

MBA MARKETING™ DEGREE

TRAINING BOOK

SECOND EDITION

BY INTERNATIONAL MBA INSTITUTE™

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Dedication

To all of the International MBA Institute™ students, thank you for inspiring us, keeping us focused, and making sure we do our best to help you grow in your career with your skills and knowhow. Without you, your engagement and your loyal support, International MBA Institute™ could not come where it is today.

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WELCOME

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I love that you are taking your time to read your MBA book. I want to briefly share with you why we wanted to write this book for you and how you can get the best use out of it.

Within the context of our MBA degrees we made a thorough research in MBA education space.

The conclusion was: We failed to find one single textbook, we could sincerely recommend to our students!

We talked to our successful students and found out that, almost none of the MBA books in the market could really help them make a smooth entry to MBA knowhow and practical business execution space. Significant number of MBA books in the marketplace claim that they cover all details of MBA, but what they are not telling is that, they don't have understandable, clear and logical content to help their readers comprehend and most importantly love MBA!

Therefore, we wrote for you MBA books and brought them for your service!

We are absolutely confident that your MBA books will make you proficient in MBA subjects, so that you will have an outstanding opportunity to love MBA and keep on taking the tangible benefits of being an MBA professional.

Take some coffee to enjoy and some paper to take your notes, and spend some quiet time to read your MBA books!

Afterwards you will have a great understanding about MBA domains and be prepared to pass your MBA degree exam. You will be ready to deliver great products and services to your clients and employers and to build your bright career and future!

Yeliz Obergfell
Vice President - Student Experience
International MBA Institute™

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Your MBA Leadership™, MBA Management™, MBA Sales™, MBA Human Resources™, MBA Finance™, MBA Marketing™, MBA Business Strategy™ and MBA Recruitment™ degrees have proven their worldwide acceptance and reputation by being the choice of more than 987'000 MBA professionals in 143 countries.

MBA is a set of open business execution, product, service delivery and leadership frameworks, and yet before International MBA Institute™ was established, there used to be no reasonable way for MBA practitioners like yourself to obtain your accredited MBA degrees and to prove your competence in MBA domains. MBA practitioners had to pay expensive fees for the one way profit-driven MBA degrees of other MBA education providers.

International MBA Institute™ aims to remove these barriers set in front of the MBA professionals in developed and emerging markets by saving them from paying unreasonable fees for MBA classroom trainings and MBA degree examinations before they accredited their knowhow in MBA Domains.

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MARKETING - AN INTRODUCTION

In this chapter, you will:

- Understand the definition of marketing
- Understand the concept of exchange
- Understand the difference between needs and wants
- Understand what is the economic utility of a product or service

For today's businesses, change is the only constant. What was in vogue yesterday is out of fashion today; what is in vogue today will not be in fashion tomorrow. This applies equally well to business. If your firm do not change its marketing activities and adjust itself to market trends, it will go out of business in no time.

Marketing is as old as mankind. A young child trying to persuade his mother to buy him candy, a politician trying to convince people to cast their vote in his favor, or a person trying to persuade an employer to hire him are all practicing marketing. In a more formal setup, business and non-business organizations are also involved in marketing. The products that are marketed can be goods or services.

A place, an idea, an individual, or even a cause, can be marketed.

Many management thinkers consider marketing to be the most critical function of a business. In a business organization, the marketing division generates the revenues essential for the survival and growth of the firm, the finance department manages these revenues and the departments like R&D, production or manufacturing use them to create products and services. But the real challenge to you as marketer lie in generating those revenues profitably, by satisfying customers in a socially responsible manner.

In this period of globalization, factors like economic crises, differences in standards of living, imbalances in income distribution, environmental degradation, political unrest and a plethora of other social, economic, and technological problems tend to increase the challenges and threats faced by companies and nations. While these factors can be threats to a business, marketers try continuously to convert them into opportunities. Thus, marketing plays a significant role in successfully running a business.

Definition of Marketing

If you ask different people what marketing is, the chances are that you would get different definitions. Marketing is, after all, such a vast field. Following paragraphs give an overview of what it involves.

The American Marketing Association (AMA) defines marketing as “The process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals.”



American Marketing Association

Marketing deals with products. A product can be a good, service or an idea. As marketer, you must adopt different marketing approaches when selling

intangible products (service and ideas) as they have no physical form. A good is a physical entity i.e. it is a tangible product, which you can touch and feel. A CD-ROM of Encyclopedia Britannica, a shirt, or a bar of chocolate, are examples of a good. A service is created when human efforts are clubbed with mechanical efforts to provide intangible benefits to the customer; it gives some value to the recipient, e.g. healthcare, laundry, transportation, banking, etc. Ideas provide intellectual or spiritual benefits to customers. They include issues, philosophies and concepts, e.g. a blueprint of a business plan, computer software. Similarly, a politician who is contesting an election tries to sell ideas ranging from the protection of human rights to political activities.

A marketing transaction is one in which the buyer and the seller, irrespective of the nature of the product, experience mutual satisfaction — the seller on selling the product and making a profit, and the buyer on purchase and subsequent consumption of the product.

A Feast of Ideas - What is Marketing?

Is it the bugging salesperson on the doorstep, attractiveness of the package, or is it the free gift that tempts you to make a purchase? Philip Kotler, in his

book 'Marketing insights from A to Z', points out that one of the biggest problems faced by the companies today is that they produce far more goods than customers can buy. Over-production leads to hyper-competition, which ultimately leads to price wars.

According to Kotler, marketing is too often confused with selling. But marketing is not just selling, and price is not the only factor for competition. According to Peter Drucker, "The aim of marketing is to make selling superfluous." This essentially means that marketers do not have to do much of selling, if they are able to identify unfulfilled needs of customers and satisfy them.

HR, finance, administration, etc. are support functions and a company can afford to outsource them. But, it can prosper only through its marketing ideas and offerings.

Companies have realized the need to provide good customer service. However, increasing competitive pressures have forced companies to reduce their costs, which has had a negative impact on customer service levels. However, companies need to realize that customers now have many options to choose from. If a customer is not satisfied with a company's

product or service, he can immediately switch to a competitor. This leads to not only the loss of sales but also the loss of customer lifetime value.

Concept of Exchange

A person can satisfy his needs and wants by producing the goods himself, stealing them, coercing someone to provide them, or through exchanges with other persons who are willing to part with their goods voluntarily.

One of the major functions of marketing is to create an environment for exchange. An exchange arises when one person gives something of value, in return for something of value from another person.

In the olden days, people used the barter system to exchange goods and services. Today, we exchange products with money. Regardless of its nature, the conditions necessary for an exchange to take place are:

- 1 At least two parties must be involved.
- 2 Each party must have something that interests the other.
- 3 The parties must involve themselves voluntarily and each party must consider the

other desirable or at least acceptable to deal with.

- 4 Each party must be in a position to communicate and deliver the product.
- 5 Each party must be free to accept or reject any offer from the other party.

Needs and Wants

Needs constitute the basic requirements for the existence of life, such as food, clothing, shelter, and belongingness. A want, on the other hand, arises when the basic needs are satisfied. It is important for a marketer to understand whether his product falls in the needs category or in the wants category and devise his marketing strategies accordingly. However, it is possible that a product which is perceived by one customer as a want may be perceived as need by another customer. Regardless of how customers choose to view the difference between needs and wants, your ultimate aim as marketer should be to motivate customers to consider their products in the first place.

Economic Utility

Marketing lays emphasis on providing the product to customers at the right place, at the right price, at the right time and in the right form. Communication of

information about the product helps customers determine whether the product satisfies their needs. You must focus on customer needs and wants to ensure customer satisfaction. The extent to which a product satisfies customer needs and wants is called utility. It is the amount of satisfaction a customer derives by consuming the product. You can provide four types of utility to their target customers - form utility, time utility, place utility and possession utility.

