained, it needs to be relevant, generally straightforward, one which reinforces existing positive attitudes and which, in the case of certain products, is catchy. Many people, for example, still remember simple advertising slogans such as 'You've been Tangoed', 'Beanz Meanz Heinz', 'Drinka Pinta Milk a Day', 'Go to work on an egg' and 'Guinness is good for you', even though, in some cases, the message has not been used for well over 30 years.

Once individuals have responded to an advertisement, they go through a process of learning. If the experience with the product is generally positive, the likelihood of repeat purchase is obviously increased. If, however, the experience is largely negative, not only is the likelihood of repeat purchase reduced, but the negative attitude that develops is likely to be extended to other products from the same manufacturer and possibly the country of origin. It is the set of *beliefs* and *attitudes* that emerge both from our own experiences and from those of individuals in our reference groups that build up a set of product and brand images. These, in turn, lead us to behave in relatively consistent ways. An obvious problem that can therefore be faced by a manufacturer stems from the difficulties of changing attitudes and images once they have been established.

## 6.5 THE BUYING DECISION PROCESS

Having identified the various factors that influence behaviour, the marketing strategist is then in a position to examine the buying process itself. This involves focusing on three distinct elements:

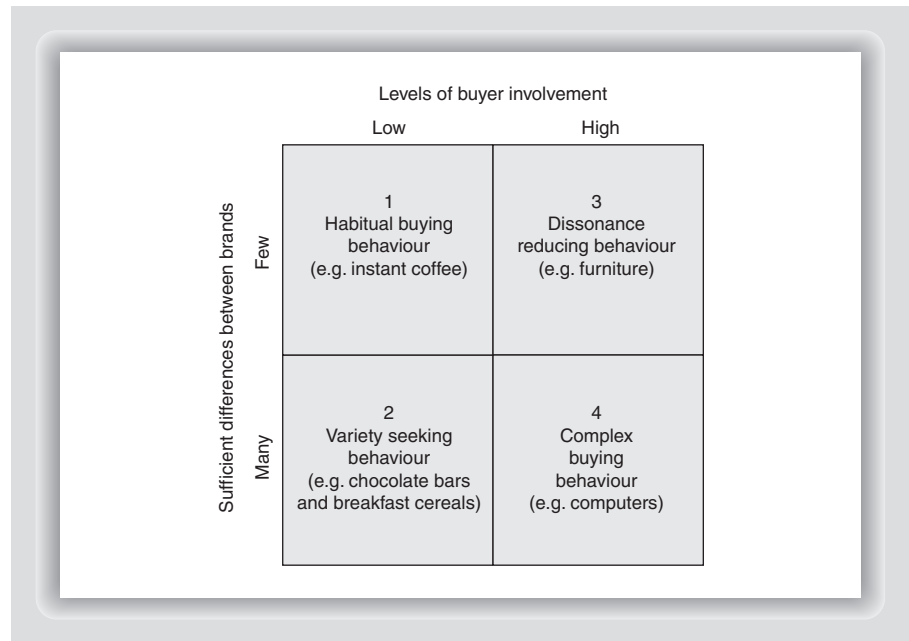
1. The buying roles within the decision-making unit
2. The type of buying behaviour
3. The decision process.

### The five buying roles

In the majority of cases, and for the majority of products, identifying the buyer is a relatively straightforward exercise. In some instances, however, the decision of what to buy involves several people, and here we can identify five distinct roles:

1. The *initiator*, who first suggests buying the product or service
2. The *influencer*, whose comments affect the decision made
3. The *decider*, who ultimately makes all or part of the buying decision
4. The *buyer*, who physically makes the purchase
5. The *user(s)*, who consume(s) the product or service.

Identifying who plays each of these roles, and indeed *how* they play them, is important since it is this information which should be used to determine a wide variety of marketing decisions. In the case of advertising, for example, the question of who plays each of the buying roles should be used to decide on who the advertising is to be aimed at, the sort of appeal, the timing of the message, and the placing of the message.



**FIGURE 6.3** *The four types of buying behaviour (adapted from Assael, 1987)*

### Different types of buying behaviour

So far in this discussion we have referred simply to 'buying behaviour'. In practice, of course, it is possible to identify several types of buying decision and hence several types of buying behaviour. The most obvious distinction to make is based on the expense, complexity, risk and opportunity cost of the purchase decision – the process a consumer goes through in deciding on a new car or major holiday, for example, will be radically different from the process in deciding whether to buy a chocolate bar. Recognition of this has led to the identification of four types of buying behaviour, depending on the degree of buyer involvement in the purchase and the extent to which brands differ. This is illustrated in Figure 6.3.

### Understanding the buying decision process

The third and final stage that we are concerned with here is the structure of the buying decision process that consumers go through. In other words, precisely *how* do consumers buy particular products? Do they, for example, search for information and make detailed comparisons, or do they rely largely upon the advice of a store assistant? Are they influenced significantly by price or by advertising? Questions such as these have led to a considerable amount of research into the buying process and subsequently



to consumers being categorized either as deliberate buyers or compulsive buyers.

To help in coming to terms with this, a series of models have been proposed that focus not simply upon the purchase *decision*, but upon the *process* leading up to this decision, the decision itself and then, subsequently, post-purchase behaviour.

Here, the process begins with the consumer's *recognition of a problem*, or perhaps more commonly, a want. This may emerge as the result of an internal stimulus (hunger or thirst) or an external stimulus in the form of an advertisement or a colleague's comment. This leads to the *search for information*, which might be at the level simply of a heightened awareness or attention to advertising, or at the deeper level of extensive information searching. In either case, the search process is likely to involve one or more of four distinct sources:

1. *Personal sources*, such as family, friends, colleagues and neighbours
2. *Public sources*, such as the mass media and consumer organizations – typical examples would be the Consumers' Association's *Which?* magazine for consumer durables, *Vogue* for fashion and *What Car?* for cars
3. *Commercial sources*, such as advertising, sales staff and brochures
4. *Experimental sources*, such as handling or trying the product.

The relative importance of each of these varies greatly from person to person and product to product. Typically, therefore, the consumer might gain the greatest amount of information from commercial sources such as newspapers and advertisements. However, the information that is most likely to influence behaviour comes from personal sources such as friends (word of mouth). Each type of source plays a different role in influencing the buying decision. Commercial information, for example, plays an informing function, while personal sources perform a legitimizing and/or evaluation function.

By gathering information in this way, consumers develop an awareness, knowledge and understanding of the various brands in the market. An obvious task then faced by marketing strategists is how best to ensure that their brand stands out from the others available and is subsequently purchased. In essence, this involves moving the product or brand from the *total set* available, through to the consumer's *awareness set* and *consideration set* to the *choice set*, from which the consumer ultimately makes the buying decision.

However, for this to be done effectively, the strategist needs to have a clear understanding of the criteria used by consumers in comparing products. Much of the research in this area has focused primarily upon the cognitive element, suggesting that consumers make product judgements on a rational basis (see Illustration 6.3). Whether this is the case in practice is, of course, highly debatable and contradicts much of what we have already said.

**Illustration 6.3 Customers buy benefits, not products**

Recognition of the idea that customers do not buy products but are instead interested in the benefits gained from using the product has long been at the heart of successful marketing. This has been commented on by, among others, McDonald (1995, pp. 102–3):

The difference between benefits and products is not just a question of semantics. It is crucial to the company seeking success. Every product has its features: size, shape, performance, weight, the material from which it is made, and so on. Many companies fall into the trap of talking to customers about these features rather than what those features mean to the customer. This is not surprising. For example, if, when asked a question about the product, the salesman could not provide an accurate answer, the customer might lose confidence and, doubting the salesman, will soon doubt his product. Most salesmen are therefore very knowledgeable about the technical features of the products they sell. They have to have these details at their fingertips when they talk to buyers, designers and technical experts.

However, being expert in technical detail is not enough. The customer may not be able to work out the benefits that particular features bring and it is therefore up to the salesman to explain the benefits that accrue from every feature he mentions.

A simple formula to ensure that this customer-oriented approach is adopted is always to use the phrase ‘which means that’ to link a feature to the benefit it brings:

‘Maintenance time has been reduced from 4 to 3 hours, **which means that** most costs are reduced by ...’

‘The engine casing is made of aluminium, **which means that** six more units can be carried on a standard truck load, which means that transport costs are reduced by ...’

McDonald goes on to argue that companies should undertake detailed analyses to identify the full range of benefits *they are able to offer* the customer as a prelude to identifying the range of benefits that *customers actually want* or will respond to. Benefits typically fall into four categories:

1. *Standard benefits*, which arise from the company and its products
2. *Double benefits*, which bring a benefit to the customer and subsequently, through an improvement in the customer’s product, to the end-user
3. *Company benefits*, which emerge as the result of a relationship that develops by virtue of having bought a particular product – a typical example would be worldwide service backup
4. *Differential benefits*, which distinguish the product from those offered by competitors.

Nevertheless, there are several interesting factors that have emerged from this research that merit consideration. These include the need to think about:

1. The *product's attributes*, such as its price, performance, quality and styling
2. Their *relative importance* to the consumer
3. The consumer's perception of each *brand's image*
4. The consumer's *utility function* for each of the attributes.

By understanding consumers' perceptions in this way, the strategist can then begin modifying the product offer. This can be done in one of six ways:

1. Changing the physical product by, for example, adding features (real repositioning)
2. Changing beliefs about the product by giving greater emphasis to particular attributes (psychological repositioning)
3. Changing beliefs about competitors' products by comparative advertising and 'knocking copy' (competitive depositioning)
4. Changing the relative importance of particular attributes – as a product moves through the product life cycle, for example, and consumers become more familiar with the concept and the technology, the emphasis in the advertising can be shifted from, say, reassuring consumers about reliability and service backup, to a range of additional uses
5. Emphasizing particular product features that previously have been largely ignored
6. Changing buyers' expectations.

