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1.1: Role of Customers

Learning Objectives

- Explain the marketing concept
- Explain the importance of managing the customer relationship
- Explain the consumer buying process

Marketing Defined

What Is Marketing?

Marketing is a set of activities related to creating, communicating, delivering, and exchanging offerings that have value for others. In business, the function of marketing is to bring value to customers, whom the business seeks to identify, satisfy, and retain. This module will emphasize the role of marketing in business, but many of the concepts will apply to non-profit organizations, advocacy campaigns, and other activities aimed at influencing perceptions and behavior.

The Art of the Exchange

In marketing, the act of obtaining a desired object from someone by offering something of value in return is called the **exchange process**. The exchange involves:

- **the customer (or buyer):** a person or organization with a want or need who is willing to give money or some other personal resource to address this need
- **the product:** a physical good, a service, experience or idea designed to fill the customer's want or need
- **the provider (or seller):** the company or organization offering a need-satisfying thing, which may be a product, service, experience or idea
- **the transaction:** the terms around which both parties agree to trade value-for-value (most often, money for product)

Individuals on both sides of the exchange try to maximize rewards and minimize costs in transactions, in order to gain the most profitable outcomes. Ideally, everyone achieves a satisfactory level of reward.

Marketing creates a **bundle of goods and services** that the company offers at a price to its customers. The bundle consists of a tangible good, an intangible service or benefit, and the price of the offering. When you compare one car to another, for example, you can evaluate each of these dimensions—the tangible, the intangible, and the price—separately. However, you can't buy one manufacturer's car, another manufacturer's service, and a third manufacturer's price when you actually make a choice. Together, the three make up a single firm's offer or bundle.

Marketing is also responsible for the entire environment in which this exchange of value takes place.

- Marketing identifies customers, their needs, and how much value they place on getting those needs addressed.
- Marketing informs the design of the product to ensure it meets customer needs and provides value proportional to what it costs.
- Marketing is responsible for communicating with customers about products, explaining who is offering them and why they are desirable.
- Marketing is also responsible for listening to customers and communicating back to the provider about how well they are satisfying customer needs and opportunities for improvement.
- Marketing shapes the location and terms of the transaction, as well as the experience customers have after the product is delivered.

Marketing Creates Value for Customers

According to the influential economist and Harvard Business School professor Theodore Levitt, the purpose of all business is to "find and keep customers." Marketing is instrumental in helping businesses achieve this purpose and is much more than just advertising and selling products and collecting money. Marketing generates value by creating the connections between people and products, customers and companies.

How does this happen? Boiled down to its essence, the **role of marketing** is to *identify, satisfy,* and *retain customers*.

Before you can create anything of value, first you must **identify** a want or need that you can address, as well as the prospective customers who possess this want or need.

Next, you work to **satisfy** these customers by delivering a product or service that addresses these needs at the time customers want it. Key to customer satisfaction is making sure everyone feels they benefit from the exchange. Your customer is happy with the value they get for what they pay. You are happy with the payment you receive in exchange for what you provide.

Effective marketing doesn't stop there. It also needs to **retain** customers by creating new opportunities to win customer loyalty and business.

As you will learn in this module, marketing encompasses a variety of activities focused on accomplishing these objectives. How companies approach and conduct day-to-day marketing activities varies widely. For many large, highly visible companies, such as Disney-ABC, Proctor & Gamble, Sony, and Toyota, marketing represents a major expenditure. Such companies rely on effective marketing for business success, and this dependence is reflected in their organizational strategies, budget, and operations. Conversely, for other organizations, particularly those in highly regulated or less competitive industries such as utilities, social services, medical care, or businesses providing one-of-a-kind products, marketing may be much less visible. It could even be as simple as a Web site or an informational brochure.

There is no one model that guarantees marketing success. Effective marketing may be very expensive, or it may cost next to nothing. What marketing must do in all cases is to help the organization identify, satisfy, and retain customers. Regardless of size or complexity, a marketing program is worth the costs only if it facilitates the organization's ability to reach its goals.