Form utility is created when raw material is converted into a finished product. For example, a dress designer provides form utility by converting design concepts and fabric into a wide range of clothing. Similarly, Britannia Industries converts wheat, sugar and other ingredients into biscuits and cookies and provides form utility to its customers. You as marketer provide time utility to your customers by providing your products when the customers want them. For example, Automated Teller Machines (ATMs) installed by banks provide customers access to banking services around the clock. By using technology that allows people to buy products over the Internet whenever they want them, companies like Amazon.com and Dell are providing time utility to their customers.

Place utility is provided when you provide the product at locations preferred by the customer. Domino's Pizza delivered at your doorstep, is an example of place utility. Apart from providing time utility, Amazon.com and Dell also provide place utility by allowing customers to place orders from all over the world, and ensuring the delivery of the products at the place desired by them.

Possession utility allows a buyer to use the product as he wishes. It is the value that a buyer obtains from the product. For example, a customer who has purchased a car may use it for whatever purpose he desires. He may use it to commute to and from his office, or go on vacation with his family, or even rent it out as a taxi.

Summary:

- 1 Marketing is defined as the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals.
- 2 A person can satisfy his needs and wants by producing the goods himself, stealing them, coercing someone to provide them, or through

exchanges with other persons who are willing to part with their goods voluntarily.

- 3 Needs constitute the basic requirements for the existence of life, such as food, clothing, shelter, and belongingness.
- 4 A want arises when the basic needs are satisfied.
- 5 Marketing lays emphasis on providing the product to customers at the right place, at the right price, at the right time and in the right form.
- 6 Form utility is created when raw material is converted into a finished product.
- 7 Marketer provides time utility to the customers by providing their products when the customers want them.
- 8 Place utility is provided when the marketer provides the product at locations preferred by the customer.
- 9 Possession utility allows a buyer to use the product as he wishes.

EVOLUTION OF MARKETING

In this chapter, you will:

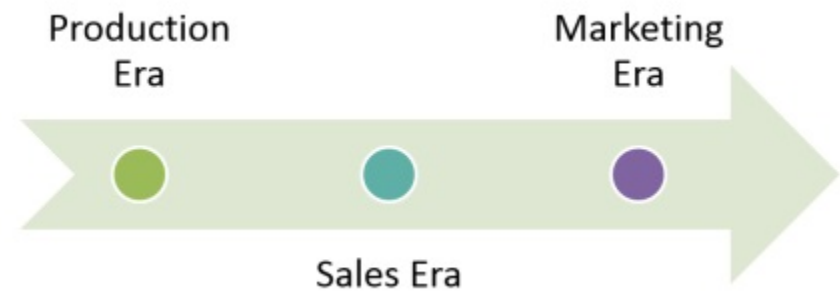
- Understand the evolution of marketing from production and sales through marketing era
- Understand the concept of marketing
- Understand important features of marketing concept
- Understand SMC (Societal Marketing Concept)

Although the concept of marketing emerged after the industrial revolution, the change in businesses in terms of adapting to the concept came about gradually. It took many years for businesses to realize that satisfying customers is the key for making sales and profits in the long run. Businesses have gone through different phases or stages of marketing over the years. These stages can be classified as the production, product, sales and marketing eras.

Production Era

The industrial revolution of the seventeenth century brought about the production era, which continued till the late 1920's. Say's law – supply creates its own demand – was truly applicable in this era. The market was a sellers' market, as the demand for the products was more than the supply. Companies

focused on manufacturing processes and they looked for ways and means to produce the goods faster, more efficiently and at low prices. Product features were not given any importance because it was felt that customers were concerned only about the availability of the product, and not about its features.



Evolution of Marketing

Production Era

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looked for ways and means to produce the goods faster, more efficiently and at low prices. Product features were not given any importance because it was felt that customers were concerned only about the availability of the product, and not about its features.

Sales Era

The sales era began in the late 1920s and lasted till mid-1950s. The economic depression of the late 1920s proved that producing the goods was not everything; a company also had to sell them. By that time, most companies had made their production processes efficient, which paved the way for competition. Manufacturers believed that the success of their business depended on outselling the competition. Companies realized the need for product promotion and distribution. In this era, marketers focused their efforts only on selling their products to the customers.

Companies realized that they could use information on the likes and dislikes of customers in developing advertisements to stimulate demand. Therefore, many of them created market research departments to collect and analyze market data.

Marketing Era

During the sales era, companies ignored consumer wants and needs. They focused simply on selling their products. Critics of sales era believed that products in sales era were sold without looking at consumer needs and wants. By the early 1950s, companies began to realize that they would fail if they did not satisfy consumer needs.

The marketing era began in the mid-1950s. Companies, for the first time, identified the importance of consumer needs and wants in the exchange process between the buyer and the seller. Thus, a period of customer-orientation began. At this stage, companies focused on marketing, rather than on selling; they also embraced the concept of coordinated marketing management, which was directed toward the twin goals of customer orientation and profitability.

Companies changed from pushing products down to the customers, and began attempting to fulfill customers' needs according to their preferences. The focus of the companies was not to achieve manufacturing goals as was the case earlier, but to satisfy customer needs and wants.

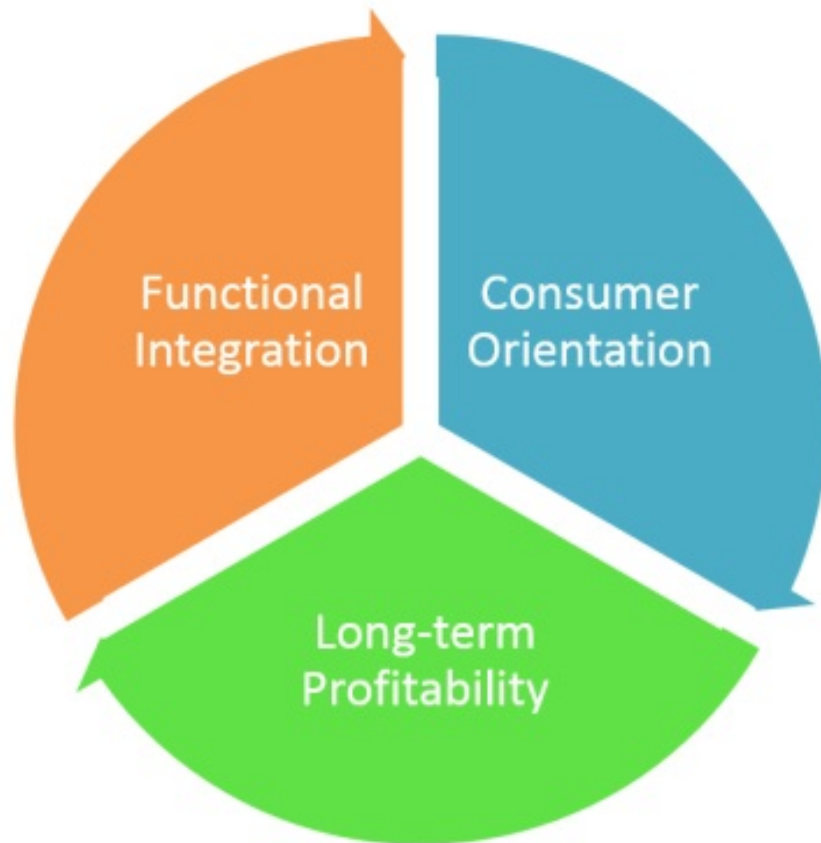
Marketing Concept

Marketing starts with identifying customer needs and wants and ends with satisfying them through a coordinated set of activities that also allows a firm to achieve its own goals. Awareness of this fact gave rise to the marketing concept. The marketing concept embraces all the activities of a firm. It aims at matching the company's offering with customer needs, to achieve the desired level of customer satisfaction and generate profits for the company. The marketing concept is based on the belief that a) the company's planning and operations are customer-oriented, b) the goals of the company should be profitable sales volume and not just volume, and c) all marketing activities should be coordinated effectively.

