
Topic 3 ▶ Attaining Customer Satisfaction, Value and Retention

LEARNING OUTCOMES

By the end of this topic, you should be able to:

1. Assess the factors that affect customer satisfaction;
2. Explain the definition of customer value;
3. Discuss how to maximise customer satisfaction and value;
4. Analyse the concept and importance of relationship marketing to the marketer; and
5. Evaluate the concept of customer retention.

▶ INTRODUCTION

Customer is the most important asset for a business organisation. Various strategies and great efforts are needed to maximise customer satisfaction. Among the factors that determine customer satisfaction are customer values, quality in marketing, relationship marketing and customer retention.

There are some guidelines available to allow the marketer to measure customer value but bear in mind that it is quite tough as customer perception is abstract.

The factor of quality will be stressed in this topic. Other than understanding the concept of quality, marketers also need to understand the meaning and application of total quality management and perceived quality to ensure that consumers experience a high level of satisfaction.

To guarantee customer loyalty and retention, a close relationship between marketers and customers must be fostered to avoid losing customers.

3.1 CUSTOMER SATISFACTION



Figure 3.1: Customer satisfaction

Try to recall the main focus in the concept or definition of marketing. If you observe carefully, marketing puts much emphasis on attaining customer satisfaction. The success of marketers depends on their accomplishment in maximising customer satisfaction. If you take a look at the marketing activities of giant marketing organisations such as Toyota, Honda, Sony and 3M, you will see that they strive to ensure each marketing strategy is able to maximise customer satisfaction.

The steps of awarding ISO series quality certificates as well as certificates for total quality management, zero customer feedback time, zero product improvement time and others are practised wholeheartedly by these companies.

In your opinion, why do giant companies such as Toyota, 3M or Sony need to allocate a huge sum of money and energy to do so? The answer is, definitely, to further improve their competitiveness and survival. Even though the concept of customer satisfaction is complex, particularly because of the influence of various perceptions and the dynamic behaviour of the customers (customer satisfaction),

marketers do not have much choice but to do something to win the hearts of customers. Marketers have to realise that customers are value- maximisers as shown in Figure 3.1.

3.1.1 Customer Value

Customer value is a determining factor of customer satisfaction. Usually, customers are more encouraged to buy and use products that offer the highest customer value. Customer value is defined as follows:

Customer value is the difference between the value attained by the customer from owning and using their products and the cost that has to be paid to acquire the product. The customer 's total cost includes an amount of cost that needs to be paid by the customer in order to acquire and use the product (Kotler, 2003).

However, to understand customer value, marketers need to measure the range or difference between total customer value and total customer cost. Figure 3.2 may help you to understand better the concept of total customer value and total customer cost.

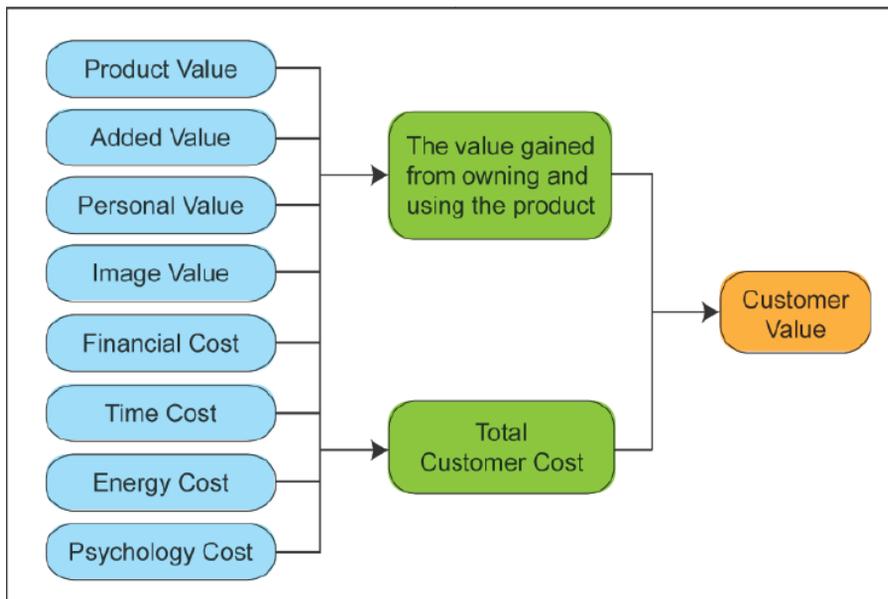


Figure 3.2: Customer value

Source: Adapted from Kotler & Armstrong (2005)

Based on Figure 3.2, customer value is determined by the difference between total customer cost and total cost paid by the customer to own and use the product.