How Companies Approach Marketing

Company Orientation

When companies develop a marketing strategy, they make decisions about the direction that the company and their marketing efforts will take. Companies can focus on the customer, product, sales, or production. As the business environment has changed over time, so has the way that companies focus their marketing efforts.

The Marketing Concept

An organization adopts the marketing concept when it takes steps to know as much about the consumer as possible, coupled with a decision to base marketing, product, and even strategy decisions on this information. These organizations start with the customers' needs and work backward from there to create value, rather than starting with some other factor like production capacity or an innovative invention. They operate on the assumption that success depends on doing better than competitors at understanding, creating, delivering, and communicating value to their target customers.

The Product Concept

Both historically and currently, many businesses do not follow the marketing concept. For many years, companies such as Texas Instruments and Otis Elevator have followed a *product orientation,* in which the primary organizational focus is technology and innovation. All parts of these organizations invest heavily in building and showcasing impressive features and product advances, which are the areas in which these companies prefer to compete. This approach is also known as the *product concept*. Rather than focusing on a deep understanding of customer needs, these companies assume that a technically superior or less expensive product will sell itself. While this approach can be very profitable, there is a high risk of losing touch with what customers actually want. This leaves product-oriented companies vulnerable to more customer-oriented competitors.

The Sales Concept

Other companies follow a *sales orientation.* These businesses emphasize the sales process and try to make it as effective as possible. While companies in any industry may adopt the sales concept, multilevel-marketing companies such as Herbalife and Amway generally fall into this category. Many business-to-business companies with dedicated sales teams also fit this profile. These organizations assume that a good salesperson with the right tools and incentives is capable of selling almost anything. Sales and marketing techniques include aggressive sales methods, promotions, and other activities that support the sale. Often, this focus on the selling process may ignore the customer or view the customer as someone to be manipulated. These companies sell what they make, which isn't necessarily what customers want.

The Production Concept

Ford assembly line, 1913, Highland Park, Michigan

The *production concept* is followed by organizations that are striving for low-production costs, highly efficient processes, and mass distribution (which enables them to deliver low-cost goods at the best price). This approach came into popularity during the Industrial Revolution of the late 1800s, when businesses were beginning to exploit opportunities associated with automation and mass production. Production-oriented companies assume that customers care most about low-cost products being readily available and less about specific product features. Henry Ford's success with the groundbreaking assembly-line–built Model T is a classic example of the production concept in action. Today this approach is still widely successful in developing countries seeking economic gains in the manufacturing sector.

Seeing the Whole Picture

Savvy businesses acknowledge the importance of product features, production, and sales, but they also realize that in today's business environment a marketing orientation will lead to the greatest success when businesses continuously collect information about customers’ needs and competitors’ capabilities; share the information across departments; and use the information to create a competitive advantage by increasing value for customers.

Value Proposition

What Is Value?

Marketing exists to help organizations understand, reach, and deliver value to their customers. In it’s simplest form, **value** is the measure of the benefit gained from a product or service relative to the full cost of the item. In the process of the marketing exchange, value must be created.

$$\text{Value} = \text{benefit} - \text{cost}$$

Let’s look at a simple example: If you and I decide to give each other a $5 bill at the same moment, is value created? I hand my $5 bill to you, and you hand yours to me. It is hard to say that either of us receives a benefit greater than the $5 bill we just received. There is no value in the exchange.

Now, imagine that you are passing by a machine that dispenses bus tickets. The machine is malfunctioning and will only accept $1 bills. The bus is about to arrive and a man in front of the machine asks if you would be willing to give him four $1 bills in exchange for a $5 bill. You could, of course, decide to make change for him (and give him five $1 bills), making this an “even exchange.” But let’s say you agree to his proposal of exchanging four $1 bills for a $5. In that moment a $1 bill is worth $1.25 to him. How does that make sense in the value equation? From his perspective, the ability to use the bus ticket dispenser *in that moment* adds value in the transaction.

Value is not simply a question of the financial costs and financial benefits. It includes perceptions of benefit that are different for every person. The marketer has to understand what is of greatest value to the target customer, and then use that information to develop a total offering that *creates value*.