Important features of the marketing concept

- **Consumer orientation:** Consumer orientation places the customer at the beginning as well as at the end of the business cycle - that is, the consumer becomes the focal point for the business. Organizations must also strive to alter, adapt and develop their products to keep pace with the ever-changing customer preferences and desires.
- **Long-term profitability:** Management must establish a system to learn the real needs and the perceived future needs of the company's customers, and use this information to create satisfying products to generate profits. Businesses should generate acceptable profits continuously to sustain themselves in the industry. Thus, as marketer, you must invest in market research, product development, manufacturing, promotion, customer service and still generate revenues. However, you should lay emphasis on their long-term profitability. Sometimes, they might have to bear short-term losses to gain long-term profitability.
- **Functional integration:** All organizational activities should be well coordinated. Lack of coordination between different departments or function can hamper the performance of an organization. Sometimes, organizations may need to restructure their internal operations to improve coordination between departments. Your marketing department must be properly coordinated with other functional groups like R&D, finance, personnel and manufacturing. The marketing concept seeks support not only

from the top management but also from managers and staff at all levels.



Features of Marketing Concept

Case Study: Kodak's Gratitude to Mother Earth

As a social corporate citizen, Kodak had always taken initiatives to protect the environment. Since the 1920s, Kodak has been implementing the practice of recovery and reuse of silver and manufacturing solvents. Kodak started the practice of recycling acetate film in its plants in 1950s and has built the first polyester plastic recycling facility as early as in 1970s.

In the early 1990s, Kodak started a worldwide recycling program for its container and disposable single-use camera and had recycled more than 250 million cameras by mid-1999.

It has always been Kodak's policy to conduct all its business in a manner that is consistent with health, safety and environmental management practices.

Societal Marketing Concept (SMC)

According to the marketing concept, marketers focused on customer needs and wants in their marketing decisions, for long-term profitability. However, they realized that unless they include societal interests in their marketing decisions, they will not be able to make profits in the long run.

The customer and society are interrelated; therefore, whatever the company offers to the customer has a direct bearing on the society. According to the societal marketing concept, apart from determining needs, wants and interests of the target market and providing quality products, organizations must also help maintain and improve the society's well-being. It questions the adequateness of company's marketing efforts towards addressing pressing environmental and economic problems, such as shortages of resources and increase in the global population. The pure marketing concept overlooks the conflict between short-term wants and long-term welfare. The societal marketing concept calls for striking a balance between the company's profit, the customer's wants and society's interest (Refer to Case Study above).

Societal marketing managers believe that companies that act in a socially responsible manner gain goodwill, apart from reaping profits. Customers react unfavorably to companies which they do not perceive as good corporate citizens. This gives socially responsible companies a competitive edge over their competitors. Companies like HLL are successfully achieving their commercial goals and

fulfilling their social responsibilities while serving the society (Refer to Case Study below).

Case Study: Repaying India – HLL Style

Companies need to act in socially responsible behaviour. They might cease to make a product or product line but their relationship with the people and the natural environment will help them grow over time. Therefore, for a company to be successful in the long-run, it must contribute towards the well-being of society and the environment.

As a part of its corporate social responsibility, Hindustan Lever Ltd, has voluntarily taken steps to improve the condition of society. In Mumbai, it supports and contributes to the smooth functioning of 'Asha daan' - a home for destitute, handicapped children and people suffering from AIDS, run by the Missionaries of Charity. At the Doom Dooma plantation in Assam, it runs 'Ankur' - a center for special education for physically and mentally challenged children. The center provides educational, recreational and vocational activities on the basis of the aptitude of the children. In HLL plantations at Coimbatore in Tamil Nadu, it started 'Kappagam' (shelter), a center for special education

for mentally and physically challenged children providing them physiotherapy and speech therapy.

In Bachua Taluka of Gujarat, HLL helped in the reconstruction of a village (Nani Chirai) which was destroyed in the massive earthquake that struck the area in January 2001, and renamed it as 'Yashodadham'. HLL has provided the village with a school building, a multipurpose community center including a creche, healthcare center, and village administration office.

In Etah district of UP, it started 'integrated rural development' program which catered to the needs of farmers' training, healthcare of villagers, infrastructure development, improvement in productivity and health of cattle.

In AP, Karnataka, Gujarat and MP, HLL undertook 'Project Shakti' in the rural areas to create income-generating opportunities for rural women. It provides micro-enterprise opportunities and addresses the health and-hygiene problems in rural areas.

Summary:

- 1 Production Era: The market was a sellers' market, as the demand for the products was more than the supply.
- 2 Sales Era: The economic depression of the late 1920s proved that producing the goods was not everything; a company also had to sell them.
- 3 Marketing Era: At this stage, companies focused on marketing, rather than on selling; they also embraced the concept of coordinated marketing management, which was directed toward the twin goals of customer orientation and profitability.
- 4 The marketing concept aims at matching the company's offering with customer needs, to achieve the desired level of customer satisfaction and generate profits for the company.
- 5 Important features of marketing concept include: Consumer Orientation, Long-term profitability and Functional integration.
- 6 The customer and society are interrelated; therefore, whatever the company offers to the customer has a direct bearing on the society.

MARKETING MYOPIA

In this chapter, you will:

- Understand the concept of Marketing Myopia

Myopia means short-sightedness. Theodore Levitt, in his classic article “Marketing Myopia” in the Harvard Business Review, argues that industries fail not because markets are saturated but because of the failure and short-sightedness of management. For example, the railroad industry did not flourish as it could have because the players in the industry defined their business rather narrowly - as a railroad business rather than transportation business. The railroad industry faced problems not because other players like airlines, bus operators, etc., fulfilled the need of customers better but mainly because railroads could not fulfill customer needs. They focused on products instead of customer requirements. This lack of vision and the customer dissatisfaction paved the way for the success of the auto industry on the highways. Further, the construction of super highways has created a better medium for freight and passenger traffic, posing a formidable competition for the railways.



MARKETING MYOPIA

Marketing Myopia

Similarly, when small cars were introduced in the US market by the Japanese companies, they became a hit in the first year of their introduction. Though there had been major researches going on for a long time in the US, none of them were able to find out what exactly the customers wanted. They focused on what was the best alternative available for a customer of the available options. They totally

ignored customer requirements. Their researches focused on the product, not on customer requirements.

Marketing myopia occurs when a marketer is excessively preoccupied with product development, manufacturing or selling and ignores customer needs, wants and interests. Marketing is a long-term function that involves anticipating a change in the future, and planning for it accordingly.

Another example that can be quoted for marketing myopia is that of the pager industry and radio broadcasting. Pager companies could not foresee technology changes and changing customer expectations and adapt themselves to fulfil customer expectations while mobile companies fulfilled the needs and succeeded in the market. Most companies that did not consider customers' needs and preferences have suffered losses.

With the changing times, a good marketer needs the vision to be on top of the changes and trends. Theodore Levitt in his book *The Marketing Imagination* has cited four conditions for business obsolescence as a result of marketing myopia. They are:

- 1 The belief of companies that as more and more of the population become affluent, the market expands and more and more people buy the products. In other words, if the market for a product expands automatically, companies do not think imaginatively about how to expand the market.
- 2 The belief that there are no substitutes for the industry's major products.
- 3 The belief that by producing in large quantities, per unit output cost can be significantly reduced, forgetting the market, demand and supply aspects.
- 4 Preoccupation with a product that lends itself to carefully controlled scientific experimentation, improvement, and manufacturing cost reduction.