Against the background of these comments, the strategist should then be in a position to consider the act of purchase itself and, in particular, *where* the purchase will be made, the *quantities* in which it will be made, the *timing*, and the *method* of payment.

### **An overview of models of consumer behaviour**

Throughout the 1960s attempts were made to integrate a variety of theories, research findings and concepts from the behavioural sciences into a general framework that could be used to explain and predict consumer behaviour. In doing this, the principal writers (such as Nicosia, 1966; Engel *et al.*, 1968; Sheth, 1969) moved away from the general perspective that had previously been adopted by economists and which in a number of ways is typified by

Marshall's work and the Marshallian model of 'economic man'. Instead of viewing consumer behaviour simply as a single act made up of the purchase itself and the post-purchase reaction, a far greater recognition was given to the consumer's psychological state before, during and after the purchase.

But although these so-called 'comprehensive models' of consumer behaviour have been of value in extending our understanding of the decision process, their value has been questioned in recent years. One of the first to do this was Foxall (1987, p. 128), who suggested:

- The models assume an unrealistic degree of consumer rationality
- Observed behaviour often differs significantly from what is described
- The implied decision process is too simplistic and sequential
- Insufficient recognition is given to the relative importance of different types of decisions – each decision is treated by comprehensive models as being significant and of high involvement, but the reality is very different and by far the vast majority of decisions made by consumers are relatively insignificant and of low involvement
- The models assume consumers have a seemingly infinite capacity for receiving and ordering information – in practice, consumers ignore, forget, distort, misunderstand or make far less use than this of the information with which they are presented
- Attitudes towards low-involvement products are often very weak and only emerge after the purchase, not before as comprehensive models suggest
- Many purchases seem not to be preceded by a decision process
- Strong brand attitudes often fail to emerge even when products have been bought on a number of occasions
- Consumers often drastically limit their search for information, even for consumer durables
- When brands are similar in terms of their basic attributes, consumers seemingly do not discriminate between them, but instead select from a repertoire of brands.

In the light of these criticisms, it is perhaps not surprising that the results that have emerged from attempts to test the models have proved disappointing.

### **Behavioural economics and the significance of irrationality**

As markets have become more crowded and competitive, and customers more demanding and discriminating, behavioural economists have focused

in ever greater detail upon the ways in which decision-making differs from the perfectly rational ideal that underpins classical economic thinking. The – not surprising – conclusion is that consumers are systematically irrational. In discussing this, Whyte (2008) goes on to suggest that:

*we are apathetic, favouring options that require no action or that preserve the status quo. We are herd followers, doing things that are bad for us simply because others do them. We are hopeless at statistics, buying insurance and lottery tickets even when the odds make them a bad deal ... And these are only a few of many irrational biases.*

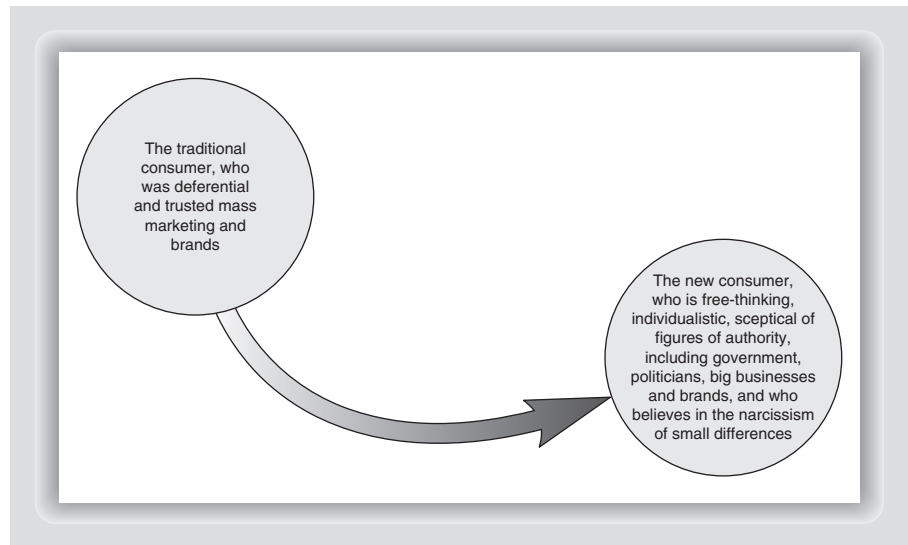
For the behavioural economists who have focused upon these irrational patterns of behaviour, this highlights not just the need that many consumers have for strong external guidance, but also – and more importantly – how we can be guided, with consumers irrationally being used to nudge the market in a particular direction.

The ways in which this can be done have been examined in detail by Thaler and Sunstein (2008) in their book *Nudge*. Amongst the examples that they explore of how nudge marketing can be used effectively is that of the financial services sector. Faced with increasingly skewed demographic profiles across much of the developed world, governments and pensions companies have spent substantial sums trying to persuade consumers to invest in pension schemes. The results in many cases have been mixed, largely because investments like this require the consumer to opt *in*. For Thaler and Sunstein, the solution is to change what they term the *decision architecture*. This would mean that joining a pension scheme would be the default option when someone takes up a new job. In other words, the employer structures the choices so that the individual has to actively opt *out* as opposed to actively opting in.

## 6.6 THE RISE OF THE NEW CONSUMER AND THE IMPLICATIONS FOR MARKETING PLANNING

We suggested in Illustration 6.1 that the 1990s saw the emergence of a very different type of consumer. This theme has been developed by Lewis and Bridger (2000) who, in their book *The Soul of the New Consumer*, suggest that consumers have evolved from being conformist and deferential children, reared on the propaganda of the post-Second World War era and prepared to trust mass advertising, into free-thinking, individualistic adults, who are sceptical of figures of authority and believe in what Sigmund Freud called ‘the narcissism of small differences’ (see Figure 6.4).

Reflecting the change from an era of austerity to one of affluence, these consumers have largely exhausted the things they *need* to purchase and are



**FIGURE 6.4** *The shift from the old to the new consumer*

now concentrating on what they *want* to buy. In this sense, shopping is not merely the acquisition of things but the buying of identity.

While 'old consumers' were typically constrained by cash, choice and the availability of goods whereas 'new consumers', Lewis and Bridger (2000) suggest, are generally short of time, attention and trust (this is the cash-rich/time-poor generation that we discuss in greater detail on pages 247–9). Mass society has shattered and been reduced to a mosaic of minorities:

*In a hypercompetitive world of fragmented markets and independently-minded, well-informed individuals, companies that fail to understand and attend to the needs of New Consumers are doomed to extinction. Currently, the average life of a major company only rarely exceeds 40 years. In the coming decade, any business that is less than highly successful will find that lifespan reduced by a factor of at least 10.*

Even though such a drastic picture and such short timescales can be questioned, the overall picture that emerges is significant and has major implications for the marketing planner. Perhaps the first of these is the need for organizations to reconnect with their customers. Even giant consumer products companies with powerful brands and long trading histories – such as Levi Strauss, Kellogg's, Marks & Spencer and Coca-Cola – can lose touch with the new consumers, whose behaviour often transcends the traditional categories such as age, ethnic identity and even income.

The second main implication of the new consumer is that consumer products companies must become much better at directing their messages

to increasingly critical audiences who have access to technology. The proliferation of Internet sites, for example, has enabled groups of consumers to publicize instantaneous and often highly critical reviews of new products, services or films that can be far more influential than the formal advertising campaigns. However, from the company's point of view, improving technology and growing consumer sophistication also enable them to become smarter. New advertising channels, such as Internet sites, video screens at supermarket checkouts and interactive television all enable suppliers to find more willing buyers. Companies are also becoming better at stimulating a street 'buzz' about their products by influencing select opinion formers, rather than by focusing largely upon mass advertising hype. Amongst those to have done this are companies such as Disney, Apple, Virgin and Starbucks, all of which have caught the *zeitgeist* and created innovative means such as viral marketing to deliver their message to new consumers.

This theme of a very different and far more assertive type of consumer has also been developed by the advertising agency Publicis, which, in its report *The New Assertiveness* (2002), suggest:

*infuriated by the pressures of 21st-century living and a feeling of having little control over many aspects of their lives, consumers are attempting to regain control and vent their frustration through their buying habits ... Seventy per cent of those surveyed believe the future is more uncertain than it was in their parents' day – an anxiety that has been increased since September 11. Many now feel vulnerable to the possibility that anything could happen, at any time.*

The study argues that:

*This insecurity and frustration is breeding a new generation of consumer. Increasingly, we are buying products or services to cheer ourselves up – 31 per cent of adults surveyed said their consumption was motivated by this, a figure that rose to 50 per cent among 15- to 24-year-old respondents.*

The report also highlighted the way in which consumers' expectations of product quality and levels of service are outstripping satisfaction. Ninety-six per cent of respondents had made a complaint about a product or service during the previous 12 months.

The findings of the study were seen by the agency to present both a warning and an opportunity to brand owners.

### **Competitive intensity, the new consumer and the rise of complicated simplicity (or the law of increasing individuality)**

With markets becoming ever more competitive and consumers more demanding, organizations can respond in any one of a number of ways.

However, underpinning many of these is the need to individualize and tailor services to the consumers' needs to a far greater extent than has typically been the case in the past. This sort of response, which can be labelled 'complicated simplicity', highlights the end of a mass audience-oriented approach and the need for the far greater acceptance of an audience-of-one approach. This shift is being driven, in part at least, by the consumer empowerment movement which (amongst other things) demands a far greater degree of price transparency. The implications of this are potentially significant, since organizations face the pressure of cutting costs and maintaining profitability, while having little opportunity to raise prices.