Value Is More Than Price

You will notice that we did not express value as value = benefit – price. Price plays an important role in defining value, but it’s not the only consideration. Let’s look at a few typical examples:

- Two products have exactly the same ingredients, but a customer selects the higher-priced product because of the name brand

For the marketer, this means that the brand is *adding value* in the transaction.

- A customer shopping online selects a product but abandons the order before paying because there are too many steps in the purchase process

The inconvenience of filling in many forms, or concerns about providing personal information, can *add cost* (which will subtract from the value the customer perceives).

- An individual who is interested in a political cause commits to attending a meeting, but cancels when he realizes that he doesn’t know anyone attending and that the meeting is on the other side of town.

For this person, the benefit of attending and participating is lower because of costs related to personal connection and convenience.

As you saw in these examples, the process of determining the value of an offering and then aligning it with the wants and needs of a target customer is challenging. As you continue through this section, think about what *you* value and how that impacts the buying decisions you make every day.

Value in a Competitive Marketplace

As if understanding individual perceptions of value weren’t difficult enough, the presence of competitors further complicates perceptions of value. Customers instinctively make choices between competitive offerings based on *perceived value*.

Imagine that you are traveling to Seattle, Washington, with a group of six friends for a school event. You have the option to stay at a Marriott Courtyard Hotel that is located next to the event venue for $95 per night. If you pay the “additional person fee,” you could share the room with one friend for a cost of $50 per night. However, one of your friends finds an AirBnB listing for an entire apartment that sleeps six people. Cost: $280 per night. That takes the price down to $40 per night, but the apartment is five miles away from the venue and, since there are seven of you, you would likely be sleeping on a couch or fighting for a bed. It has a more personal feel and a kitchen, but you will really be staying in someone else’s place with your friends. It’s an interesting dilemma. Regardless of which option you would really choose, consider the differences in the value of each and how the presence of both options generates unavoidable comparisons: the introduction of the AirBnb alternative has the effect of highlighting new shortcomings and benefits of the Marriott Courtyard hotel room.

Competition, Substitutes and Differentiation

Alternatives generally fall into two categories: competitors and substitutes. A **competitor** is providing the same offering but is accentuating different features and benefits. If, say, you are evaluating a Marriott Courtyard hotel room vs. a Hilton Hampton Inn hotel room, then you are looking at *competitive offerings*. Both offerings are hotel rooms provided by different companies. The service includes different features, and the price and location vary, the sum of which creates different perceptions of value for customers.

AirBnb is a service that allows individuals to rent out their homes, apartments, or a single room. AirBnb does not offer hotel rooms; it offers an alternative to, or substitute for, a hotel room. ***Substitute offerings*** are viewed by the user as alternatives. The substitution is not a perfect replication of the offering, which means that it will provide different value to customers.

Competitors and substitutes force the marketer to identify the aspects of the offering that provide unique value vis-à-vis the alternatives. We refer to this as differentiation. **Differentiation** is simply the process of identifying and optimizing the elements of an offering that provide unique value to customers. Sometimes organizations refer to this process as competitive differentiation, since it is very focused on optimizing value in the context of the competitive landscape.

Finally, organizations seek to create an advantage in the marketplace whereby an organization's offerings provide greater value because of a unique strategy, asset, or approach that the firm uses that other cannot easily copy. This is a **competitive advantage**. The American Marketing Association defines competitive advantage as "as total offer, vis-à-vis relevant competition, that is more attractive to customers. It exists when the competencies of a firm permit the firm to outperform its competitors." When a company can create greater value for customers than its competitors, it has a competitive advantage.

What Is a Value Proposition?