Levitt has also devised ways to overcome marketing myopia. Some of the recommendations are:

- Be customer led, not product oriented.
- Market orientation should permeate throughout the organization.
- Managers need to be proactive and visionary.

Summary:

- 1 Industries fail not because markets are saturated but because of the failure and short-sightedness of management.
- 2 Marketing myopia occurs when a marketer is excessively preoccupied with product development, manufacturing or selling and ignores customer needs, wants and interests.
- 3 With the changing times, a good marketer needs the vision to be on top of the changes and trends.

MARKETING DYNAMICS

In this chapter, you will:

- Understand the various marketing dynamics such as:
 - Company and Marketer responses and adjustments
 - Company responses and adjustments
 - Marketer responses and adjustments

Products and markets are constantly changing due to technological advancements. More and more companies are using advanced technologies to outsmart their competitors. The increasing usage of the same technology by different companies has made it difficult for them to create and maintain competitive advantage in the long run. The production cost per unit declines over time due to the learning effect, which leads to reductions in the price of the product. Demand starts falling with customers becoming more knowledgeable, and forming their own opinions about products and the attractiveness of competing brands. Due to advances in communication technology, customers have gained easy access to useful and better information about the brands via the Internet, adding to the woes of domestic brands. This, in turn, is increasing the

promotion costs and shrinking profit margins of companies.



MARKETING DYNAMICS

Marketing Dynamics

Company and Marketer Responses-and Adjustments

Technological advancement is bringing about a rapid change in the market place and causing intense competition among firms. Companies are adopting new methods like reengineering outsourcing, and



Organizational Responses and Adjustments for Marketing

benchmarking to outperform the competition. Marketers are trying to cope with the increasing competition by devising strategies like customizing their products, identifying target markets and building long-term relationships with customer.

Company responses and adjustments

- **Reengineering:** This is the process of redesigning the organization structure, business processes and associated systems to achieve a dramatic improvement in business performance. Companies reengineer their processes when they perform poorly in financial terms, face intense competition or erosion of market share, or discover emerging marketing opportunities.
- **Outsourcing:** Companies are now realizing that they need to focus on the activities in which they are strong, and outsource the remaining activities to other firms which have the required competencies. This helps organizations reduce their costs and improve organizational performance, and also leads to better utilization of organization resources.

- **E-commerce:** Companies are now offering services like selling and delivering products over the Internet. Customers can gather more information, critically analyze the benefits or services offered by different marketers, place orders and make payments over the Internet. The Internet is thus facilitating business to business (B2B), business to customer (B2C) and customer to customer (C2C) transactions.
- **Benchmarking:** Companies need to improve their performance continuously. Earlier, companies used to set their own benchmarks and measure their performances against these benchmarks. But in today's competitive world, the market leader's performance usually becomes the benchmark for the other companies in the industry; these companies then try to achieve the same level of performance as the market leader.
- **Suppliers:** Buying raw materials or semi-finished goods from a small number of suppliers helps the company maintain a close relationship with them. The problems of storage, lead time, economic order quantities, etc., can be eliminated to a great extent when

the company and its suppliers share a cordial relationship.

- **Global and local markets:** Companies are no longer catering only to their domestic markets. The advent of globalization and advances in technology have opened the gateways to global markets.
- **Decentralization:** Earlier, most companies had vertical structures where all the power was vested in the top management. Responsibility was delegated to the employees. Nowadays, in many companies, nowadays, in many companies, employees are given more autonomy and encouraged to take the initiative. Multidisciplinary teams and team work also widely encouraged.

Marketer responses and adjustments

- **Customization:** Marketers are providing better 'form utility' by creating customized/tailor-made products to suit individual needs. Companies are inviting inputs from customers and seeking their ideas in designing better and more suitable products.

- **Building a good relationship with customers:** Marketers have realized how difficult and costly it is to attract new customers in comparison to retaining existing customers. Repeat customers indirectly market the firm's products through word-of-mouth communication. Hence, it is profitable for a company to build a long-term relationship with its existing customers.



Marketer Responses and Adjustments

- **Target marketing:** Identification of target markets and promoting the products in such markets has helped marketers increase their profits. Advances in communication technology such as the Internet, the television, and radio and print media have made it possible for marketers to target different customer segments.
- **Customer database:** Companies now maintain data warehouses in which they store information about the preferences and buying habits of individual customers. With the help of these data warehouses, they can develop specific strategies and products to cater to customers whose tastes, needs and wants are similar.
- **Integrated marketing communication:** Marketers use different means of communication to reach their target customers. The availability of various means of communication described earlier, and more recently, the cell phone technologies, have made it essential for marketers to establish and maintain an effective and consistent marketing communications effort across the

different media. Marketers need to ensure that there is no conflict between communication messages from different media. Therefore, marketers need to adopt an integrative approach to communicate with customers so that maximum benefits can be extracted from their communications efforts.

Summary:

- 1 Company responses and adjustments include reengineering, outsourcing, e-commerce, benchmarking, suppliers, global and local markets and decentralization.
- 2 Marketer responses and adjustments include customization, building good relationships with customers, target marketing, customer database and integrated marketing communication.

SIGNIFICANCE OF MARKETING

In this chapter, you will:

- Understand the significance of marketing using examples of three different industries:
 - Airline
 - Banking
 - Education

Competition has created great challenges for each of you (as marketer). Functions like production, distribution and consumption are being influenced by market forces. Changes taking place in the business environment have made customer service, quality assurance and price competitiveness vital for the existence of a firm. Business firms have realized that they cannot survive without marketing. Marketing plays a significant role in the sustainability of an organization. Let us study the significance of marketing in three sectors — airlines, banking, and education.

The Airline Industry

The future of the airlines industry depends on the flight schedules/take off time, in-flight and airport service, safety records, fleet capacity and efficiency, route frequency, strategic alliances with other

airlines and businesses like hotels, etc. Presence of an airport (domestic as well as international) gives a facelift to a geographical location. It helps promote trade and tourism in the region.

Characteristics of Airline Industry:

- Airline industry is highly competitive. Competition is intense on the routes which are more profitable.
- The growth of the industry is closely linked to economic growth.
- An airline seat is an intangible and perishable good and hence you need to take special care while formulating your marketing strategies.
- Demand is the price elastic i.e. as the price of service goes down when the demand goes up, and income elastic i.e. when the income of the general population goes up, more people tend to travel by air.
- The profitability of an airline increases, when the flight capacity is properly utilized and the aircraft spends less time on the ground.

Marketing of Airlines:

Like in any other industry, promotional activities play an important role in the airline industry as well. Airlines today offer attractive schemes to woo customers. These include frequent flyer schemes,

special benefits, discounts, festive season offs, gifts like electronic equipment or kitchen appliances, access to club lounges, and special discounts with the alliance's business. Quality of service can be useful tool for airlines to gain a competitive advantage, because passengers expect airline crew to be efficient, friendly and helpful. Thus, proactive customer orientation is the need of the hour.

Marketing Strategies:

- Airlines must identify and eliminate non-value adding cost and use the money saved to provide better quality service.
- Find a niche market and cater to it: Identifying and flying to secondary airports which do not handle too much air traffic can at times yield more profits to an airline. This is a strategy followed by many low-cost, no frills airlines in the US and Europe.
- Establish marketing tie-ups with travel agents and offer those incentives and commission. Or, as some airlines are doing, provide for ticketing over the Internet, and bypass travel agents altogether.
- Offer competitive frequent flyer schemes, discounted packages etc.

- Enter into trade alliances with other businesses.
- Enter into operational agreements and code sharing with other airlines.