Complicated simplicity also highlights the need for organizations to take greater account of developments such as the 'ninety-nine lives' trend first identified by Faith Popcorn, the American trend forecaster. This involves recognizing that a consumer can play a variety of roles (e.g. mother, wife, manager, outdoor enthusiast) and that typecasting under a single broad heading is likely to be of little real value. This expectation of individual attention is, of course, at odds with the general trend of the past 30 years of mega-mergers and conglomeration. Amongst those to have used technology to come to terms with this individualization is Amazon.com, which outmanoeuvred the established market leader, Barnes & Noble, partly by developing a new business model but also by tailoring its message and response to consumers as individuals.

Another contributor to complicated simplicity is the move across society to Me, Myself and I Inc. With government as well as organizations across Europe, the USA and Japan slowly dismantling the cradle-to-grave welfare state, levels of corporate loyalty are declining rapidly. At the same time, long-term permanent employment is disappearing and greater numbers of people are beginning to work for themselves. Faced with this, the implications for marketing are potentially significant, and are likely to be seen most obviously in terms of consumers' far higher expectations and their demands for individual treatment.

### **The genie of the super-powered consumer**

Arguably, one of the most significant and far-reaching legacies for marketing of the social and economic turbulence of the 1980s and 1990s was the emergence of what we have termed 'the new consumer'. This new consumer exhibits a number of characteristics that (as we suggested earlier), can perhaps best be summarized in terms of buyers who are now far more demanding, far more discriminating, much less loyal and far more willing to complain. This type of consumer has, over the past few years, developed even further, with the emergence of what might loosely be termed the 'super-powered consumer'. The super-powered consumer is typically media-literate, has access to his/her own mass-media channel of communication (the Web), has a number of tools for a fast response to problems



(the mobile phone), and often has a public relations strategy and an ability to hurt companies. They are also often well-informed and frequently politicized in their behaviour patterns. Examples of the super-powered consumer in action include the anti-global brand demonstrations in Seattle in 1999, French farmers attacking the 'imperialism' of McDonald's, European and North American customers asking questions of Nike about their manufacturing policies in South-East Asia, and the green lobby forcing the British government to change its policy on genetically-modified foods.

In a number of ways the emergence of the super-powered consumer represents something of a paradox. Marketers have worked hard to create this type of consumer by giving them greater access, more information and more influence over how business is done, and how brands communicate. Having been encouraged to ask questions, consumers have responded by becoming far more discriminating and cynical, with the result that marketing planners are now under far greater pressure and need to respond with communication that is far more open.

### The new consumer and the new radicalism

In her book *The Customer Revolution* (2001), Patricia Seybold argues that, because of the Internet, customers are more easily able to influence a company's behaviour. Websites such as TheCorporateLibrary.com, for example, have an extensive list of articles and reports on the behaviour of companies, and this, she argues, provides the basis for small shareholders to begin exerting a greater power and influence than in the past. The implication of this is that a company can be measured not just through the traditional measures of profit and loss, return on assets and the price/earnings ratio, but also on the quality of customer relationships. To help with this, Seybold has developed a 'customer value index' that gives investors a way to measure company performance by looking at the present and future value of its customer base. The net effect of this is that measures such as customer satisfaction, customer retention and share of wallet become easier and more meaningful.

In many markets, she suggests, there are now three types of customer: those who are *price sensitive* and concerned about costs; those who are *service sensitive* and who focus upon areas such as quality and delivery; and those who are *commitment sensitive* and look for long-term relationships.

## 6.7 ORGANIZATIONAL BUYING BEHAVIOUR

Although there are certain factors common to both consumer and organizational buying behaviour, there are also numerous points of difference. Perhaps the most obvious feature of commonality in approaching the two areas is the fundamental need to understand how and why buyers behave as they do. There are, however, certain features of organizational buying

which are not found in consumer markets. These typically include the following:

- Organizations generally buy goods and services to satisfy a variety of goals such as making profits, reducing costs, meeting employees' needs, and meeting social and legal obligations.
- A greater number of people are generally involved in organizational buying decisions than in consumer buying decisions, especially when the value of the purchase is particularly high. Those involved in the decision usually have different and specific organizational responsibilities and apply different criteria to the purchase decision.
- The buyers must adhere to formal purchasing policies, constraints and requirements.
- The buying instruments, such as requests for quotations, proposals and purchase contracts, add another dimension not typically found in consumer buying.

Although quite obviously, as with consumers in consumer markets, no two companies behave in the same way, both research and experience have demonstrated that patterns of similarity do exist in the ways in which organizational buyers approach the task of buying, and that they are sufficiently uniform to simplify the task of strategic marketing planning.

In analysing patterns of organizational buying, the starting point is in many ways similar to that for consumer markets, with the strategist posing a series of questions:

- *Who* makes up the market?
- What *buying decisions* do they make?
- Who are the *key participants* in the buying process?
- What are the *principal influences* upon the buyer, and what organizational rules and policies are important?
- What *procedures* are followed in selecting and evaluating competitive offerings, and how do buyers arrive at their decisions?

### The three types of organizational buying decision

Much of the research conducted over the past 40 years into the nature of the industrial buying process has made either explicit or implicit use of a categorization first proposed in 1967 by Robinson, Faris and Wind. There are, they suggested, three distinct buying situations or buy classes, each of which requires a different pattern of behaviour from the supplier. They are the straight rebuy, the modified rebuy and the new task.

Of these, the *straight rebuy* is the most straightforward and describes a buying situation where products are reordered on a largely routine basis, often by someone at a fairly junior level in the organization. Among the products ordered in this way is office stationery. Here, the person responsible for the ordering simply reorders when stocks fall below a predetermined level and will typically use the same supplier from one year to another until either something goes wrong or a potential new supplier offers a sufficiently attractive incentive for the initial decision to be reconsidered. The implications of this sort of buying situation are for the most part straightforward, and require the supplier to maintain both product and service quality. Perhaps the biggest single problem in these circumstances stems from the need on the part of the supplier to avoid complacency setting in and allowing others to make an approach that causes the customer to reassess the supplier base.

The second type of buying situation – the *modified rebuy* – often represents an extension of the straight rebuy and occurs when the buyer wants to modify the specification, price or delivery terms. Although the current supplier is often in a relatively strong position to protect the account, the buyer will frequently give at least cursory consideration to other possible sources of supply.

The third type of buying situation – the *new task* – is the most radical of the three, and provides the marketing strategist with a series of opportunities and challenges. The buyer typically approaches the new task with a set of criteria that have to be satisfied and, in order to do this, will frequently consider a number of possible suppliers, each of whom is then faced with the task of convincing the buyer that his product or service will outperform or be more cost-effective than the others. The buyer's search for information is often considerable and designed to reduce risk. Where the costs are high there will typically be several people involved in the decision, and the strategist's task is therefore complicated by the need not just to identify the buying participants, but also their particular concerns and spheres of influence. In doing this, the strategist should never lose sight of the significance of attitudes to risk and the ways in which individuals may work to reduce their exposure to it. Amongst those to have focused upon this is McClelland (1961), who almost 50 years ago was suggesting that 'A great part of the efforts of business executives is directed towards minimizing uncertainties.'

### **Who is involved in the buying process?**

A major characteristic of organizational buying is that it is often a group activity, and only rarely does a single individual within the organization have sole responsibility for making all the decisions involved in the purchasing process. Instead, a number of people from different areas and often with different statuses are involved either directly or indirectly. Webster

and Wind (1972, p. 6) were the first to refer to this group as the decision-making unit (DMU) of an organization and as the buying centre, and defined it as 'all those individuals and groups who participate in the purchasing decision-making process, who share some common goals and the risks arising from the decisions'. There are, they suggest, six roles involved in this process (although, on occasions, all six may be performed by the same person):

1. *Users* of the product or service, who in many cases initiate the buying process and help in defining the purchase specifications
2. *Influencers*, who again help to define the specification, but who also provide an input to the process of evaluating the alternatives available
3. *Deciders*, who have the responsibility for deciding on product requirements and suppliers
4. *Approvers*, who give the authorization for the proposals of deciders and buyers
5. *Buyers*, who have the formal authority for selecting suppliers and negotiating purchase terms
6. *Gatekeepers*, who are able to stop sellers from reaching individuals in the buying centre – these can range from purchasing agents through to receptionists and telephone switchboard operators.

Although Webster and Wind's categorization of buying centre roles is the best known and the most widely used, a variety of other analytical approaches have been developed. Hill (1972), for example, has argued the case for analysing the buying centre not on the basis of the participants' roles, but on the basis of functional units. There are, he suggests, five such units:

1. *Control units*, which are responsible for the policy-making which influences buying and which imposes certain constraints – these might include buying where possible only from British suppliers or from local small firms
2. *Information units*, which provide information relating to the purchase
3. *The buying unit*, which consists of those with formal responsibility for negotiating the terms of the contract
4. *User units*, consisting of anyone in the organization who will be involved in using the product or service
5. *The decision-making unit*, which consists of those in the DMU who will make the decision.

Of these, it is only the control, information and decision-making units that he believes are of any real importance in influencing buying decisions.

Although the size, structure and formality of the buying centre will quite obviously vary depending both upon the size of the organization and the product decision involved, the strategist needs always to consider five questions:

1. Who are the principal participants in the buying process?
2. In what areas do they exercise the greatest influence?
3. What is their level of influence?
4. What evaluative criteria do each of the participants make use of and how professional is the buying process?
5. To what extent in large organizations is buying centralized?

### **The principal influences on industrial buyers**

Much of the early research into industrial buying processes was based on the assumption that industrial buyers, unlike consumers, are wholly rational. More recently it has been recognized that, while economic factors play a significant role, a variety of other elements also needs to be taken into account. Included within these are the culture of the organizations, the expectations of senior managers, attitudes to risk, the direct and indirect costs of the 'wrong' decision being made, the degree of choice within the market, patterns of past behaviour and their outcomes, and so on.