We have discussed the complexity of understanding customer perceptions of value. As the company seeks to understand and optimize the value of its offering, it also must communicate the core elements of value to potential customers. Marketers do this through a **value proposition**, defined as follows:

> *"A business or marketing statement that summarizes why a consumer should buy a product or use a service. This statement should convince a potential consumer that one particular product or service will add more value or better solve a problem than other similar offerings.*[1]"

It is difficult to create an effective value proposition because it requires the marketer to distill many different elements of value and differentiation into one simple statement that can be easily read and understood. Despite the challenge, it is very important to create an effective value proposition. The value proposition focuses marketing efforts on the unique benefit to customers. This helps focus the offering on the customer and, more specifically, on the unique value to the customer. Also, the value proposition is a message, and the audience is the target customer. You want your value proposition to communicate, very succinctly, the promise of unique value in your offering.

A value proposition needs to very simply answer the question: Why should someone buy what you are offering? If you look closely at this question it contains three components:

- **Who?** The value proposition does not name the target buyer, but it must show clear value to the target buyer.
- **What?** The offering needs to be defined in the context of that buyer.
- **Why?** It must show that the offering is uniquely valuable to the buyer.

How Do You Create an Effective Value Proposition?

When creating or evaluating a value proposition, it is helpful to step away from the long lists of features and benefits and deep competitive analysis. Stick to the simple, and strive for focus and clarity. A value proposition should be clear, compelling, and differentiating.

- Clear: short and direct; immediately identifies both the offering and the value or benefit
- Compelling: conveys the benefit in a way that motivates the buyer to act
- Differentiating: sets the offering apart or differentiates it from other offerings

Marketing and Customer Relationships

Why Customers Matter

Marketing exists to help organizations understand, reach, and deliver value to their customers. For this reason, the customer is considered the cornerstone of marketing.

With this in mind, what is likely to happen when an organization doesn't understand or pay attention to what its customers want? What if an organization doesn't even really understand who its customers are?

One of the world's best-known brands, Coca-Cola, provides a high-profile example of misunderstanding customer "wants." In the following video, Roberto Goizueta—in his only on-camera interview on this topic—recounts the disastrous launch of New Coke in 1985 and describes the lessons the company learned. Goizueta was chairman, director, and chief executive officer of the Coca-Cola Company from August 1980 until his death in October 1997.

Customer Relationship Management: A Strategic Imperative

We have stated that the central purpose of marketing is to help organizations identify, satisfy, and retain their customers. These three activities lay the groundwork for what has become a strategic imperative in modern marketing: customer relationship management.

To a student of marketing in the digital age, the idea of relationship building between customers and companies may seem obvious and commonplace. It certainly is a natural outgrowth of the marketing concept, which orients entire organizations around understanding and addressing customer needs. But only in recent decades has technology made it possible for companies to capture and utilize information about their customers to such a great extent and in such meaningful ways. The Internet and digital social media have created new platforms for customers and product providers to find and communicate with one another. As a result, there are more tools now than ever before to help companies create, maintain, and manage customer relationships.

Maximizing Customer Lifetime Value

Central to these developments is the concept of customer lifetime value. Customer lifetime value predicts how much profit is associated with a customer during the course of their lifetime relationship with a company.[2] One-time customers usually have a relatively low customer lifetime value, while frequent, loyal, repeat-customers typically have a high customer lifetime value.

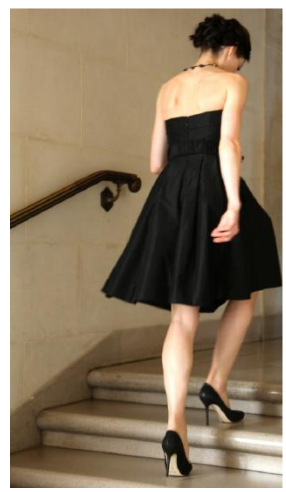
How do companies develop strong, ongoing relationships with customers who are likely to have a high customer lifetime value? Through marketing, of course.

Marketing applies a customer-oriented mindset and, through particular marketing activities, tries to make initial contact with customers and move them through various stages of the relationship—all with the goal of increasing lifetime customer value. These activities are summarized in the table below.