Banking Industry

Bank marketing can be defined as “the aggregate of functions, directed at providing services to satisfy customer financial needs and wants, more effectively and efficiently than the competitors, keeping in view the organizational objectives of the bank.” This definition implies that marketing helps banks achieve not only their commercial objectives, but also their social objectives. To safeguard the interests of customers, most countries have regulatory bodies that control the banking sector. A bank's customers include individual customers (known as retail customers) and corporate customers. The changes in the needs and expectations of these customers directly or indirectly influence the formulation of the marketing mix. Advances in technology have also brought about changes the marketing mix of banks.

Marketing and Banks:

Price is fast becoming a strategic tool for bankers, even though complete deregulation of the price regime is still to materialize. For example, pricing

term loans for corporate customers is a complex process, with the banks having to take into consideration various risks. They usually charge different interest rates for different corporate customers. But retail customers are usually offered a uniform rate, though nowadays, they may be given a choice between fixed rate and floating rates, for some categories of loans such as housing loans.

Channels used by banks for distributing banking products are extension counters, home banking, ATMs and Internet banking, which enhance customer satisfaction. Place plays an important role in providing effective customer service. Banks opening specialized branches for specific customer segments is a logical extension of this concept.

Marketing is the whole gamut of activities that a bank undertakes to inform its customers about its products. Promotion includes the formal means of communication through advertisements, mailers and brochures.

Education

Educational services can be regarded as a type of consumer service, even though it includes, in some

cases, training programs for industrial and corporate clients.

Marketing was given little importance in the education sector, because education was mainly provided by the government in many countries. However, with the entry of more and more private players/institutions, marketing is gaining its rightful place. The educational journey of an individual begins with the basic elementary school education and often continues even after graduation. Based on your economic status and interests, you may either opt for higher studies or go in for vocational training. With advances in technology, the modes of education delivery have increased. Education services can be provided through

- 1 Contact programs: where the degree of contact between the trainer and the trainee (learner) is high.
- 2 Distance mode: where the degree of contact is relatively less.

Marketing of Education:

The formulation of the educational product is the first step in the marketing of education. The key concepts for designing service products are: the consumer benefit concept, the service concept and

the service delivery system. The consumer benefit concept requires you to define benefits the consumers can derive from an educational package (course) offered by an institute. In other words, you should design a product that best caters to the learning needs of the target market.

The location of the educational institute also plays a vital role in attracting students. Students nowadays prefer campuses with access to all infrastructure facilities.

Educational institutions can demand higher prices (tuition fees), depending on the demand for their services. Competition on the basis of price increases when the educational package is homogeneous (for example, most graduate courses). Usually, the pricing of educational services offered by public institutions is regulated by public policy.

Educational services must be promoted to build awareness about the courses offered by an institute. Promotion is also necessary to inform customers about an institute's reputation. Through promotion, customers can be encouraged to pursue certain courses. Promotion of educational products has become common in the recent past, because the

competition has increased. Educational institutions try to gain market share by providing better facilities, subsidiary like study material, library and laboratory facilities, quality food, hostel accommodation, etc. They try to hire well trained and highly qualified staff, and constantly update their knowledge and skills through regular training and faculty development programs. Expert faculty provides an educational institution with a competitive edge over its competitors.

Physical infrastructure like campus, buildings, laboratories and hostel facilities give an element of tangibility to the service offered by educational institutions.

Marketing Strategy:

Designing a marketing strategy for educational services is challenging because the product is intangible and perishable. Organizations providing educational services should develop marketing strategies that takes into consideration the intangible and perishable nature of the service. To design an effective marketing strategy, educational planners should first be clear about their objectives of the service, for example, imparting knowledge, or training professionals. Then they should identify the

consumers and their preferences so as to position the course in a way that will attract the customers.

Summary:

- 1 Marketing plays a significant role in the sustainability of an organization.
- 2 Airline industry is highly competitive. Competition is intense on the routes which are more profitable.
- 3 Bank marketing can be defined as “the aggregate of functions, directed at providing services to satisfy customer financial needs and wants, more effectively and efficiently than the competitors, keeping in view the organizational objectives of the bank.”
- 4 Educational services can be regarded as a type of consumer service, even though it includes, in some cases, training programs for industrial and corporate clients.

DELIVERING CUSTOMER VALUES AND SATISFACTION

In this chapter, you will:

- Understand the importance of delivering customer values and satisfaction.

A firm is said to practice marketing when it is concerned more about customer needs and makes genuine efforts to satisfy those needs and wants. According to Peter F Drucker, “Marketing means such a perfect understanding of the customer that the product or service fits him totally and sells itself. Marketing would result in a customer who is ready to buy. All that, what should be needed then is to make the product available.”

With business environments becoming dynamic and turbulent, organizations are facing the Herculean task of attracting and retaining their customers. The use of advanced processes and technology has helped organizations change from being product centric to being customer centric. Organizations need to understand customer behavior and leverage customer information to manage customers profitably. Those who are not able to recognize the changes in the environment will lose revenue

opportunities and their costs will increase. This could lead to customer dissatisfaction and competitors could take advantage of such a situation. Surviving in the market will then become difficult.

You need to deliver value to your customers. Sometimes, you also need to inform them about the value you are delivering. If you do not define the value that your products and services deliver, you will not be able to satisfy your customers and ultimately, you will lose these customers. Certain functions in an organization such as human resources, information technology, operations, etc., may not directly interact with the customer. However, the processes in these functions need to help employees deliver the maximum value to the customers. It is necessary for companies to deliver value to their customers that they satisfy not only their articulated needs but also their unarticulated needs.

Summary:

- 1 A firm is said to practice marketing when it is concerned more about customer needs and makes genuine efforts to satisfy those needs and wants.

- 2 The use of advanced processes and technology has helped organizations change from being product centric to being customer centric.
- 3 It is necessary for companies to deliver value to their customers that they satisfy not only their articulated needs but also their unarticulated needs.

BUSINESS COMPONENTS

In this chapter, you will:

- Understand the various business components which are important for marketing:
 - Stakeholders
 - Processes
 - Resources
 - Organization

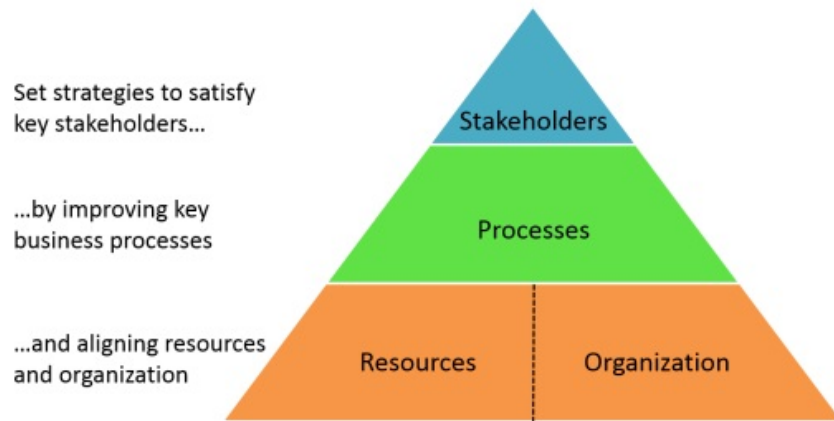
A company which aims at achieving its objectives, making profits and outperforming its competitors in the long run must satisfy a few of its components first. Unless there is balance/equilibrium in the internal environment which coordinates perfectly with the external factors, the firm cannot exist for long. According to Arthur D Little (one of the oldest business consultancies), the factors that influence the performance of business are stakeholders, processes, resources and organization as seen in the next figure.