Customer value and part of the customer cost stated in Figure 3.2 are in reality difficult for the marketer to estimate. This is because each customer value and cost illustrated is influenced by the factor of customer perception, which is an abstract factor, difficult to predict or estimate by marketers. Therefore, to exercise the customer value concept as shown in the figure, marketers have to take into account individual and group perception when estimating total value and customer costs.

3.1.2 Customer Satisfaction

Following the discussion in section 3.1.1, customer value has a close relationship with the concept of customer satisfaction. The following is the definition of customer satisfaction:

Satisfaction is related to individual (customer) feelings, whether he is comfortable comparing his perception of the output with the target or his goals of uses.

Based on the definition of customer satisfaction, satisfaction and customer value are two concepts that complement each other. However, marketers have to look at customer satisfaction from a different perspective from the concept of customer value. This is because, to estimate customer satisfaction, marketers need to measure the difference or range of customer expectation and the end product received by the customer from the marketer.

Even though different in terms of measurement, the result of both concepts is still the same, which is customer action. Similar to measuring customer value, marketers are also faced with the difficulty of measuring customer satisfaction because of the influence of the individual and group perception. However, measuring customer satisfaction is much easier because the act of purchasing or not (making repeat purchase or not) is an indication of customer satisfaction.

3.2 MAXIMISING CUSTOMER SATISFACTION AND VALUE

Based on the marketing orientation, marketers need to maximise customer satisfaction. There are a few guidelines that can be used by marketers to ensure that organisations and their marketing process are able to maximise customer satisfaction. Among them are the production of an effective blueprint, quality offers and marketing that emphasises the best relationship between marketer and customer.

There are a number of methods and tools that can be used to establish a marketing process that is able to maximise customer satisfaction. The two most famous methods and tools are the blueprint and value link.

Blueprint is a concept that is applied from scientific results. There are many models that can be used to design a marketing process blueprint. All the blueprint models are designed using the same basic steps, which are the initial step (start), execution, decision making and end. For example, a blueprint for a car wash centre covers entry of car into car wash centre, exterior wash, interior wash (wiping and vacuuming), waxing, payment and exit (end).

Porter (1985) introduced a comprehensive blueprint model that can be used by marketers to create an efficient and effective marketing process. The model is known as value chain model. The model is created based on nine activities that can be classified into two categories: main activity and supporting activity. All the activities are shown in Figure 3.3.

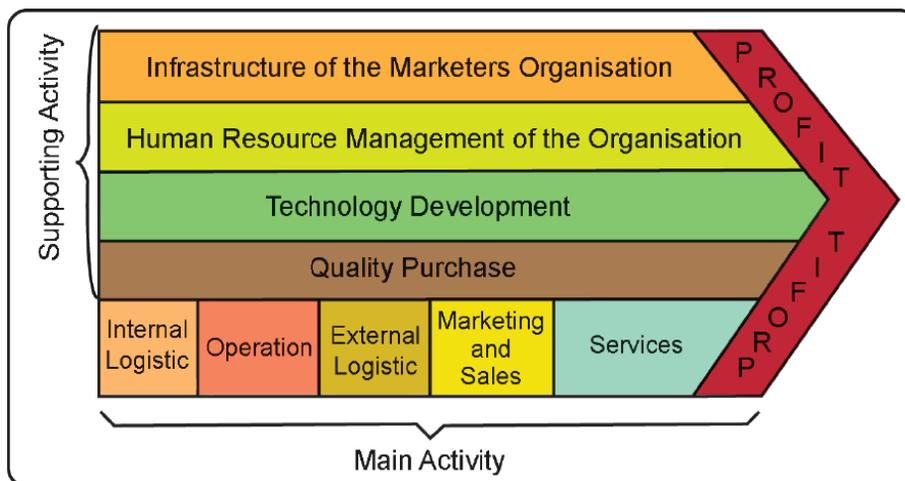


Figure 3.3: Value chain model
Source: Philip Kotler (1999)

Based on Figure 3.3, there are five main activities which are supported by four supporting activities. Internal logistic activity refers to logistic activity that brings the product (raw material) into the organisation. Operation refers to production operation, while external logistic refers to the activity of carrying the product (ready-made and half-ready) to the market. However, to acquire a market, the organisation needs to perform marketing activity. During the process of performing this activity, the organisation has to provide after-sales service to the customers.