Relationship Stage	Typical Marketing Activities
Meeting and Getting Acquainted	• Find desirable target customers, including those likely to deliver a high customer lifetime value • Understand what these customers want • Build awareness and demand for what you offer • Capture new business
Providing a Satisfying Experience	• Measure and improve customer satisfaction • Track how customers' needs and wants evolve • Develop customer confidence, trust, and goodwill • Demonstrate and communicate competitive advantage • Monitor and counter competitive forces
Sustain a Committed Relationship	• Convert contacts into loyal repeat customers, rather than one-time customers • Anticipate and respond to evolving needs • Deepen relationships, expand reach of and reliance on what you offer

Another benefit of effective customer relationship management is that it reduces the cost of business and increases profitability. As a rule, winning a new customer's business takes significantly more time, effort, and marketing resources than it does to renew or expand business with an existing customer.

Customer Relationship As Competitive Advantage



As the global marketplace provides more and more choices for consumers, relationships can become a primary driver of why a customer chooses one company over others (or chooses none at all). When customers feel satisfaction with and affinity for a specific company or product, it simplifies their buying choices.

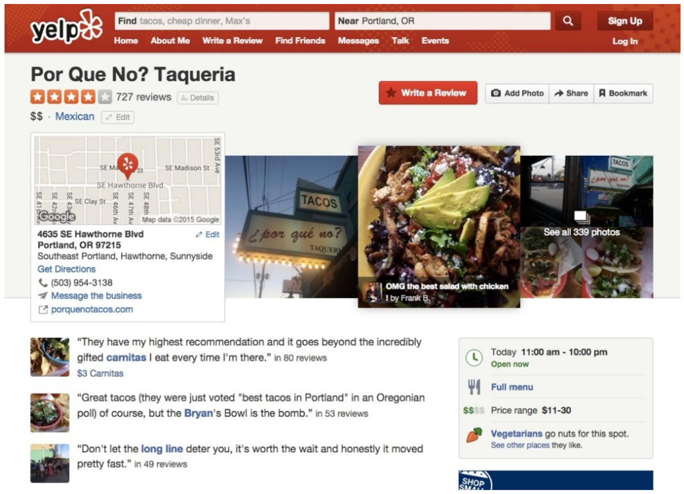
For example, why might a woman shopping for a cocktail dress choose to go to Nordstrom rather than Macy's or Dillard's, or pick from an army of online stores? Possibly because she prefers the selection of dresses at Nordstrom and the store's atmosphere. It's much more likely, though, that thanks to Nordstrom's practices, this shopper has a relationship with an attentive sales associate who has helped her find great outfits and accessories in the past. She also knows about the store's customer-friendly return policy, which might come in handy if she needs to return something.

A company like Nordstrom delivers such satisfactory experiences that its customers return again and again. A consistently positive customer experience matures into a relationship in which the customer becomes increasingly receptive to the company and its products. Over time, the customer relationship gives Nordstrom a competitive advantage over other traditional department stores and online retailers.

When Customers Become Your Best Marketing Tool

Customer testimonials and recommendations have always been powerful marketing tools. They often work to persuade new customers to give something a try. In today's digital media landscape there is unprecedented opportunity for companies to engage customers as credible advocates. When organizations invest in building strong customer relationships, these activities become particularly fruitful.

For example, service providers like restaurateurs, physical therapists, and dentists frequently ask regular patrons and patients to write reviews about their real-life experiences on popular recommendation sites like Yelp and Google+. Product providers do the same on sites like Amazon and CNET.com. Although companies risk getting a bad review, they usually gain more by harnessing the credible voices and authentic experiences of customers they have served. In this process they also gain invaluable feedback about what's working or not working for their customers. Using this input, they can retool their products or approach to better match what customers want and improve business over time.



Additionally, smart marketers know that when people take a public stance on a product or issue, they tend to become more committed to that position. Thus, customer relationship management can become a virtuous cycle. As customers have more exposure and positive interaction with a company and its products, they want to become more deeply engaged, and they are more likely to become vocal evangelists who share their opinions publicly. Customers become an active part of a marketing engine that generates new business and retains loyal customers for repeat business and increased customer lifetime value.

Influences on Consumer Decisions

What, Exactly, Influences a Purchasing Decision?