Stakeholders

The stakeholders of a business firm consist of its shareholders, employees, suppliers, distributors and customers. A company must identify the needs of its stakeholders and then develop strategies to satisfy

their needs and wants. It cannot survive in the long run, if it aims at satisfying only one group of stakeholders. If a company tries to satisfy only one group of stakeholders, conflicts may arise with the interest of other stakeholders. It can hamper the performance of the company. Therefore, the company must make efforts to satisfy the minimum requirements of each group, taking care not to violate the other group's trust and sense of belonging.

The stakeholders act like the spokes of a wheel of an organization. So, its prosperity depends on their collective efforts. For example, when your company satisfies its employees, their performance and productivity levels increase, and thus helps your firm deliver quality products and services to its customers. Customer satisfaction brings repeat business and increases the profit volume. The higher the profit, the happier the shareholders, and they in turn invest more. And this is what leads to the prosperity of your firm.



Marketing Management

Processes

A process is the way in which workflow takes place. Typically, the work is distributed to various departments on the basis of their functionality. However, coordination between various departments of an organization is essential if its objectives are to be achieved. When there is conflict between the objectives of different functions of an organization, it becomes difficult for it to achieve its goals. Each department or function will try to achieve its objectives at the cost of others. As a result, organizational objectives will become secondary and the overall performance of your organization will severely suffer. The environment in the organization

also becomes political and non-conductive to performance. Therefore, your organization should design its work processes in such a way that these conflicts are minimized. It needs to make an effort to see that interactions between various functions increase and they work together towards achieving organizational objectives.

Companies are investing heavily on streamlining their workflows and creating cross-functional teams for bringing about a desired change in processes, like new product development, customer attraction, retention and order fulfillment. With these efforts, the interaction and coordination between different departments also increases, and this helps the organization achieve its goals.

Resources

A business firm needs resources like electric power, human resource, buildings, equipment, material, vehicles, Water, etc., to carry out its day-to-day activities. These resources can be owned, leased or rented. Traditionally, it was believed that organizations should own the resources to have maximum control over them. However, the mindset of managers is changing fast due to the changing business environment and fast changing technology.

Now, organizations believe that they should own only the resources that help them carry out their critical functions or utilize their expertise. All other functions or activities should be outsourced to organizations that have the competencies to carry them out. This will also help them optimize their cost structure and eliminate unnecessary flab from the organizations. For example, many companies are outsourcing their payroll and accounting functions to organizations that have expertise in managing them.

Outsourcing offers cost saving, lower expenses and specialization of products and services and help the company become more competitive. Reduction in expenditure allows the firm to reduce the price of products/services and compete in larger markets or enter new markets. For example, Nike nurtures its core competencies in shoe design, marketing and shoe merchandising, while outsourcing the manufacturing process to Asian manufacturers, like China, Vietnam etc., who do a better job in a cost-effective manner.

Organization

Companies have their unique set of structures, policies and culture. While the organizational structure and policies can be specified easily, it is

difficult to define the culture of an organization. People can sense it only if they are part of the organization. Organization culture refers to the value, norms, artifacts, assumption, etc., of an organization, its employees and their behavior. The culture of an organization is reflected in its interiors, the way people greet each other, the way people work, etc. Organizational culture is influenced by the geographical location of an organization. For example, the work culture of an organization located in Japan would be very different from that of one located in Germany or the US.

Organizational culture is sometimes influenced by the personality of its leader/CEO. The style and persona of the leader influences the working habits of the employees. However, it is difficult to change the culture of an organization. But when a change is brought or a new organizational strategy, implemented in an organization, it is essential to bring in cultural changes for its successful implementation.

Your firm needs to adapt to the changes in business environment. The geographical barriers between countries have now blurred. Therefore, companies are operating in a global market. When companies

operate in different countries, understanding culture becomes more important for their success. For example, shaking the head from side to side, means 'yes' in Bulgaria and Sri Lanka, whereas it is a sign of 'negation' in most parts of the world. Sometimes, when organizations are not able to understand cross-cultural changes, they fail miserably. For example, Ford Motor Company developed a low-cost truck for developing countries and named it "Fiera". The name caused a problem in Spain because Fiera means "terrible, cruel or ugly" in Spanish.

The top management of your company needs to foster such a culture so that every employee becomes an integral part of your organizational activities right from idea generation to the strategy formulation and implementation. If they are part of the strategic process, they ensure that the strategy becomes successful. According to Prof. Gary Hamel, creative ideas about strategies exist within the company. He emphasized that the senior management needs to identify and encourage idea generation. Ideas can be generated by employees who have a youthful perspective, new entrants in the industry and employees who are far away from the headquarters.

Summary:

- 1 The stakeholders of a business firm consist of its shareholders, employees, suppliers, distributors and customers.
- 2 A company must identify the needs of its stakeholders and then develop strategies to satisfy their needs and wants.
- 3 A process is the way in which workflow takes place.
- 4 When there is conflict between the objectives of different functions of an organization, it becomes difficult for it to achieve its goals.
- 5 A business firm needs resources like electric power, human resource, buildings, equipment, material, vehicles, Water, etc., to carry out its day-to-day activities.
- 6 Organization culture refers to the value, norms, artefacts, assumption, etc., of an organization, its employees and their behaviour.

ACHIEVING CUSTOMER SATISFACTION

In this chapter, you will:

- Understand the importance of customer satisfaction

In a world of cut-throat competition, your company can survive only when it outsmarts competition; adapt itself to the changing marketing environment rather than just pushing the sales. But how do you do this? The answer is simple, yet very complex - customer satisfaction.

Satisfaction: Fulfillment or gratification of need, desire or appetite.

Customer satisfaction or dissatisfaction is the feeling derived by the consumer when he compares the product's actual performance with the performance that he expects of it. Customers form their expectations on the basis of past buying experiences, advice of their reference group and the promises of the marketers and their competitors. When the product performance matches the expected performance, the customer experiences satisfaction; when it falls short of the expectation, he experiences dissatisfaction. And when the performance exceeds

expectations, the customer is highly satisfied or delighted. It becomes much easier for a company to serve a delighted customer. As delighted customer may become loyal, bringing more business to the firm, he will be less likely to switch to a competitor's product; and so, he becomes brand loyal. Xerox Corporation, for instance, believes that a very satisfied customer is worth 10 times as much as a satisfied customer. It believes that a very satisfied customer will stay with the company for more years and will bring more business to the firm.

Complete customer satisfaction is achieved by understanding customer requirements and delivering superior quality goods and services. Companies must provide the customers with a continuous flow of new ideas/offers and constantly enhance their service levels to build up satisfaction among customers. Understanding the customer and providing satisfaction is not the prerogative of the marketing department alone. Every function/employee needs to contribute to understanding the consumer and then fulfilling them. The following case study discusses the HPCL efforts to enhance customer satisfaction by actively involving its dealers.

Organizations need to map customer needs and wants with their products. If the products do not fulfill customer needs and wants, organizations need to take the initiative to improve their products. Customers should be an integral part of the product development and improvement process. As customer needs and wants do not remain constant, organizations also need to monitor the trends in the changes in customer needs and wants continuously so that they can modify their products and services continuously to satisfy their customers in the long run.

To know whether customers are satisfied with his products and services, you need to measure the customer satisfaction level. Customer satisfaction can be measured using different techniques like questionnaires and direct interviews. A customer feedback program should be viewed as an operating tool rather than as market research. You should understand that no two customers share the same opinion when they use words like satisfaction — i.e. the intensity of satisfaction. You should try to keep the survey simple, and employ the right questions that can give timely data that is easy to act upon. Most customer satisfaction surveys aren't very useful, as they tend to be long and complicated. They

yield low response rates and ambiguous information for the operating manager to act upon. It should also be noted that managers and salespersons may manipulate the information about customer satisfaction. Some salespersons may try to be customer friendly just before the survey, while others indulge in post-sale pleading with customers to provide top ratings, with the promise of offering something in return, for example, bargaining and negotiating a low price, with the consent of dealers. And the salespersons and managers may include only satisfied or most satisfied customers in the survey. Sometimes the customers might rate the company's performance as not so satisfactory to get more mileage in terms of service. As the top management of most organizations does not take an active interest in measuring the customer satisfaction level, others in the organizations also do not take it seriously. These circumstances further raise suspicion regarding the integrity of the surveys.