The question of what influences buyers and how various sources of information are perceived has also been examined by a variety of writers, one of the earliest and still most influential of whom was Webster (1970). He was particularly interested in the relative importance of formal and informal information sources, and how they differ from consumer markets. His findings suggest that informal sources tend to be used far less frequently in industrial markets than in consumer markets, and that salespeople are often regarded as highly reliable and useful sources of information. By contrast, opinion leadership, which often plays a significant role in consumer markets, was found to be largely ineffective; a possible explanation of this is the perception that no two companies experience the same problem and that there is therefore little to be gained. Perhaps the most significant single finding to emerge from Webster's research was the significance of the role that the industrial salesperson is capable of playing *throughout* the buying process.

The relative importance of sources of information has also been examined by Martilla (1971) and Abratt (1986). Martilla's work led to a series of conclusions that are broadly similar to those of Webster although, in addition, he highlighted the importance of word-of-mouth communication within firms,

particularly in the later stages of the adoption process. Abratt's research, which focused on high-technology laboratory instrumentation, adds a further dimension to our understanding of the buying process by suggesting that, in markets such as these, buying personnel often have 'only a token administrative function'. Instead, the question of what to buy is the responsibility of groups of two to three people, with the most significant purchasing criteria proving to be product reliability and technical and sales service backup, while price was relatively unimportant.

However, perhaps the most underestimated and, in research terms, ignored elements of the buying process is that of the *gatekeeper*. Although the identity of the gatekeeper is often difficult to determine, it is the gatekeeper who in many organizations either blocks or facilitates access and who can therefore play a pivotal role in determining which products are even considered by the DMU.

### How do industrial buyers arrive at their decisions?

One of the major differences between consumer and industrial buying decisions is the buying motive. Whereas the majority of consumer purchases are made for the individual's personal consumption or utility, industrial purchases are typically designed to reduce operating costs, satisfy legal obligations, provide an input to the manufacturing process, and ultimately to make money. But although the buying motive may well be different, the decision sequence is in many ways similar to that of the consumer process.

This buying process, which is based on Robinson *et al.*'s (1967) concept of a buy-grid model, begins with the recognition of a problem, can be sparked off by either internal or external stimuli. Internal stimuli typically include: the decision to develop a new product, and the recognition that this will require new equipment or materials; machine breakdowns; the belief on the part of the purchasing manager that better prices or quality can be obtained from an alternative supplier; curiosity; and organizational policy decisions. External stimuli include: the launch of a new product by a competitor; advertisements; sales representatives; and ideas that emerge as the result of trade shows.

This recognition of a problem is then followed by a *general need description*, in which the buyer identifies the characteristics and quantity of the products required to overcome the problem. This leads to the development of *product specifications* and, subsequently, to a *search for suppliers*.

The question of precisely *how* buyers select suppliers has been the subject of a considerable amount of research. However, in so far as it is possible to identify a common theme in this process of deciding between suppliers, it is the reduction, containment and management of risk.

It appears that buyers typically cope with risk in several ways, including:

- Exchanging technical and other information with their customers and prospects

- Dealing only with those suppliers with whom the company has previously had favourable experiences
- Applying strict (risk-reducing) decision rules
- Dealing only with suppliers who have a long-established and favourable reputation
- The introduction of penalty clauses relating to, for example, late delivery
- Multiple sourcing to reduce the degree of dependence upon a single supplier.

Although for many buyers the pursuit of a risk-reducing strategy has a series of attractions, it needs to be recognized that such a strategy can also possess drawbacks. The most obvious of these stems from the way in which it is likely to lead to the company becoming and remaining a follower rather than becoming a leader. Developments both in product and process technology on the part of a supplier often provide significant opportunities for the development of a competitive edge and, unless this is recognized by the company, it runs the risk of adopting new ideas only when they have been well tried by others.

Perhaps the final aspect of risk that needs to be considered here stems from the significance of post-purchase dissonance. Undoubtedly the best-known writer on dissonance is Festinger (1957), who has referred to it as a state of psychological discomfort. This discomfort is, in essence, the result of the individual questioning whether the decision made is correct. According to Festinger, a buyer will try to reduce this discomfort by seeking reassurance for the decision. This can be done by, for example, seeking the support of others, avoiding conflicting messages such as competitive advertising, and searching for editorials and advertisements that state how good the product just purchased is. The more expensive and significant the purchase, the greater the dissonance is likely to be. The implications for a supplier in these circumstances should be obvious: buyers need reassurance and this can best be provided by continuing to 'sell' the product and providing supporting evidence of the wisdom of the decision even after the sale itself has been made. Other ways in which dissonance can be reduced include giving emphasis to the quality of the after-sales service, maintaining regular contact with customers, and giving prominence in advertising to the market leaders who have also bought the product.

Having decided upon the choice of supplier, the buyer moves on to the *order-routine specification* by identifying such features as the technical specification, the order quantities, delivery schedules, maintenance requirements and payment terms.

The final stage involves a *review of suppliers' performance* and is designed, in one sense at least, to close the loop by feeding back information that will be used when purchasing in the future.

Although this sequential approach to organizational decision-making is undoubtedly useful and provides a series of insights into the various phases of buying, it should be realized that it fails to give full recognition to the complexity of the behavioural factors that are likely to influence those involved in making specific purchase decisions. Because of this, other models of organizational buying have been proposed, including *the interaction approach*, which places emphasis upon the nature of the process and relationships that develop both within and between buying and selling organizations.

Thus:

- Buyers and sellers are both seen to be active participants, and buyers often attempt to influence what they are offered
- Relationships are often long-term and based on mutual trust rather than any formal commitment
- Patterns of interaction are frequently complex and extend within the organizations as well as between organizations
- Emphasis is given to supporting these relationships as well as to the process of buying and selling
- Links between buyers and sellers often become institutionalized.

This approach to modelling industrial buying has, in turn, provided one of the foundations for the work of Hakansson (1981) and the IMP (International Marketing and Purchasing of Industrial Goods) group. Their research focused upon industrial buying and selling behaviour in five European countries – West Germany (as it was at the time), the UK, France, Italy and Sweden – and led to the development of a model that views this behaviour as a process in which both sides play active roles within a given environment. They suggest that four elements influence the patterns of buyer–seller interaction:

1. The interaction process
2. The participants in this process
3. The interaction environment
4. The atmosphere created by this interaction.

The real value of this model, which makes use both of interorganizational theory and new institutional economics thinking, is that it gives far greater emphasis than earlier work to the idea that industrial buying and selling is concerned with the management of relationships (refer to the discussion that begins in section 6.8 of this chapter).



The significance of relationships was also illustrated in 2005 when Ashridge Management College conducted a study designed to identify why industrial (B2B) organizations lost customers. The biggest single cause was found to lie not amongst what for many commentators are the obvious 'hard' elements of price, quality and delivery, but quite simply company indifference and the failure to manage effectively the customer relationship. This was illustrated by the way in which they summarized the reason for the percentage of lost customers in terms of:

1. Death (1%)
2. Business relocation (3%)
3. The development of new relationships (5%)
4. A lower price offered by a competitor (9%)
5. Dissatisfaction with the product, including issues of quality and delivery (14%)
6. Company indifference and the failure to manage the relationship effectively (68%).

### **The industrial buying process and issues of corruption**

A somewhat different approach to thinking about the nature of the industrial buying process has been highlighted by the work of the research group Transparency International (1997) ([www.transparency.org](http://www.transparency.org)). The organization produces each year a corruption perceptions index based on the political and business practices of 180 countries across the world. Amongst those at the bottom of the list and seen to be the most corrupt in 2008 were Somalia, Myanmar (previously Burma), Iraq, Haiti and Afghanistan. Those that were seen to be the least corrupt were Denmark, New Zealand, Sweden, Singapore and Finland (the UK was rated 16th, whilst the USA was 18th).

## **6.8 THE GROWTH OF RELATIONSHIP MARKETING**

Against the background of everything that we have said about the consumer and organizational buying processes, we can now turn to an issue that affects virtually all marketers, regardless of the nature of their customer base or indeed their product or service: the question of how to build, develop and nurture relationships.

A major focal point for a considerable amount of marketing thinking over the past 20 years has been the notion of loyalty and how long-term, cost-effective relationships might be developed with customers. In many ways, the idea of relationship marketing can be seen to be a logical development of the way in which the focus of marketing has changed from the

Transaction marketing	Relationship marketing
A focus on single sales	A focus on customer retention and building customer loyalty
An emphasis upon product features	An emphasis upon product benefits that are meaningful to the customer
Short timescales	Long timescales recognizing that short-term costs may be higher, but so will long-term profits
Little emphasis on customer retention	An emphasis upon high levels of service that are possibly tailored to the individual customer
Limited customer commitment	High customer commitment
Moderate customer contact	High customer contact, with each contact being used to gain information and build the relationship
Quality is essentially the concern of production and no-one else	Quality is the concern of all, and it is the failure to recognize this that creates minor mistakes which lead to major problems

**FIGURE 6.5** *Transaction versus relationship marketing (adapted from Christopher et al., 1991)*

early 1980s view that marketing is essentially a business function to the idea that, more realistically, it is – or should be – an organizational attitude, ethos and culture (see Chapter 1). Given this, it follows that the nature of any relationship between an organization and its markets should be based on a recognition of their fundamental interdependence, something which, in turn, has major implications for the ways in which the organization interacts with its customer base.

One of the most powerful drivers for relationship marketing has been what is in many ways the straightforward recognition of the fact that the costs of gaining a new customer, particularly in mature and slowly declining markets, are often high. Given this, the marketing planner needs to ensure that the existing customer base is managed as effectively as possible. One way of doing this is to move away from the traditional and now largely outmoded idea of marketing and selling as a series of activities concerned with transactions, and to think instead of their being concerned with the management of long(er)-term relationships. This is illustrated in Figure 6.5.

