

4. 2. The Customer is King

Learning targets:

- ▶ *Being able to name and explain customers' buying motives*
- ▶ *Being able to explain Maslow's hierarchy of needs*
- ▶ *Being able to explain the terms "need" and "demand"*
- ▶ *Being able to explain the different stages in a buyer's decision-making process*
- ▶ *Being able to explain the term "cognitive dissonance"*
- ▶ *Being able to explain the term "customer segmentation"*
- ▶ *Being able to explain the criteria according to which customers can be categorized*
- ▶ *Being able to explain the term "customer relationship management" (CRM)*
- ▶ *Being able to explain the term "glass consumer"*
- ▶ *Being able to explain the term "data mining"*
- ▶ *Being able to name and explain tools of customer retention*
- ▶ *Being able to explain the term "complaints management"*
- ▶ *Being able to explain the term "cross selling"*
- ▶ *Being able to explain the term "full-range customer"*

Learning targets



4. 2. 1. CUSTOMERS' BUYING MOTIVES AND NEEDS

Ultimately it is the customer who decides whether an enterprise flourishes and whether its employees are secure in their jobs. Thus it certainly pays off for a firm to anticipate each and every one of its customer's wishes. This can be done only by looking upon him as a human being who has desires and fears. These desires and fears must be precisely identified, as they are the driving forces behind his decision of whether or not to buy a product. These forces are referred to as buying motives.

- ▶ *Buying motives*

If you want to practice doing research on buying motives, just look at yourself and answer the following questions:

- ▶▶ What did you spend money on in the past week? Did you buy any goods which you originally had not intended to purchase?
- ▶▶ What major item (that cost more than 200 euros or so) did you buy recently? What prompted you to decide in favour of this particular product – and against others?

A possible "shopping list" could look as follows:

1. Milk, bread, some sausage, a sweater
2. Life insurance, a safe door lock, a course in self defence
3. Dinner at a restaurant with some friends, flowers for your spouse
4. The most popular cell phone, a management course abroad, a designer dress, an apartment in an upper-class neighbourhood
5. An Avatar seminar, a donation to a charity organization

4. 2. 2. MASLOW'S HIERARCHY OF NEEDS

▶ *Maslow's hierarchy of needs*

The shopping items listed above cover all the needs that are included in **Maslow's hierarchy of needs**. According to this theory, we can distinguish between five different categories of people's wishes and needs.

Level 1 – Basic physiological needs: warmth, food, water, sleep, sex

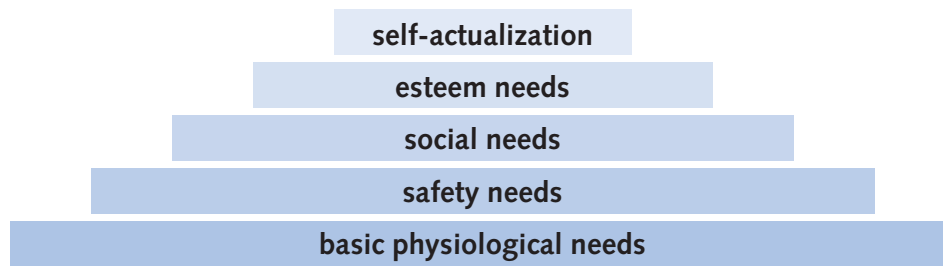
Level 2 – Safety needs: shelter, security of employment, health and well-being, legal security, insurance policies, orderly environment

Level 3 – Social needs: friendship, partnership, family, love, communication and care

Level 4 – Esteem needs: status, wealth, money, power, career, success in sports, awards

Level 5 – Self-actualization: individuality, talent enhancement, altruism, kindness, art, philosophy, faith, ethics

Maslow's hierarchy of needs



These needs are represented as a pyramid, which is intended to demonstrate that higher needs come into focus only when the lower needs in the pyramid have been satisfied.