Case Study: Customer Satisfaction - The HPCL Way

In a bid to take on Reliance and Essar, Hindustan Petroleum Corporation Ltd., (HPCL) has introduced a new way of reaching out to its customers and enhancing their experiences – through Club HP

petrol pump outlets. HPCL has reworked its retail strategy focusing on its dealers. It is holding detailed discussions with individual dealers, setting higher targets and identifying a complete action plan to realize the potential target and launch a system of measuring the customer satisfaction index (CSI).

HPCL has launched a nationwide training program for its dealers and their employees who interact constantly with the customers. The training is based on the research done by HPCL which concluded that more sensitivity is required on the part of workers, i.e., better communication, eye contact and personalized service. It identified eight centers for training dealers and over 20 to train their staff.

HPCL provides the dispensing units, good fuel, driveway, yard lighting, dealer staff uniform and backup for standardization of services at the retail outlet. The dealer advisory group was allowed to enter the supply locations of the corporation at any point of time and check the quality control procedures for themselves. HPCL offers a list of incentives to its dealers like sales competitions, accident insurance, assistance for their children's education, etc. It tied up with Hughes Escort to

organize day-long teleconferences connecting all the centers, at which dealers exchange experiences.

Summary:

- 1 Customer satisfaction or dissatisfaction is the feeling derived by the consumer when he compares the product's actual performance with the performance that he expects of it.
- 2 When the product performance matches the expected performance, the customer experiences satisfaction; when it falls short of the expectation, he experiences dissatisfaction.
- 3 When the performance exceeds expectations, the customer is highly satisfied or delighted.
- 4 Complete customer satisfaction is achieved by understanding customer requirements and delivering superior quality goods and services.
- 5 Customers should be an integral part of the product development and improvement process.

CONCEPT OF VALUE

In this chapter, you will:

- Understand what is value chain
- Understand what it means by providing value-cost balance
- Understand the value of delivery system

Different customers look for different benefits from the same product. Therefore, the value of a product differs from one customer to other. Value to a customer refers to the difference between the benefits he derives from the product or service and the cost of acquiring the product. The cost of acquiring the product involves not only the cost of product but also other economic and non-economic costs. The customer is happy when the benefits and the cost match. The wider the gap between the derived benefits and the cost of acquisition, the happier the customer is. Firms identify and build as many benefits as possible into their offer and ensure that the customer's expectations are met at the end of the buying process. For example, GE encouraged its existing customers to give a feedback on adding value to its products and the result was a manufactured by the company, with an inbuilt curd maker. Tools like buyer analysis, market research and

marketing planning are helpful in identifying and measuring the value customers expect. You need to communicate the value your products deliver to the customer through their communication programs. If customers are convinced about the value that a product can deliver, the chances that they will be attracted to buy your products are high. Federal Express allows its customers to track their packages through its website, and customers can even check the name of the person who actually took delivery of the product. There is no additional cost involved in getting these additional services. These additional features increase the value of the services and therefore, customer loyalty. A high customer value plays a vital role in generating customer loyalty, because customers compare the value-cost gaps of the competing offers and select the products that delivers the maximum value to them.

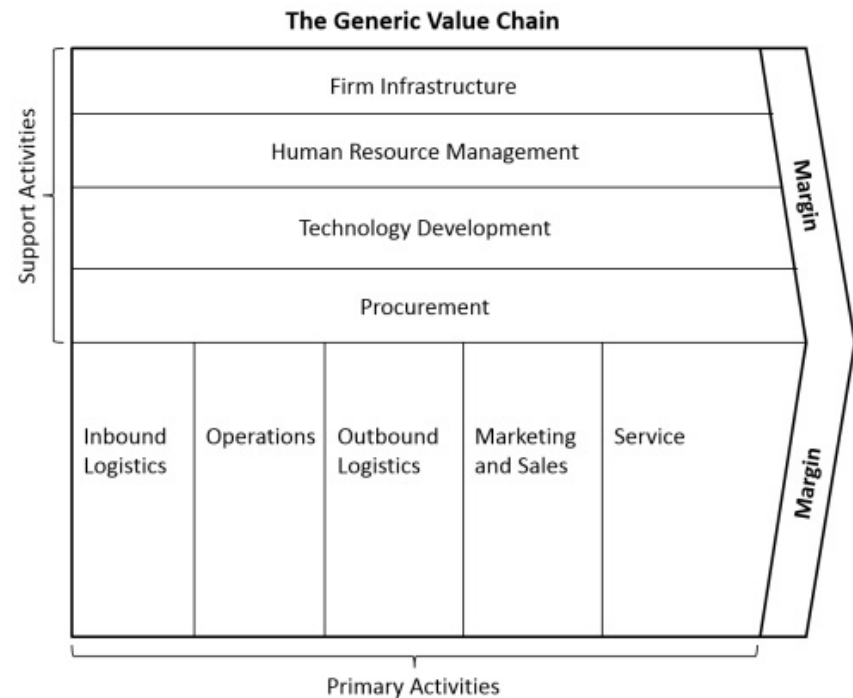
Value Chain

Every firm performs a set of activities that helps in designing, producing, marketing, delivering and supporting its products. These activities form a process. At every stage of the process, the firm adds value. The chain of activities from raw material procurement to the after-sales service is called the value chain. It identifies nine strategic activities, i.e.

five primary and four support activities, to create value, as shown in the below figure. Primary activities are the activities that are involved in creating, distributing, selling and providing after sales assistance for a product. Primary activities are those activities that are involved in the physical creation of the product, marketing and after-sales support. The primary activities involve buying and bringing the materials into the firm (inbound logistics), manufacturing the product (operations), shipping the goods which includes warehousing, order processing, scheduling, distribution etc., (outbound logistics), advertising, promotion, sales force management and pricing (marketing and sales), and providing services like installation, training, repair, etc., (service).

Support activities assist primary activities by providing infrastructure that allows them to take place on an ongoing basis. Support activities such as procurement, hiring the personnel, R&D, infrastructure (i.e. general management, planning, government activities and quality management), accounting, and legal activities, etc., are handled by various departments. The value chain includes a profit margin, creating value that exceeds cost so as to generate a return for the effort. A proper

coordination of all activities between the various departments enhances the performance of various activities in the value chain, leading to the enhanced overall performance of the firm.



Creating and Sustaining Superior Marketing Performance

A company's operations should be divided into specific activities or business processes to conduct

value chain analysis. Then the cost incurred on carrying out each activity is calculated to measure the performance. The value chain of an organization differs from that of other organizations. The way in which activities are performed in the value chain provides a competitive advantage for a company. However, the organization should measure the performance of every activity in the value chain with that of the competitors. If the performance of activity of a competitor is better, the organization should benchmark it and try to improve its performance continuously.

Taking care of a value chain is not an end in itself; the firm must try and improve its delivery network with external parties like the suppliers, distributors and customers. Many companies are partnering with specific suppliers and distributors to create superior networks and gain a competitive edge over their competitors.

Providing Value-Cost Balance

Customers expect certain benefits from a product. You need to add as many benefits to your products as possible. The more the features, the more the customer attraction. When the number of features in a marketing offer is more, the customer feels that

you have offered him more value. He also feels that his value expectations are met by buying the product. Standard Chartered Bank offers a global credit card to all its customers, while most of its competitors offer country specific cards. However, providing these benefits comes at a cost.