The potential benefits of this sort of approach are considerable and can be seen not just in terms of the higher returns from repeat sales, but also in terms of the opportunities for cross-selling, strategic partnerships and alliances. Clutterbuck and Dearlove (1993), for example, cite a study by Bain & Co., who suggest that, depending upon the type of business, a 5 per cent increase in customer retention can result in a profitability boost of anywhere from 25 to 125 per cent. The advantages are, of course, then increased further when the potential lifetime value of the customer is taken

into account. In essence, therefore, the attractions of a loyal customer base can be seen in terms of the greater scope for profit from four main areas:

1. The price premium that loyal customers are or may be willing to pay
2. Customer referrals
3. A reduction in marketing costs
4. The value of a greater number of purchases.

### Developing the relationship strategy

In developing the relationship strategy, the marketing planner needs to focus upon four steps:

1. Analysing the gap between target and existing behaviour
2. Identifying what needs to be done to close the gap
3. Formulating a programme of benefits that satisfy customers' needs in order of importance of each within the segment
4. Formulating a communications plan to modify the behaviour of target groups.

However, before doing this, there is the need to:

- Identify the *key* customers, since it is with these, particularly in the early stages, that the most profitable long-term relationships can be developed.
- Determine which customers *want* a relationship. Although it is easy to assume that customers will benefit from – and will therefore want – a relationship, the reality is that not all customers want to move beyond anything more than a straightforward transaction. The normal reason for this is that, for a relationship to work, there is the need for an investment of time and effort from both sides. Although the organization may be willing to do this, it does not necessarily follow that the customer has the same commitment.
- Following on from this, categorize customers in terms of their current or future potential with a view to the nature of any relationship then being tailored to their potential.
- Examine in detail the expectations of each segment for both sides.
- Identify how, if at all, the two can work together more closely in a cost-effective and profitable way.
- In the case of relationships in the commercial sector, appoint a relationship manager in each of the two organizations so that there

is a natural focal point and think about how operating processes on both sides might need to be changed so that cooperation might be made easier.

- Go for a series of small wins in the first instance and then gradually strengthen the relationship.
- Recognize from the outset that different customers have very different expectations and that these need to be reflected in the way in which the relationship is developed.

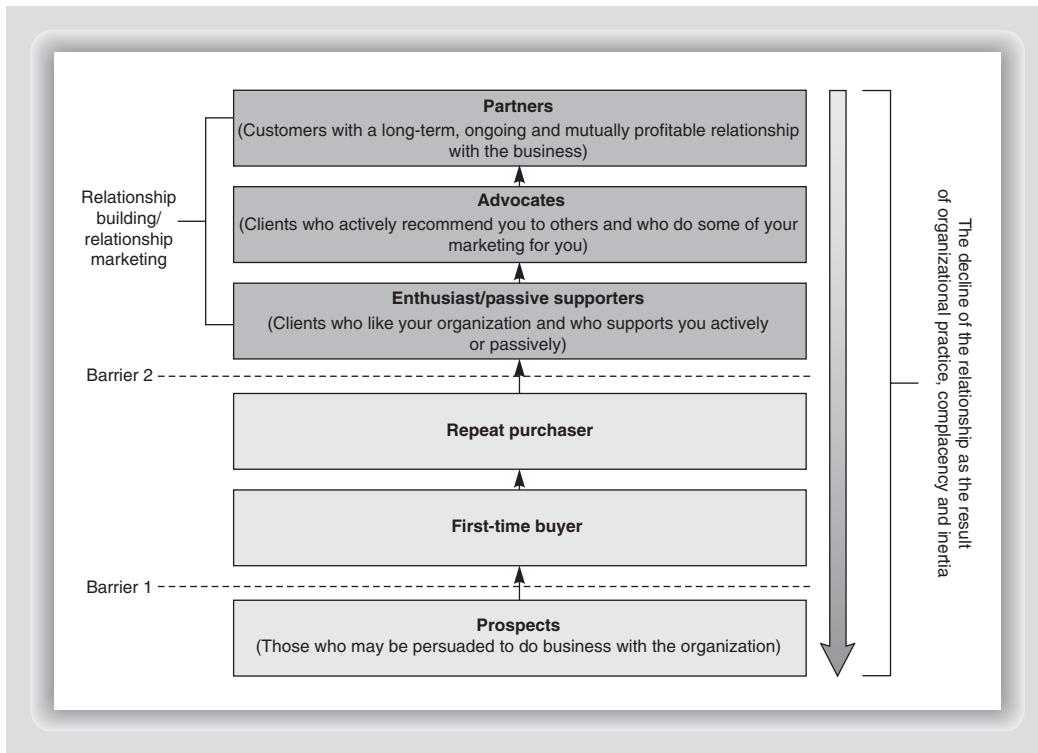
As part of this, there is also the need to think about how customers can be managed and how the customer database might be used. As the prelude to this, six questions need to be posed:

1. How much do you know about the current customer base?
2. How good is the database?
3. How good is the management of the database?
4. What needs to be done to exploit it further?
5. What else does the organization need to know about customers?
6. How can this be achieved?

The position of relationship marketing within the customer loyalty chain is illustrated in Figure 6.6. The ways in which it was used strategically by SAS is then discussed in Illustration 6.4.

Although it might be argued that the movements of a buyer through the various stages from prospects to partners in Figure 6.6 should be straightforward and seamless, the reality in many instances is that organizations unwittingly erect a series of barriers that slow down or stop this movement. The first can be seen to be that of the way in which, in many cases, organizations make it difficult to do business with them. While this might seem to be something of a paradox, these barriers often exist in terms of inappropriate opening hours, unhelpful sales staff, uncompetitive prices, poor product configurations, slow delivery, and so on. The second barrier occurs at a later stage, when the customer deals with the organization on a regular basis, but no real effort is made to get close to the customer by building a relationship. Instead, each sale takes the form of a one-off transaction, an approach which goes at least part of the way towards explaining why long-standing customers 'suddenly' move to another supplier.

Given this, the arrow on the right-hand side of Figure 6.6 shows how customers can – and almost inevitably will – move back down the loyalty chain if the relationship is not managed proactively.



**FIGURE 6.6** Relationship marketing and the customer loyalty chain

## Relationship marketing and the marketing mix

There are numerous ways in which relationships can be managed proactively, including by redefining and extending the marketing mix. As markets have become more competitive, the extent to which the marketing planner can differentiate purely on the basis of the traditional four Ps has become increasingly more difficult and more questionable. To overcome this, as we mentioned in Chapter 1, the focus in many markets has moved to the 'softer' elements of markets and the additional three Ps of People, Physical evidence and Processes that include proactive customer service. In emphasizing the softer elements of marketing, the marketing planner is giving explicit recognition to the way in which the product or service is typically delivered through people and that it is the organization's staff who have the ability to make or break the relationship. This, in turn, is influenced either positively or negatively by organizational processes and the effectiveness of process management (which is concerned with the ways in which the customer is handled, from the point of very first contact with the organization through to the last). The third of the soft Ps (Process management) relates

**Illustration 6.4 Building relationships and the moments of truth**

Jan Carlzon, president of Scandinavian Airlines System (SAS), achieved fame as the result of the way in which he turned SAS from heavy losses to healthy profit in the mid-1980s. In his book, Carlzon (1987, p. 3) says that each of his 10 million customers came in contact with approximately five employees for an average of 15 seconds each time. He referred to these contacts as moments of truth, suggesting that, for SAS, these were 'created' 50 million times a year, 15 seconds at a time.

It is statistics such as these that indicate the scale of opportunity for managing and building relationships – or, as Clutterbuck and Dearlove (1993, p. 101) define these critical encounters, OTSU (Opportunities To Screw Up).

When things do go wrong – and almost inevitably they will sooner or later in any long-term relationship – the question is how well the organizations handle the complaint. In examining this, the TARP organization in the USA concluded that when a customer complains and feels that the complaint is handled properly, he or she comes away satisfied and is likely to be *more loyal* to that brand or supplier than a customer who has never experienced a problem. Related to customer segment brand loyalty, the findings were as follows:

Experienced no problem	87 per cent
Satisfied complainant	91 per cent
Dissatisfied complainant	41 per cent
Non-complainant	59 per cent

Two key issues emerge here: first, dissatisfied customers should be encouraged and assisted to complain, but secondly, the complaint must be resolved to the customer's complete satisfaction.

Where customers remain dissatisfied, the implications are significant because not only will they fail to buy again, they tend not to keep quiet about their experiences. Statistics surrounding this issue are quoted ubiquitously, but all tend to tell the same story. Gerson (1992), for example, states that a dissatisfied customer will tell ten people about his experiences; approximately 13 per cent of dissatisfied customers will tell up to 20 people. Customers who are satisfied or have had their complaints satisfactorily resolved will tell between three and five people about their positive experience.

The stark reality of these statistics is that three to four customers have to be satisfied for every one who remains dissatisfied – a 4:1 ratio against.

to the way in which the customer is handled throughout the customer journey from point of first contact through to the point of last contact. Included within this is the notion of proactive customer service and the ways in which levels of customer satisfaction can be leveraged by proactive rather than reactive service standards and initiatives.

The development of relationship marketing concepts and the emphasis placed upon the organization's staff has led, in turn, to a greater clarity of thinking about the differences that exist between what might loosely be termed the three dimensions of marketing: *external marketing*, which is concerned with the traditional four Ps of marketing and how they contribute to the development of the external profile of the organization or brand; *internal marketing*, which is concerned with the ways in which senior management communicate the organizational values and priorities to their staff; and *interactive marketing*, which is concerned with the ways in which staff then interact with the customer or client base.

### Relationship building and the growth of loyalty marketing

For many customers in the consumer goods sector, the most obvious manifestation of relationship marketing over the past few years has been the growth of customer loyalty schemes. The rationale for many of these has been the straightforward recognition that, particularly in mature markets, the costs to an organization of recruiting a new customer are typically far greater than those associated with keeping an existing one. Because of this, marketing campaigns that are designed to build customer loyalty offer – or appear to offer – considerable strategic benefits. Recognizing this, the mid-1990s saw an upsurge in the number of organizations developing loyalty marketing programmes. Amongst the most proactive in this were the major food retailers.