- ➡ A person who has hardly enough money to satisfy his basic need for food is not likely to spend any money on insurance.
- ➡ You will care about questions of ethics only when you have enough to eat, a place of accommodation, a spouse who loves you and a job that gives you satisfaction and recognition.

Bossi's Pink Sauce: At which level in Maslow's hierarchy of needs may we find Bossi's Pink Pizzas?

Mrs Bossi wants to figure out which of their customers' needs their Pink Pizzas satisfy, which is not an easy task at all.

Even though it is a food item, a Pink Pizza is not necessarily what people consume when they want to fill their basic need for food (= Level 1). Neither does a Pink Pizza satisfy a person's need for safety (= Level 2).

Social needs (= Level 3) can be met in so far as you can go out and "have some Pink Pizza" with friends or if Pink Pizza becomes the subject of a conversation: "We had something absolutely crazy for dinner yesterday – Pink Pizza. Have you tried it yet?"

If this prompts some sort of recognition ("You are really a trend setter, aren't you?"), Level 4 has been reached.

In order to climb the peak of the pyramid of needs, however, and give their guests moments of greatest self-fulfilment, Mrs Bossi would most certainly have to use additional (and probably illegal) Pink Pizza ingredients.

These findings have given Mrs Bossi an initial idea of which marketing strategy to apply with respect to their Pink Pizzas. Pink Pizzas are not supposed to attract attention because of any particular size (Level 1) but should in any case become a topic of conversation (Level 3). It would be ideal, of



Example



course, if Pink Pizzas could be turned into some kind of cult food item which everyone who has a certain level of self-esteem should recognize and eat. (Level 4)

As Pink Pizzas are still unknown, this may be difficult to accomplish. Whereas the desire to own a beautiful car, a yacht or an exclusive watch is not uncommon, the need for a Pink Pizza first has to be created. This means that the Bossis have to communicate to customers the message that they are particularly trendy if they are Pink Pizza fans.

Creating this need is the task of advertising.

At the same time, the above findings allow the Bossis to conclude what customers they should target. They have to address people who have already satisfied the needs of the first two levels of Maslow's pyramid. In other words, their target group consists of customers who have above-average incomes.

4. 2. 3. NEEDS AND DEMANDS

► Need and demand



Example

Recognizing needs, however, is only the beginning, because there is a crucial difference between a general need and real demand. Each and every one of us has hundreds of needs but only a fraction of them become concrete demands that can be and will be satisfied.

- *Almost everyone wants to speak as many languages as possible. Only few people actually attend a language course.*
- *Almost every man wants to have six-pack abs instead of a beer belly. Only few go through the trouble of achieving their goal in a fitness studio.*
- *Almost everyone wants a sports car but only few people can afford one.*

The reason is obvious: either people have too little money or too little time to satisfy all needs. Consequently, the decision must be made which ones to satisfy. What is more, many needs directly compete with each other: Recognition as a successful manager in your job or as a hobby marathon runner may cost you dearly, as you pay less attention to the need for love from your spouse, your children or friends.

What this means for Pink Sauces is that the basic need for them has to be created first.

Then strategies have to be designed that enable the Bossis to turn needs into real demands: customers must be willing to spend money on their Pink Pizzas.

Management Talk:

A potential need must be turned into a real demand.

4. 2. 4. CUSTOMER BEHAVIOUR AND DECISION-MAKING PROCESSES

As mentioned before, customers are human beings – and as such often demonstrate highly unreasonable buying behaviour, although hardly anyone wants to admit that.

Still, any buying process follows a certain pattern and in order to become aware of it, it may be best to analyse yourself again.

Do you recall your entire decision-making process when you made your last major purchase (such as a television set, a car or an apartment)?

➤ *Customer behaviour and decision-making process*

BOSSI PIZZERIA: MR SALT TREATS HIMSELF TO A NEW CAR

When Mr Salt, one of Bossi Pizzeria's employees, decided to buy himself a new car, things happened as follows:

Phase 1: Problem awareness

Mr Salt's car is already eight years old and has obediently served its owner for over 180,000 kilometres. During the past few months, however, more and more repairs have become necessary and the car has spent more time at the repair shop than on the road.