However, you need to ensure that when adding benefits to a product, the cost of the product does not increase exorbitantly. If the price of the product is in the vicinity of that of the competitors, customers will be able to appreciate the value attached to the product. If there is a significant difference in the price, customers will be able to appreciate the value attached to the product. If there is a significant difference in the price, customers will think that the value has not increased. So, you need to strike a balance between value and the cost. If your costs are high, you need to look into their cost structure and ensure that it is optimized. Firms know that the customers compare the price/value offered by competing firms and select the product which gives them maximum satisfaction. The firm tries to reduce the total delivery cost, while meeting the customer's expectations.

Value - Delivery System

Every firm has its unique value creating and value delivering network. Apart from its value chain, a firm tries to influence the value chain of its suppliers, distributors, etc., because if the value chain of suppliers' and distributors is optimized, its own cost structure will also become optimized. It tries to select the members of its delivery network carefully and work out mutually beneficial strategies. It establishes a partnership with the other members of its delivery network in order to improve the performance of the value-delivery system and create a competitive advantage over its rival firms. So, with the help of its value chain and value delivery networks, the firm offers the best possible assemblage of benefits to meet customer expectations.

Summary:

- 1 Value to a customer refers to the difference between the benefits he derives from the product or service and the cost of acquiring the product.
- 2 The chain of activities from raw material procurement to the after-sales service is called the value chain.
- 3 When the number of features in a marketing offer is more, the customer feels that you have offered him more value.
- 4 The marketer needs to ensure that when adding benefits to a product, the cost of the product does not increase exorbitantly.

ATTRACTING, ACQUIRING AND RETAINING YOUR CUSTOMERS

In this chapter, you will:

- Understand how to attract customers
- Understand the cost of losing a customer
- Understand the need for retaining the customer
- Understand the structural ties required for marketing

Apart from managing its value chain and maintaining its delivery network, your firm needs to develop strong bonds with your customers. In a fiercely competitive environment, it is hard to please the customers as they are smarter, more choosy, more price conscious, have better alternatives (goods and suppliers), and are attracted equally by many competitors.

Attracting Customers

Companies continually search for new customers in order to make profits and increase their sales volume. This process consumes time and scarce resources. Skills in lead generation, lead qualification and account conversion are the tools in acquiring

customers. Generating a lead requires a company to indulge in

- Developing advertisements either in-house or through ad-agencies and releasing them in the appropriate media.
- Mailing or making a personal phone call to prospective customers
- Participating in trade shows, fairs and organizing events

In the next step, the company contacts its prospective customers through personal interaction, checks out their financial condition, etc., and identifies the customers as either hot, warm or cold prospects. The sales personnel contact the hot and warm prospects (usually) and try to convert them into accounts by making presentations to them, answering queries and negotiating the deal.

Cost of Losing a Customer

Attracting customers is of no use unless you know the art of keeping them. Customers can be retained only if the products meet their expectations. If they are satisfied with the performance of the products, they may talk about them to others. On the other hand, if they are dissatisfied, they may stop using the products and talk negatively to others about them.

As word-of-mouth is the strongest medium for communicating with potential customers, it might cost a company heavily if there is negative talk about the company or its products. As a result, the company can suffer from customer attrition. Therefore, it must pay close attention to the defection rate i.e. the rate at which they lose customers.

To reduce the customer defection rate, a company must

- 1 Define and measure the retention rate.
- 2 Identify the causes for attrition.
- 3 Estimate the amount of profit lost by losing the customer. In case of an individual customer, it is the life time value of the customer, i.e. the present value of the profit stream the customer would have generated had he not defected prematurely.
- 4 Figure out the cost of retaining a customer. If the future profit is more than the cost of retention, the company should make efforts to retain the customer.
- 5 Listen to the customer as it helps in retaining and overcoming attrition problems.

Need for Customer Retention

There are some interesting facts on the basis of past researches about acquiring a customer and retaining him.

- 1 Acquiring a new customer costs five times more than satisfying an existing customer.
- 2 On an average, companies lose, 10% of customers every year.
- 3 The customer profit rate increases over the lifetime of retained customers.
- 4 A 5% reduction in customer attrition may increase the profit rate by 25-85%.

The case study about ICICI Bank talks about the measures ICICI has taken to attract new customers and retain its old customers. A firm accrues several benefits by retaining its customers like:

- **Increased revenue:** If a customer stays with a company for longer time, the chances of his spending more significantly increase because his income might also increase in the period. This will result in an increase in revenue and is particularly true in cases where the customer's family size increases, leading to an automatic increase in the demand for various products.

Increased Revenue

Decrease in cost of Selling

Advertising

Cross-selling Opportunities

Benefits of Customer Retention

- **Decrease in cost of selling:** As mentioned earlier, it costs five times more to get a new customer than to retain an existing one. A loyal set of customers keeps the selling cost down and is likely to be more profitable in the future. A retained customer is also less sensitive to price changes and is not easily driven away by ads or competitors' products.
- **Advertising:** Customers usually influence other members of their reference group who rely on them for references and opinions. Old

customers talk favorably about the company and its products. So, a retained customer acts as a billboard for the firm by virtue of word-of-mouth advertising for the firm.

- **Cross selling possibilities:** A regular customer can be a potential customer for the firm's other products in the near future. For example, a customer with a savings account with ICICI Bank at the beginning of his career can be a potential customer for loan products, credit cards, mutual funds, etc.

Therefore, companies must develop the habit of understanding their customer needs and wants and measure their satisfaction levels regularly through various means such as calling up the recent buyers and inquiring about the product's performance. They should not ignore customer grievances because loyal customers account for a substantial share of a company's profit. Similarly, customer suggestions should not be ignored because they use the product and are in a better position to comment on the performance of the product. 3M is one company which keeps its ears open to all suggestions made by customers. Customer satisfaction also helps the company overcome the switching attitude of customers and makes it harder for the competitors to wean away customers.

Case Study: Good Old Style

Private sector banks brought with them the advantage of Internet banking, phone banking, ATM services, etc. At the same time, they realized the need to embrace the good old banking practice of building a lasting relationship with their customers. ICICI Bank took the initiative of providing 12-hour banking services i.e. 8-to-8 banking to provide more personal attention to customers. The reason behind this initiative was to manage the pace of growth of the bank, cater to customer convenience and utilize the infrastructure in an optimal manner. The bank had to employ 1500 additional staff to work on a two shifts basis, even though its costs went up by 25 percent.

Technologies like phone banking, Internet banking and ATM services above could not handle the operations for a reserve of 70 lakh customers plus the addition of 2.5 to 3 lakh customers every month, so the bank had to use a mix of technology and traditional branch banking, which led to the idea of extending branch hours.

According to Amitabh Chaturvedi, head, retail banking, ICICI, “100 branches are covered under the

8-to-8 concept and the bank is planning to cover all its 430 branches across the nation.”

Citibank is one of the banks that seem to have taken note of this move. It has extended its branch timings by a couple of hours in Mumbai and other major metros.

Structural Ties

In order to attract new customers and retain old ones, companies indulge in supplying special equipment or computer linkages that helps the customers manage their tasks such as inventory, payroll, order entry process, etc., better. Companies like Milliken & Company go to the extent of providing sales training, marketing research and sales leads to their customers.

Summary:

- 1 Companies continually search for new customers in order to make profits and increase their sales volume.
- 2 Attracting customers is of no use unless you know the art of keeping them. Customers can be retained only if the products meet their expectations.

- 3 The benefits that a firm accrues by retaining old customers include increased revenues, decrease in cost of selling, advertising and increasing cross selling possibilities.



THANK YOU

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