The success of performing the main activities mostly depends on the success of managing the supporting activities. The organisation needs to create certain facilities to implement the main activities. The organisation needs to create an efficient process of human resource management as most of these activities are performed by humans. All the organisational activities, including human resource management, involve the use of technology. The process of production (operation) depends a lot on the quality of the raw material purchased by the purchasing officer. Thus, the activity of purchasing raw material directly influences several activities, particularly the operation and internal logistics.

3.2.1 Quality in Marketing



SELF-CHECK 3.1

How far is the concept of quality considered important for an efficient marketing management process?

We have been exposed to the concept of quality. What does the term “quality” actually mean? How is it measured? Is the quality measurement done by the marketer and the user the same? How far is the concept of quality considered important in business and marketing? All these questions need to be answered before you are able to manage quality.

There are many definitions for the term “quality”. However, in general, quality may be defined as a comparison value between a subject and other subjects that already exist or are experienced by certain individual or groups. This means quality is an evaluation result and comparison between current and past results (based on experience), comparison with a similar subject that is current, based on unwritten or verbal standards and based on written certified standards.

You may assume a new product has more quality because the product has a better performance from the product you previously purchased (based on your experience) or you may find that the performance of the product is better than the other product in the same category. You may assume a product has good quality because it received praises from your friend (non-certified standard) or you assume that all the products that have SIRIM mark or ISO9000 are of good quality (based on certified standard).

Based on the discussion, it can be summarised that the concept of quality is a concept of comparison. However, the definition of quality given by Morse, Roth and Poston (1987) has been found to reflect the definition of quality from the marketing aspect, which is:

Quality is a set of values (standard) that allows a product or a marketing strategy to fulfil the customer 's perception or expectation. As long as the standard against quality is followed, the customer will reach a relatively higher satisfaction level.

Other than understanding the concept of quality, marketers need to understand the meaning and application of two concepts related to quality: **Total Quality Management (TQM)** and **perceived quality**.

(a) **Total Quality Management (TQM)**

Total quality management is a concept designed to steer towards an organisational management process that emphasises quality comprehensively, systematically and continuously. It means that each member and process level (steps) of the management must emphasise quality.

(b) **Perceived Quality**

This particular concept of quality refers to a benchmark or standard which is determined by customer s' perception. A product can be considered to have or lack quality by customers even though in reality the product's true quality is lower or higher compared to the customer 's perceived quality. Usually, perceived quality by the customer is influenced by pricing strategy and aggressive promotion.

3.2.2 Relationship Marketing

Relationship marketing is one of the latest marketing concepts that emphasises a close relationship between marketer and stakeholders, particularly customers.

The close relationship emphasised by this marketing concept is permanent (long term) and benefits both parties. Loyalty and customer retention are two important concepts that have developed the concept of relationship marketing.

The explanation on the concept of customer retention is hoped to be able to assist you to better understand the concept and importance of relationship marketing for marketers.

3.2.3 Customer Retention



Figure 3.4: Customer retention

Customer retention refers to continuous efforts by marketers to maintain customers and get them to continue making transactions with marketers. The concept that must be avoided by marketers is the concept of lost customer. Both these concepts must be really understood and managed by marketers effectively.

The accomplishment of marketers in maintaining customers means they have ensured stable revenue, while losing customers means marketers have lost their revenue. Both the concepts have cost implications to the marketer. The success of customer retention means marketers do not have to allocate a huge budget to seek new customers. Normally, the cost to maintain old customers is far less significant than that of getting new customers. This is based on marketers' need to allocate salesman cost (wages, commission and sales budget), advertising or the cost of other promotion methods to get new customers.

Other than that, a marketer has to absorb higher costs for a new customer as not all who are approached will turn into real customers. Marketers need to approach many potential customers to gain one real customer. The number of potential customers to be approached in order to gain a real customer differs depending on the products and marketing environment. Often, marketers have to approach at least two potential customers to gain one real customer.



EXERCISE 3.1

1. Warta Dunia, a producer of children's toys, is seeking the quality award of ISO9000 to increase its market share in Malaysia and in the international market. Provide justification for Warta Dunia's action.
2. How far does a marketer need to understand the concept of customer retention?

SUMMARY

- The marketer and marketing manager need to understand and execute marketing management processes thoroughly and systematically.
- Other than understanding and embracing business world philosophies, the marketer or the marketing manager also needs to understand several concepts related to marketing such as the evolution of business world philosophies, customer needs and demands, marketing mix, quality and customer retention.
- The understanding of these concepts will help marketers and marketing managers to produce an exchange process or a transaction that is competitive and able to maximise customer satisfaction.

KEY TERMS

Customer value

Relationship marketing

Customer satisfaction

Satisfaction

Customer retention

Value

Quality