Phase 2: Information search

For that reason, Mr Salt is looking for a new car and as it is a major expense, he gathers as much information as possible.

Of course, Mr Salt contacts his regular car dealer, with whom he has always been perfectly satisfied, but he also reads through car magazines and road test reports, does internet research and asks friends and relatives how happy they have been with their cars. As all of them tell him, though, that they have been absolutely satisfied with their choices, this source of information does not offer much help.





Phase 3: Evaluation of alternatives

In this phase, Mr Salt compares the car models he likes and evaluates them according to various criteria:

Rational criteria:

- ▣ *price*
- ▣ *size*
- ▣ *number of seats*
- ▣ *gasoline consumption*
- ▣ *taxes*

Emotional criteria:

- ▣ *design*
- ▣ *colour*
- ▣ *more horsepower than necessary*
- ▣ *environmentally friendly*
- ▣ *image of the brand*

These are just some of the criteria and it is not surprising that Mr Salt's head is spinning. He has sleepless nights and is irritated and unfriendly towards other people. After a number of test drives, the number of possible choices is reduced to three.

Phase 4: Purchase decision

The moment has come when Mr Salt finally makes his choice and selects the XY brand car.

Full of determination, he contacts the car dealer that sells cars of that kind. All he wants in order to be completely satisfied is an additional one to two percent discount. The car dealer, however, is stubborn and not willing to let Mr Salt have this ultimate triumph. Besides that, he becomes exceptionally unfriendly.

Mr Salt refuses to put up with that and remorsefully returns to his former car dealer. How could he ever have thought of buying a car from another place? He now buys a car that costs more than he has planned to spend, has more horsepower than necessary and is not available in the colour he would have liked best.



Phase 5: Post-purchase evaluation

At this point (if not sooner) it becomes obvious that human beings, including Mr Salt, very often don't act rationally. When Mr Salt makes his ultimate decision, he is convinced that it is the right thing to do and he is the happiest man on earth. Neither his wife nor the snide comments of his friends make him change his mind. Admittedly, the car is slightly more expensive than planned but its interior design and greater power justify the premium price. Besides, its shocking green colour goes much better with this brand than his favourite colour would have.

4. 2. 5. COGNITIVE DISSONANCE

Mr Salt's less than rational post-purchase behaviour is best explained by the cognitive dissonance theory.

In general, human beings strive to achieve a psychological state that is in balance and free of conflicts. In the course of a decision-making process, however, this inner balance is at risk because any decision that has to be made does not come with only positive aspects but has some negative side effects as well. Such side effects could create discomfort for a person who has made a decision that cannot be reversed anymore and make him doubt that what he did was the right thing to do. The expression used to describe conflicting thoughts or beliefs that occur at the same time is cognitive dissonance. Not only does it sound discomforting, it is. Nobody likes to be out of balance.

➤ Cognitive dissonance

If Mr Salt gave in to "his" cognitive dissonance, he would retrospectively doubt his buying decision and become annoyed at having spent far more money than planned and admit to himself that he is not happy with the car's colour after all.

Conclusion: In order to avoid cognitive dissonance, a person will emphasize all positive sides of his decision and sweep all negative aspects under the carpet. That is precisely why you cannot expect to receive any neutral and rational answer to your question of how happy someone is with the new car he has just bought.

According to Heribert Meffert, one of Germany's first marketing experts, we can distinguish four different behavioural patterns of a buying decision:

- ➡ rational buying behaviour: The buyer acts rationally and – after a lengthy phase of information search – applies economic criteria to evaluate his alternatives. He wants to achieve the best result at the best price possible.