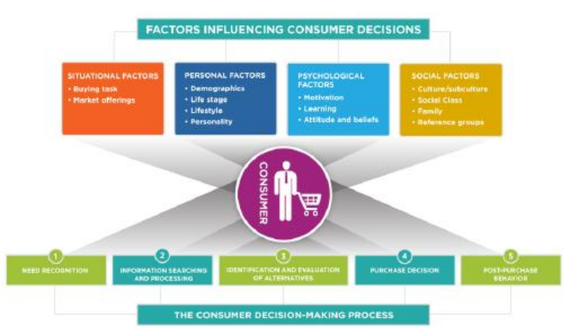
While the decision-making process itself appears quite standardized, no two people make a decision in exactly the same way. People have many beliefs and behavioral tendencies—some controllable, some beyond our control. How all these factors interact with each other ensures that each of us is unique in our consumer actions and choices.

Although it isn't feasible for marketers to react to the complex, individual profiles of every single consumer, it is possible to identify factors that tend to influence most consumers in predictable ways.

The factors that influence the consumer problem-solving process are many and complex. For example, as groups, men and women express very different needs and behaviors regarding personal-care products. Families with young children tend to make different dining-out choices than single and married people with no children. A consumer with a lot of prior purchasing experience in a product category might approach the decision differently from someone with no experience. As marketers gain a better understanding of these influencing factors, they can draw more accurate conclusions about consumer behavior.

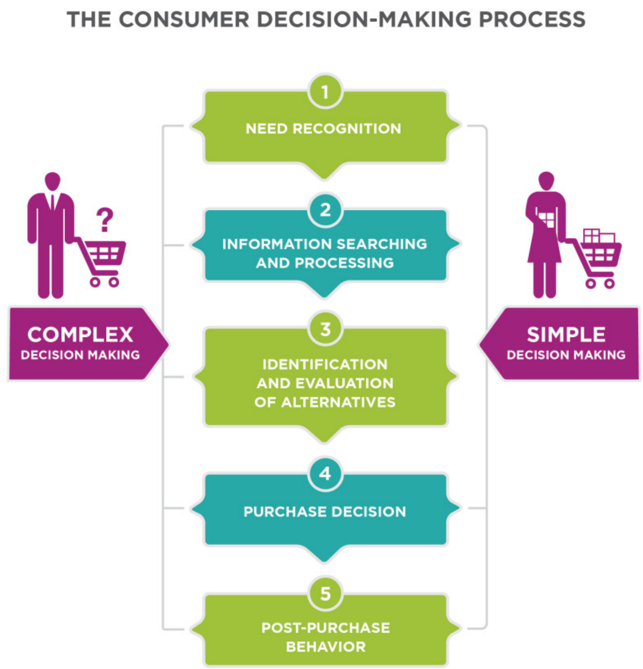
We can group these influencing factors into four sets, illustrated in the figure below:

- **Situational Factors** pertain to the consumer's level of involvement in a buying task and the market offerings that are available
- **Personal Factors** are individual characteristics and traits such as age, life stage, economic situation, and personality
- **Psychological Factors** relate to the consumer's motivation, learning, socialization, attitudes, and beliefs
- **Social Factors** pertain to the influence of culture, social class, family, and reference groups



Buying-Process Stages

Figure 1.1.1, below, outlines the process a consumer goes through in making a purchase decision. Once the process is started, a potential buyer can withdraw at any stage before making the actual purchase. This six-stage process represents the steps people undergo when they make a conscious effort to learn about the options and select a product–the first time they purchase a product, for instance, or when buying high-priced, long-lasting items they don't purchase frequently. This is called *complex decision making.*



For many products, the purchasing behavior is routine: you notice a need and you satisfy that need according to your habit of repurchasing the same brand or the cheapest brand or the most convenient alternative, depending on your personal assessment of trade-offs and value. In these situations, you have learned from your past experiences what will best satisfy your need, so you can bypass the second and third stages of the process. This is called *simple decision making*. However, if something changes appreciably (price, product, availability, services), then you may re-enter the full decision process and consider alternative brands.