However, calculating the *potential* value of a customer, as opposed to the value of each transaction, involves a very different approach to marketing and customer service, something that has forced many organizations to rethink how they use their internal accounting and data management systems. Having done this, they should then be in a far better position to communicate with customers in a more focused and strategic way, and apply the 80:20 rule (Pareto's Law) in order to target the 20 per cent of customers who generate the largest revenues and/or the greatest profits. The value of loyalty schemes can therefore be seen to lie in *how* the knowledge gained from customer databases is used.

There are, however, questions that can be raised about the long-term benefits of loyalty schemes. In the case of the food retailers, for example, it might be argued that the cards are a zero-sum game in that, ultimately, the total amount of food bought will remain the same and that the discounts that the cards give to customers will translate into lower gross margins for supermarkets. In commenting on this, Denison (1994) has suggested that, in the long term:

*loyalty schemes are not particularly effective. As schemes proliferate, what began as a 'reward' turns into an 'incentive' – or bribe. As companies try to outbid each other's incentives they risk slipping*

*into loyalty wars – price wars by another name. And as consumers learn to shop around for the best schemes, marketers risk fuelling the very promiscuity they set out to combat. Until companies invent a means of introducing switching costs for customers, the future benefits of many loyalty schemes will be very marginal. They could end up in a lose–lose situation.*

*If this happens, it could be the result of a certain amount of muddled thinking as marketers confuse retention with loyalty: a customer may return again and again, not out of any loyalty but out of sheer habit. Others assume that greater customer satisfaction must bring increased loyalty. But as British Airways' head of customer relations, Charles Weiser, has pointed out, this isn't necessarily the case. Defection rates among BA passengers who declare themselves satisfied are the same as among those who make complaints.*

A similar line of argument has been pursued by Mazur (1999), who has pointed to the proliferation of loyalty schemes and to the dangers of loyalty cards simply being taken for granted by consumers. In making this comment, Mazur points to a Mintel report (1998) which found that:

- There is extensive cross-ownership of cards. In the case of online mileage schemes, for example, frequent travelers will typically have cards from 3–4 airlines and then choose an airline because of its flight times, prices and destinations, with the card's mileage points then being used as a reward.
- Less than one-third of those surveyed suggested that a loyalty card influenced where they shopped.
- The most significant short-term driver for a card to be introduced was because a major competitor has already launched one.

Mazur (1999) also points to research by the Marketing Forum which found that 'while active drivers of [retailer] loyalty included own brands, staff and customer service, product quality, price and product range, loyalty schemes come well down the list of what makes people go to certain shops'. It is this that, she suggests, highlights the way in which the concept of loyalty in retailing and airlines at least, has been brought into question and that a loyalty scheme will only work if it is just one part of a long-term strategy.

Perhaps surprisingly, despite the huge growth in the number of loyalty schemes (there are currently 27 million reward cards in circulation in the UK; in the airline business, travellers had accumulated more than 17 trillion frequent miles by the end of 2007 worth more than \$850 billion), many of the benefits often go unclaimed by consumers. A study by the International Consumer Loyalty Programme (2005), for example,



revealed that in each year in the UK 23 per cent of card holders with £460 million worth of points fail to redeem these points.

It is because of issues such as this and the sorts of paradox highlighted by our earlier comment about airline passengers that in recent years there has been a significant re-evaluation and rethinking of the concept of loyalty and the role of loyalty schemes. In doing this, we need initially to go back to the initial thinking about the nature and role of loyalty.

One of the first to explore in detail the attractions of customer loyalty was Reicheld (2006), who argued that organizations need to focus upon customer retention for five main reasons:

1. Acquiring customers is typically expensive and so the more you keep, the less you need to spend (it is this idea that has led others to suggest that 5 per cent uplift in customer retention could lead to companies doubling their profits)
2. The longer a customer stays, the more profitable he becomes
3. Established customers have lower servicing costs
4. Loyal customers provide more word-of-mouth recommendations
5. As loyal customers, they are less price-sensitive.

In many ways, it is Reicheld's work that has provided the foundation for much of what has been written about customer loyalty and loyalty marketing over the past decade, although increasingly his five basic tenets are being called into question. Reinartz and Kumar (2002), for example, have argued that, in many sectors (their primary focus was the retail, mail order, hi-tech, and financial services markets), long-term customers are often the least profitable. There are several reasons for this, but most obviously this is because they demand ever more from the organization. Research by Ehrenberg has also disputed the supposed link between loyalty and profitability.

The idea that loyal customers have lower servicing costs has also been questioned by Reinartz and Kumar (2002) who, in their research, simply found no evidence for this assertion. If anything, they suggest, the opposite may be true.

With regard to word-of-mouth recommendation, East found that across 15 categories (these included cars, credit cards, car insurance, home insurance, ISPs and mobile air time), the longer a customer stays, the less likely that customer is to recommend. He identifies several possible explanations for this, the most obvious of which is the loss of novelty as in that the customer starts to take the company for granted.

Reicheld's final point regarding the loyal customer's willingness to pay a price premium has also been questioned by Reinartz and Kumar who suggests that it is loyal customers who most typically demand more and who most resent an organization profiting from their loyalty.

Recognition of this sort of research has led Reicheld in recent years to accept that some of the ideas on which thinking about loyalty marketing has been based may indeed be questionable and has led him to suggest instead that there is just one number that a company needs to know: the customer's willingness to recommend products or services to a friend. However, even this can be questioned in that, as a concept, it is essentially very loose, with recommendations potentially ranging from a positive statement if pushed, through to unprompted and unkindled enthusiasm. Secondly, a willingness to recommend does not automatically have a link to lifetime value or any of the other dimensions that are typically associated with loyalty marketing.

Given the cost of many long-running loyalty schemes and the questions that are increasingly being asked about their value, it is worth viewing loyalty schemes from a different standpoint. Rather than the simplistic idea of (so-called) loyalty schemes being based on the idea that customers have the potential for being inherently loyal, organizations such as Tesco have developed schemes such as their Club Card which capture huge amounts of customer information. This information is then analysed in detail so that very focused customer profiling then becomes possible. This profiling then allows for far more per use customer targeting, a far clearer and more meaningful offer to different customer groups, and a series of benefits and incentives in the form of special offers and points that can be redeemed either with Tesco or at theme parks, cinemas, and so on.

From the company's point of view, the information generated can then be used in a variety of ways including:

- The more precise management of the product range
- New product development
- Pricing strategies that more precisely meet the needs and price sensitivities of different target groups
- Merchandising so that the product portfolio is based on *detailed* insights to customer profiles and purchasing patterns
- Inventory management
- Promotions, with greater rewards being offered to loyal customers
- Levels of customer service, with greater attention being paid to the stock levels and promotions on those products bought by loyal customers
- The measurement of promotional and media effectiveness
- Customer acquisition by matching new products such as the entry to financial services and the launch of Tesco.com to specific customer types

- Targeted communications (20 per cent of Tesco's coupons are redeemed against an industry average of 0.5 per cent).

### Relationship marketing myopia

Although relationship marketing and relationship management has an obvious attraction, Piercy (1999) has identified what he terms 'relationship marketing myopia', or the naive belief that every customer wants to have a relationship with their suppliers. He goes on to suggest that 'customers differ in many important ways in the types of relationship they want to have with different suppliers, and that to ignore this reality is an expensive indulgence'.

This, in turn, leads him to categorize customers in terms of those who are:

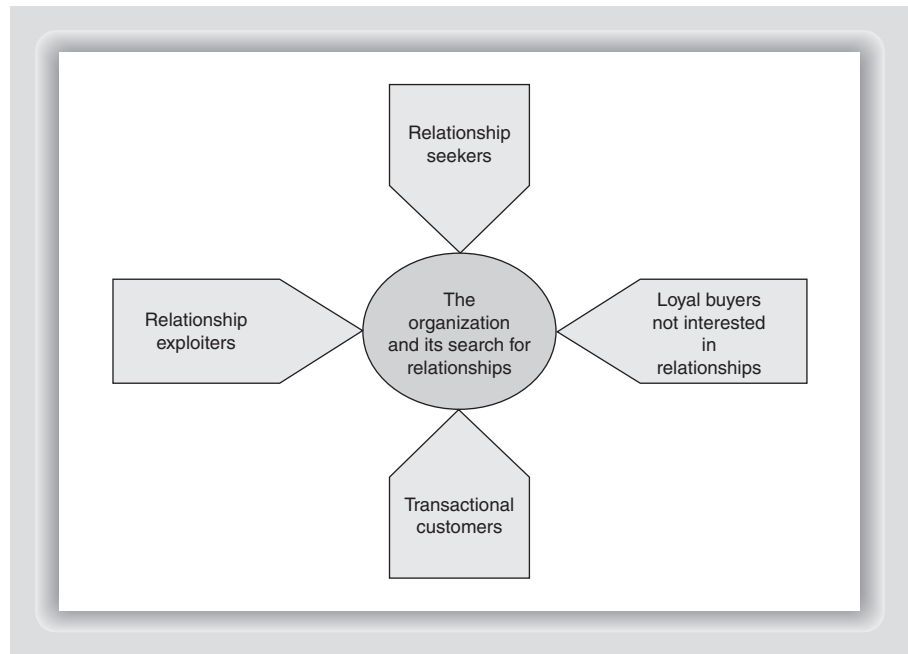
- *Relationship seekers* – customers who want a close and long-term relationship with suppliers
- *Relationship exploiters* – customers who will take every free service and offer, but will still move their business elsewhere when they feel like it
- *Loyal buyers* – those who will give long-term loyalty, but who do not want a close relationship
- *Arm's-length, transaction buyers* – those who avoid close relationships and move business based on price, technical specification or innovation.