- impulse buying behaviour: The buyer lets himself be guided by feelings and intuition. He acts spontaneously without any prior information search.
- habitual buying behaviour: The buyer is not interested in making a new decision whenever he buys something but relies on past experience.
- social buying behaviour: The buyer's decision does not depend on his information or experience. He allows himself to be guided by moral and value concepts of his social environment (friends, colleagues, or celebrities).

4. 2. 6. CUSTOMER SEGMENTATION

Customers are different from each other because human beings in general differ from each other. For that reason there is hardly any universal product that sells equally well to all people, regardless of whether they are young or old, rich or poor, healthy or sick, introverted or extroverted, Europeans or Asians.

➤ *Customer segmentation*

Enterprises will be successful if they specifically address different customers. In order for them to do so, customers must first be subdivided into different customer segments. Some of the criteria according to which customer segments can be determined are:

- Demographic criteria
 - ➔ age
 - ➔ sex
 - ➔ education
 - ➔ occupation
 - ➔ income
 - ➔ family size
 - ➔ family life cycle
 - ➔ nationality
 - ➔ language
- Geographic criteria
 - ➔ country
 - ➔ region
 - ➔ district
 - ➔ population density
 - ➔ climate

- ▣ Psychographic criteria
 - rational / emotional / impulsive
 - conservative / modern
 - introverted / extroverted
- ▣ Private and corporate customers

These segments can be combined with each other and / or further subdivided.

An example of such a sub-segment could be "female senior citizens in Vienna with pets". This target group will have highly specific needs that have to be researched. Marketing activities which are based on research results are far more highly focused than in cases where customers have been segmented superficially or not at all.

Corporate customers – private customers

Corporate customers differ from private customers for the following reasons:

1. Larger quantities and sales.

You can expect a corporate customer to place larger orders and thus to contribute to your sales more significantly than a private customer.
2. More people are involved in the decision-making process. They could be:
 - the people / employees who want the product
 - their immediate superior (department manager)
 - the procurement department
 - the company management, or
 - perhaps even the controller or the works council may have a say in purchasing decisions.
3. Decision-making processes take longer.

Particularly when many decision-makers are involved, time-consuming meetings and voting procedures that go beyond departmental levels must be expected.
4. In general, companies are more rational than private customers.

Corporate purchasing decisions have to meet business criteria such as profitability, liquidity, budget targets, etc.

5. Companies are more demanding.

Corporate customers demand and expect higher quality and greater reliability because poor quality and delays in delivery may cost them some of their own customers.

Still, one must not forget that even in the world's largest groups of companies and behind the most impressive facades of glass and steel, there are people of flesh and blood who seek safety, social contacts and recognition.

Special key account managers who are responsible for their company's corporate customers have had years of experience and thus know

- ▶ the business requirements of their corporate clients and
- ▶ the people who have the biggest influence in the decision-making chain.

Internal customers – external customers

Companies are beginning to realize that it is not exclusively the external final customer who should enjoy the privilege of friendly and competent customer service but that their different departments should treat each other like customers as well.

What has supported this development was that departments have lost their monopoly as their companies' sole suppliers. In the past it was unthinkable to purchase a service from an external supplier as long as the same service was provided internally as well.



Example

If a company had its own IT department, it was understood that it would take care of all of the company's data processing problems. – Such an IT department was usually very much aware of its monopoly position and behaved accordingly (= focusing on itself instead of on the internal customer).

Today many enterprises see things differently and their departments may very well purchase services from external sources.

For the above-mentioned IT department, this means that an external software supplier who can offer a solution to the company's data processing problem may all of a sudden appear as its competitor. Particularly if the IT department cannot make a competitive offer, the situation can become crucial and result in the complete outsourcing of IT services. As this cannot possibly be in the interest of the IT department, it should have a suitable marketing concept that has answers to the usual questions: Who are my customers, what are their needs and how can my product satisfy those needs?

Good customer – bad customer

Is there actually such a thing as a bad customer? There are indeed customers who

- ➡ create greater costs than benefits
- ➡ make life unnecessarily difficult for you (deliberately or indeliberately) or
- ➡ are so unpleasant that a lengthy business relationship would inevitably cause ulcers.