The following section discusses each step of the consumer decision-making process.

Need Recognition

The first step of the consumer decision process is recognizing that there is a problem–or unmet need–and that this need warrants some action. Whether we act to resolve a particular problem depends upon two factors: (1) the magnitude of the difference between what we have and what we need, and (2) the importance of the problem. A man may desire a new Lexus and own a five-year-old Ford Focus. The discrepancy may be fairly large but relatively unimportant compared to the other problems he faces. Conversely, a woman may own a two-year-old car that is running well, but for various reasons she considers it extremely important to purchase another car this year. Consumers do not move on to the next step until they have confirmed that their specific needs are important enough to act on.

Information Search

After recognizing a need, the prospective consumer may seek information to help identify and evaluate alternative products, services, experiences, and outlets that will meet that need. Information may come from any number of sources: family and friends, search engines, Yelp reviews, personal observation, *Consumer Reports*, salespeople, product samples, and so forth. Which sources are most important depends on the individual and the type of purchase he or she is considering.

The information-search process can also identify new needs. As a tire shopper looks for information, she may decide that the tires are not the real problem, but instead she needs a new car. At this point, her newly perceived need may trigger a new information search.

Evaluation of Alternatives

As a consumer finds and processes information about the problem she is trying to solve, she identifies the alternative products, services, and outlets that are viable options. The next step is to evaluate these alternatives and make a choice, assuming a choice is possible that meets the consumer's financial and psychological requirements. Evaluation criteria vary from consumer to consumer and from purchase to purchase, just as the needs and information sources vary. One consumer may consider price most important while another puts more weight on quality or convenience.

Consider a situation in which you are buying a new vacuum cleaner. During your information search process, you identified five leading models in online reviews, as well as a set of evaluation criteria that are most important to you: 1) price, 2) suction power, 3) warranty, 4) weight, 5) noise level, and 6) ease of using attachments. After visiting Sears and Home Depot to check out all the options in person, you're torn between two models you short-listed. Finally you make the agonizing choice, and the salesperson heads to the warehouse to get one for you. He returns with bad news: The vacuum cleaner is out of stock, but a new shipment is expected in three days. Strangely relieved, you take that as a sign to go for the other model, which happens to be in stock. Although convenience wasn't on your original list of selection criteria, you need the vacuum cleaner before the party you're having the next day. You pick the number-two choice and never look back.

The Purchase Decision

After much searching and evaluating (or perhaps very little), consumers at some point have to decide whether they are going to buy. Anything marketers can do to simplify purchasing will be attractive to buyers. For example, in advertising, marketers might suggest the best size of product for a particular use or the right wine to drink with a particular food. Sometimes several decision situations can be combined and marketed as one package. For example, travel agents often package travel tours, and stores that sell appliances try to sell them with add-on warranties.

Postpurchase Behavior

All the behavior determinants and the steps of the buying process up to this point take place before or during the time a purchase is made. However, a consumer's feelings and evaluations after the sale are also significant to a marketer, because they can influence repeat sales and what the customer tells others about the product or brand.

Marketing is all about keeping the customer happy at every stage of the decision-making process, including postpurchase. It is normal for consumers to experience some postpurchase anxiety after any significant or nonroutine purchase. This anxiety reflects a phenomenon called *cognitive dissonance*. According to this theory, people strive for consistency among their cognitions (knowledge, attitudes, beliefs, and values). When there are inconsistencies, dissonance arises, which people try to eliminate.

Marketers may take specific steps to reduce postpurchase dissonance. One obvious way is to help ensure delivery of a quality solution that will satisfy customers. Another step is to develop advertising and new-customer communications that stress the many positive attributes or confirm the popularity of the product. Providing personal reinforcement has proven effective with big-ticket items such as automobiles and major appliances. Salespeople in these areas may send cards or even make personal calls in order to reassure customers about their purchase.

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1. http://www.investopedia.com/terms/v/valueproposition.asp ↵
2. http://dictionary.cambridge.org/us/dictionary/english/customer-lifetime-value ↵