This is illustrated in Figure 6.7.

In categorizing customers in this way, Piercy gives recognition to the need for relationship strategies to be based upon the principles of market segmentation and customers' relationship-seeking characteristics:

*Relationship investment with profitable relationship seekers is good. Relationship investments with exploiters and transactional customers are a waste. The trick is going to be developing different marketing strategies to match different customer relationship needs.*

Piercy's comments are interesting for a variety of reasons, and raise the question of whether there is a direct link between customer satisfaction and customer loyalty. Although intuitively a link between the two might appear obvious, the reality is that there is little hard evidence to suggest that anything more than an indirect relationship exists. Instead, it is probably the case that it is customer *dissatisfaction* that leads to customer disloyalty, although even here the link may be surprisingly tenuous. Whilst this might at first sight seem to be a strange comment to make, the reality in many markets is that there is often a surprisingly high degree of inertia within the customer base. (Gary Hamel, in a TV interview, has referred to this in terms of customer friction being a potentially major source of profits for



**FIGURE 6.7** *Customers and the nature of their relationship needs*

many companies.) Given this, customers or consumers may be in a position where they simply cannot be bothered to change their source of supply until levels of dissatisfaction reach a very high level.

Piercy's ideas about the need to rethink approaches to relationship marketing have, in turn, been taken a step further by Frederick Newell (2003), who in his book *Why CRM Doesn't Work* highlighted many of the failures of the numerous customer relationship management (CRM) initiatives. With Frost & Sullivan having estimated that spending on CRM now exceeds \$12 billion worldwide and is expected to double again in the next few years, the costs of a radical rethink are high. For Newell, there is now the need to move away from CRM to what he refers to as CMR, the customer management of relationships. Arguing that this is more than just a matter of semantics, Newell suggests the need for a new balance of power that allows 'the customer to tell us what she's interested in, what kind of information she wants, what level of service she wants to receive, and how she wants us to communicate with her – where, when and how often'.

However, an argument can be developed to suggest that both CRM and CMR fail to come to terms with the real complexities of consumer choice, something that can only become more problematic as the range of products and services available becomes ever wider. In these circumstances, any benefit to the customer that then justifies the idea of a relationship diminishes a proposition. As an example of this, loyalty cards – one of the original drivers

of CRM – were seen at one stage as a way of engaging the customer's attention but, as Newell acknowledges, the advantage is marginal now that practically every airline and retail chain offers one or more. In the USA, 60 million people now belong to frequent-flyer programmes, something that led Newell to acknowledge that 'half of all members of loyalty programmes are free riders, enjoying benefits without spending more at the business that provides them'. Recognizing this, the real value of cards to the issuer is to provide data on customers' purchasing patterns, but if an organization is to pursue the CMR rather than the CRM philosophy, the company must use the information not just to sell more, but to 'make their lives easier and create emotional loyalty to the business relationship'.

### Developing the customer community

Given some of the problems faced with the now traditional approach to relationship marketing campaigns (e.g. a survey undertaken in 2006 by Bain & Co. concluded that one in five executives believe that CRM initiatives had damaged customer relationships), Hunter (1997) has argued that, although marketing success needs to be based on the development of a loyal customer base, ensuring that product or service offerings meet customers' needs, having an ongoing competitive intelligence system, effective and efficient sales channels and – most importantly from our standpoint at this stage – building new business around current customers, the ways in which this is done need to be rethought. Amongst the ways in which he believes this can be done is by building an interdependent relationship with the customer in which each relies on the other for business solutions and successes. Hunter refers to this in terms of building a customer community which – given the average company loses 20–40 per cent of its customer base each year – is strategically important.

For Hunter, the customer community, based on integrated one-to-one marketing contact databases and value-based marketing, is an approach that allows for the building of truly strategic relationships with customers. Amongst the models that illustrate the central ideas and processes of the customer community and provide the framework for implementing it is the service–profit chain.

Developed by Heskett *et al.* (1994), the service–profit chain attempts to show the interrelationship of a company's internal and external communities, and highlights how customer loyalty that translates into revenue growth and profits might be achieved. It does this by establishing relationships between profitability, customer loyalty and employee satisfaction. The links in the chain are as follows:

- Profit and growth are stimulated primarily by customer loyalty
- Loyalty is a direct result of customer satisfaction

- Satisfaction is largely influenced by the value of services provided to customers
- Value is created by satisfied, loyal and productive employees
- Employee satisfaction, in turn, results primarily from high-quality support services and policies that enable employees to deliver results to customers.

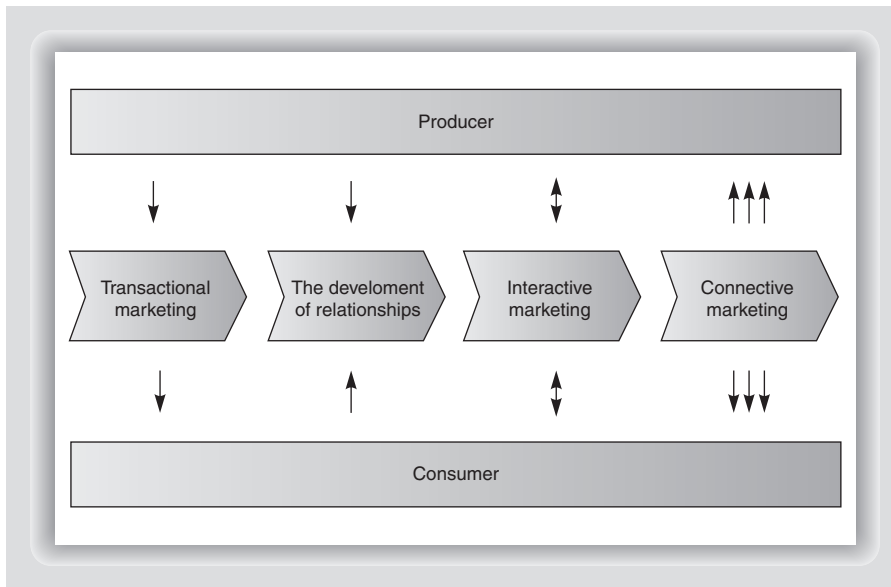
### The significance of customer promiscuity

One of the principal themes pursued throughout this book is that many of the traditional assumptions that have been made about customers and that have driven thinking on marketing strategy are quite simply no longer appropriate. Rather than being able to take customer loyalty for granted, the reality for many planners is that, as customers have become more demanding, more discriminating, less loyal and more willing to complain, levels of customer promiscuity have increased dramatically. In a number of ways, this can be seen to be the logical end point of the sorts of ideas discussed in 1970 by Alvin Toffler in his book *Future Shock*: he predicted that we would be living in a world of accelerating discontinuities where 'the points of a compass no longer navigated us in the direction of the future'.

Amongst Toffler's predictions was that, as the pace of change accelerates, so the nature of relationships becomes much more temporary. For marketers, the most obvious manifestation of this is a fracturing of the relationship between the organization and its markets and the decline of brand loyalty. This disconnection between consumers and brands is then exacerbated by vicarious living, a phenomenon that has been explored by Crawford Hollingworth (2001) of Headlight Vision. Hollingworth has argued that 'We live in a world where there is so much choice and information and so many different experiences that we believe that we have had, but in fact we haven't actually had.'

With customers now faced with so many stimuli in the form of advertising, promotions, point-of-sale offers, poster sites and sponsorship, the danger is that of a considerable amount of marketing activity simply becoming white noise. Given this, there is a need to rethink the nature of the relationship between the consumer and the brand. Amongst the ways in which this can be done is by focusing upon added value and the extra value proposition (EVP), customer-driven strategies and permission marketing (refer to the discussion in Chapter 11). In the absence of this, there is the very real danger of competitive oblivion, particularly as Web-based strategies reduce market entry barriers and costs.

An additional problem stems from what Hamel (2001) has referred to as the end of friction as a reliable service of profits (friction is defined by Hamel as customer ignorance or inertia). For many banks, for example, a substantial part of their revenue is often derived from the problems that customers face in identifying and/or choosing alternatives. However, with a generally greater degree of customer scepticism or cynicism, far higher expectations, increasing



**FIGURE 6.8** *The move from transactional to connective marketing*

levels of customer promiscuity and the ease of access to alternatives via the web, friction is likely to become a far less common phenomenon.

### Relationship marketing: the next stage of thinking

Although relationship marketing has undoubtedly had a major impact upon marketing thinking and upon the ways in which organizations interact with their customers, relationship marketing should not be seen as an end in itself. Instead, the marketing planner should think about how this sort of thinking might be moved ahead yet further, something that is made possible by the better management of databases, far more effective targeting, and the greater scope for one-to-one marketing. This is illustrated in Figure 6.8.

Here, the marketing planner focuses not just upon getting even closer to the customer, but also upon the development of a series of far more strategic and inherently cleverer interactions that are based upon true customer insight. However, in doing this, the planner needs to understand in detail the potential that each customer offers, since this then provides the basis for far better approaches to market segmentation.

## 6.9 SUMMARY

Within this chapter we have focused on the detail of consumer and industrial buying structures and processes, and on the ways in which an understanding of these contributes to effective marketing planning.

A variety of factors influence consumer behaviour, the most significant of which are a network of cultural, social, personal and psychological forces. Each of these was discussed in some detail and the nature of their interrelationships explored. Against this background we then considered the structure of buying decision processes, and in particular:

- The buying roles within the decision-making unit
- The different types of buying behaviour
- The process through which a consumer goes in making a decision.

A variety of attempts have been made over the past 40 years to model the complexities of the buying process, the best known of which are those proposed by Nicosia (1966), Engel *et al.* (1968) and Sheth (1973). These models have been the subject of a certain amount of criticism, one consequence of which has been that the strategist's ability to predict with any real degree of accuracy the probable response of consumers to marketing behaviour is still relatively limited.