Enterprises are best advised to terminate such customer relationships simply because time, energy and financial means must focus on those customers who really make a difference for a company.

Attention, though

Still, enterprises have repeatedly had the experience that customers who initially require a lot of attention turn out to be the best clients. For that reason customer analysis ought to be conducted rationally and systematically. The chapter "ABC analysis" of this book has already highlighted methods of how to categorize customers.

4. 2. 7. TYPES OF CUSTOMERS

Customers don't make your life easy. Even if narrow customer segments have been selected (such as '40-year-old male university graduates who are residents of Main Street and vicinity) customers may still require different treatment.

➤ *Customer types*

Among them there will be impulse buyers who don't do much thinking and act instantly, as well as customers who weigh things carefully and think twice before they make any buying decision.

Everett Rogers, U.S. university scholar and pioneer of the 'diffusion of innovations' theory, suggested dividing customers into five categories: innovators, early adopters, early majority, late majority and laggards.

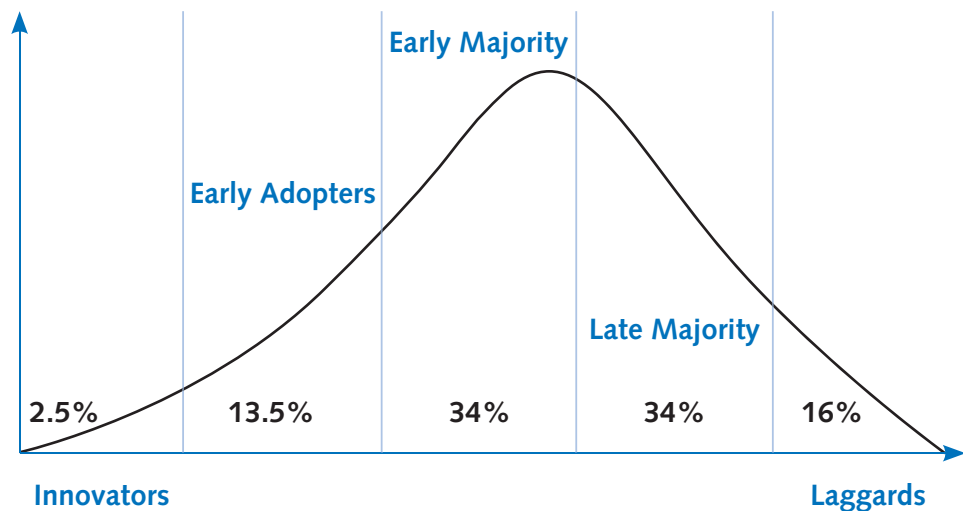
Early adopters are trendsetters who want to be the first to own and proudly present a product. In order to satisfy their curiosity and / or their desire for prestige, they accept a product, even while they acknowledge that it is immature, has flaws and can be purchased at half the price only a few weeks later.

You probably know people who owned a cell phone, a flat screen TV, an MDA, a GPS device or a hybrid car when others didn't even know how to pronounce these expressions.

The high-tech business is particularly fond of early adopters for above-mentioned reasons. In addition, it can be assumed that early adopters are mostly extroverts who love to tell everybody about what a great product they have just bought. Thus they are ideal word-of mouth marketers of the product and opinion leaders.

Laggards act completely differently. They are probably still thinking about buying their first cell phone, carefully weighing the advantages and drawbacks.

Between the early adopters and laggards you find the **early majority** and **late majority** of buyers. The latter decide to purchase at a time when the product has established a foothold and has been thoroughly tested by the market.



What this means for a company's marketing efforts is clear: the more innovative a product, the more active a firm has to be in its search for early adopters and in its attempts to attract them. Strategies that signal the specific status of those premium customers include sending out information on latest product developments and inviting them to innovative product presentations.