Research into organizational buying behaviour has pursued broadly similar objectives to that in the consumer field, with attention being paid to the questions of:

- Who makes up the market?
- What buying decisions do they make?
- Who are the key participants in the buying process?
- What influences the buyer?
- How do buyers arrive at their decisions?

Each of these areas was examined in some detail and the best known of the models of organizational buying behaviour were reviewed. As with models of consumer behaviour, the majority of these have been heavily criticized, largely because of their poor analytical or predictive ability. There are, however, exceptions to this, as discussed, including Robinson *et al.*'s (1967) buy-grid model and Hakansson's (1981) interaction approach, in which use is made of interorganizational theory and new institutional economics thinking. It is in these areas that future developments in our understanding of organizational buying processes are most likely to be made.

## APPENDIX: THE DRIVERS OF CONSUMER CHANGE

A variety of studies has been conducted over the past few years in an attempt to identify the principal drivers of change amongst twenty-first century consumers.



There are several features that are common to virtually all of these studies which suggest that Western societies are increasingly being characterized by:

1. Changing demographics
2. Changing family relationships
3. A significant cash-rich/time-poor segment
4. A search for (greater) value
5. The rise of ethical consumerism
6. An emphasis upon health and healthy lifestyles
7. A desire for indulgence and small treats as a reward for working hard and/or as a retreat from the pressures of the world.

## **Changing demographics**

### ***The youthful elderly***

Although it has long been recognized that changing demographics in many countries are leading to increasingly elderly populations, less emphasis has been given to the characteristics of these people. The notion of the youthful elderly is based on the way in which, as the children of the 1960s move into middle age/late middle age, they are increasingly retaining their youthful lifestyles and attitudes (see, for example, Richardson, 2001). Benefiting from higher levels of health and fitness and having more money than previous generations, the youthful elderly expect – and are able – to live life to the full. In these circumstances, age largely becomes an attitude of mind.

Although this market has often been largely ignored by planners, its real size and value is shown by the way in which, in the UK, more than 48 per cent of the population is currently over 50. In 20 years, one in two adults will be over 50.

However, it needs to be recognized that, within the over-50s segment, major differences do exist. Although a growing number of retired people are healthier, more active, more affluent, want to have more fun, eat out more often, travel, and as a result are more experimental with food and are open to new technology (including the Internet), those dependent on state pensions are now having to pay more for their healthcare and becoming more entrenched in terms of attitude to new ideas and products. There is therefore a growing polarization within the group.

### ***Ageing children (the under 14s)***

At the same time that we are seeing the elderly becoming more youthful, we also have a series of changes that are affecting the children's market. In the case of the under 14s, numbers are currently declining. Between 2000 and 2007, for example, the 5–9 years age segment declined by 6 per cent, the

10–14s remained static and 15–19s increased by 5 per cent. By 2010, 5–9s will have declined by 11 per cent, 10–14s will have declined by 5 per cent and 15–19s will have increased by 5 per cent. By 2012, 5–9s will have declined by 13 per cent, 10–14s will have declined by 6 per cent and 15–19s will have increased by 6 per cent. The widening availability of technology and media means that children are exposed to the adult world much earlier and are now aware of advertising and its role by the age of 3. One result of this is that they are more demanding of brands and their environment, with this being due in part to more spoiling by time-pressured parents and the easy availability of luxuries. They are also more sophisticated and far more unforgiving with regard to brands. They expect entertainment and have low boredom thresholds.

### ***Ageing children (the teens)***

Although the teenage market has traditionally been seen to be amongst the fastest changing segments of consumer markets, a strong case can be made to suggest that this segment is now changing even faster than in the past. In part, this is because of the ways in which teenagers today have been exposed to a greater number of stimuli than those previously, and it is this that has led to a generation that is now far more advertising media, technologically and brand literate than any of those that have gone before. However, the ‘teen’ world is characterized by a series of paradoxes, with a continual seeking of new youth world/escapism (as adults invade their space) and for excitement, as well as increasing insecurity and the need to belong.

This manifests itself in a teen world that is characterized by:

- Living for today, with a heavy emphasis upon individual self-expression, mobility, freedom and hedonism
- A commercial and marketing overload that has led to those within this group being media literate, cynical and more demanding
- A group that has a strong appreciation of brands and their heritage; where there is a superficial idealism for the brand, the market has a tendency to reject it.

### **Changing family relationships**

With the breakdown of the traditional family structure, a decline in the number of births to 1.64 per woman and a growth in the number of working women, family decision-making structures have undergone a series of fundamental changes. There is therefore a big question over who within the redefined family makes decisions and how these are arrived at. In essence:

- Democracy and individualism have replaced traditional family hierarchies and children play a far greater role. They are no longer protected from the adult world in the way they were previously.

- Because the number of working and career women has increased dramatically, male/female/family dynamics have changed. Independence is now an economic possibility for a greater number of women – with the economics of divorce having contributed to this. However, a number of commentators have identified a culture of guilt surrounding the question of how to be a good mother, whilst at the same time working full-time and pursuing a career.

There are now no set life-stages and less age-appropriate behaviour. Children are exposed to a greater number of stimuli (half of all 4-year-olds have a television in their bedroom) and are far more brand-conscious. Adults stay young longer. The age at which many have children is getting later as they concentrate on having ‘fun’ (this is the rise of ‘middle youth’ – people in their 30s and 40s who still haven’t ‘settled down’, something that has been manifested in the rise of adventure holidays targeted at this group).

### **The rise of the cash-rich/time-poor segment**

Because more and more people are working longer hours, the service sector has grown enormously to fill the time gap. The idea of getting someone to do something for you is no longer unacceptable (laziness/snobbery). Instead, it is a sign of valuing your life. Other factors that have led to the growth of the service sector to serve this market include:

- Seventy-six per cent of women of working age are now employed and, whilst statistics show that women still do the majority of housework, young women are less inclined to do it than their mothers were. The number of single-person households is also increasing and so these people have no one else to do it for them.
- The desire to fully exploit the little time people do have. They are therefore willing to pay for time, quality and simplicity – life is too short to do it yourself. This is not a return to Edwardian hierarchy (i.e. ‘I am too good to clean’), but rather ‘I don’t have enough time to clean, so I will pay someone to do it for me’.
- The 24-hour society that has been driven by:
  - The Internet being ‘open’ 24 hours, helping to confirm this notion of the 24-hour society
  - Home delivery and combination of products when and where you want them
  - An increase in stress-related diseases.

However, at the same time that we have seen the rise of the cash-rich/time-poor segment, there has also been a growth in the time-rich/cash-poor segment, a factor that has implications for the value-for-money offer.

### A search for (greater) value

Against the background of the factors discussed in the above section, there is increasingly the emergence of two (or three) nations within society (see Illustration 6.5), characterized by:

- Forty per cent of households are affluent, but one in three is poor and getting poorer
- The wealthiest 5 per cent of UK society own 42 per cent of the total national wealth, whilst the bottom 50 per cent own just 6 per cent of national wealth (the top 25 per cent own 74 per cent of the wealth)
- High levels of price consciousness continue to thrive, and retailers are set to capitalize on this with the growth of retailers such as Wal-Mart, Aldi and Netto
- Even the wealthier, older households will feel squeezed as more of their discretionary income goes on health, education and private insurance

#### Illustration 6.5 The rise of the three-nation society

In the mid-1990s, the Henley Centre highlighted the ways in which there is an interaction of time and money and how this has led to the emergence of a sizeable time-poor/cash-rich segment in society. The profile of this segment, which they referred to as 'the first nation', differs sharply from those segments labelled the second and third nations; the characteristics of the three segments are illustrated in Figure 6.9. The 20 per cent of the people in this first nation are characterized by being willing to spend money to save time, something that distinguishes them from the other 80 per cent. By virtue of their income levels, this segment of society also has open to it a greater spectrum of product choices and has responded by being more willing than other segments to pass on to others some aspects of life management.

The first nation	The second nation	The third nation
20% of the population	50% of the population	30% of the population
40% of consumer spending	50% of consumer spending	10% of consumer spending
Cash-rich	Cash-constrained	Cash-poor
Time-poor	Time-constrained	Time-rich

**FIGURE 6.9** *The three-nation society*

- Consumers are becoming even more demanding of quality and see price/value solutions more than price *per se* to be important
- Home shopping, with much more prominent pricing cues, will help to fuel the price mentality.

### **The rise of ethical consumerism**

Because of the large numbers of financial, food, health and environmental scares over the past decade, a greater cynicism about government, politicians, big business and brands has emerged.

Ethical consumerism has been a response to this and reflects the desire to gain control over one's life. Buying ethical products from a supermarket, for example, involves no major life changes, but is an easy way to make the consumer feel he or she is making a difference. In these circumstances, prices are often of less importance than how the product is positioned.

### **An emphasis upon health and healthy lifestyles**

Because of the growing awareness of the ability and personal responsibility for individuals to influence their own health, the greater evidence regarding links between diet and disease, and the shift from the welfare state to the individual, there has been an upsurge in the emphasis given to lifestyle management. Underpinning this is the recognition that diet is an important contributor to healthiness ('I am more concerned about what I eat and drink than I used to be'), and that children today are increasingly exposed to smoking, pollution, drugs, stress and a lack of exercise. There is, though, a general confusion over how to eat healthily, 'the advice given on healthy eating is always changing' and a (growing?) body of consumers who just opt out or cannot afford to participate ('I would like to eat healthier foods but it costs a lot more to buy the right things').

### **The desire for indulgence and small treats**

With society generally becoming wealthier, the rises in consumers' disposable income and the number of people considering themselves 'middle class', tastes and aspirations are changing. Stressful lifestyles and time famine means there is a greater need for pampering and enhanced leisure time. Even in times of economic hardship small indulgences remain intact; in fact, these are increasingly seen as being essentials.