1. Service and not for profit marketing
2. Customer relationship marketing

Gabriela Avram
1. Service and not-for-profit marketing
The unique characteristics of services

<table>
<thead>
<tr>
<th>Key premise</th>
<th>Explanation</th>
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<tbody>
<tr>
<td>1</td>
<td>Service is the fundamental basis of exchange</td>
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<td>2</td>
<td>The service basis of exchange is not always apparent as it is masked by goods, money, institutions, etc.</td>
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<td>3</td>
<td>Goods are a distribution mechanism for service provision</td>
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<td>4</td>
<td>Resources such as knowledge and skills are the primary source of competitive advantage</td>
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<td>5</td>
<td>All economies are service economies</td>
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<td>6</td>
<td>The customer is always a co-creator of value</td>
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<td>7</td>
<td>The enterprise cannot deliver value but only offer value propositions</td>
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<td>8</td>
<td>A service-centred view is inherently customer-oriented and relational</td>
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<td>9</td>
<td>All social and economic actors are resource integrators</td>
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<tr>
<td>10</td>
<td>Value is always uniquely determined by the beneficiary</td>
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</tbody>
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Characteristics of Services

- Intangibility
- Inseparability
- Variability
- Perishability
Perishability

A cleverly designed social media advertisement for the EP designed to overcome the perishability problem of events like this. If tickets are not sold by the end of the event, the opportunity to do so passes.
Service Branding

Research on service organizations has identified four characteristics of successful brand names:

1. **Distinctiveness**: it immediately identifies the service provider and differentiates it from the competition.
2. **Relevance**: it communicates the nature of the service and the service benefit.
3. **Memorability**: it is easily understood and remembered.
4. **Flexibility**: it not only expresses the service organization’s current business but also is broad enough to cover foreseeable new ventures.
Managing Service Quality

These are the barriers that separate the perception of service quality from what customers expect.

Figure 7.2 Barriers to the matching of expected and perceived service levels

- Barriers
  - misconceptions
  - inadequate resources
  - inadequate delivery
  - exaggerated promises

Expected service

Perceived service
Managing Service Quality
Meeting Customer Expectations

1. **Reliability**: is the service consistent and dependable?
2. **Assurance**: that customers can trust the service company and its staff.
3. **Responsiveness**: how quickly do service staff respond to customer problems, requests and questions?
4. **Empathy**: that service staff act in a friendly and polite manner and care for their customers.
5. **Tangibles**: how well-managed is the tangible evidence of the service (e.g. staff appearance, decor, layout)?
The relationship may benefit the service provider as it is generally believed that it is cheaper for the organization to retain its existing customers than it is to gain new ones.
Relationship Marketing

Six Benefits of Strong Customer Relationships

1. Increased purchases
2. Lower costs
3. Lifetime value
4. Sustainable competitive advantage
5. Word of mouth promotion
6. Decreased staff turnover
Ladder of Loyalty

Figure 7.3 The ladder of loyalty

Prospect

Customer

Client

Supporter

 Advocate

Partner

Emphasis on developing and enhancing relationships (customer keeping)

Emphasis on new customers (customer matching)

The Services Marketing Mix

The services marketing mix is an extension of the 4P’s:
- Product
- Price
- Promotion
- Place

The additional elements of the mix are:
- Physical evidence
- People
- Process
- Service Branding
Characteristics of Non-Profit Marketing

- Primary goal is non-economic
  - to provide cultural enrichment (an orchestra)
  - to protect birds and animals (e.g. Royal Society for the Protection of Birds)
  - to alleviate hunger (e.g. Oxfam)
  - to provide education (schools and universities)
  - to foster community activities (community associations)
  - to supply healthcare (hospitals)
  - to supply public services (local authorities)
Measurement of Success & Conflicting Objectives

In profit-orientated organizations: profitability measured

In nonprofits, more complexity, also due to public scrutiny

- Example of universities where success is measured in terms of:
  - research output
  - number of students taught
  - the range of qualifications
  - the quality of teaching
- Combination of these factors can lead to conflict.
Marketing Procedures for Non-Profit Organizations

• Target marketing
  - Donors judge which charity to give to on:
    • the basis of awareness and reputation
    • the confidence that funds will not be wasted on excessive administration
    • the perceived worthiness of the cause
  - Clients (customers)
• Differentiation: e.g. political parties’ marketing
• Tactical marketing decisions need to be made
Social Marketing

Social Marketing is used to describe efforts, mainly by public sector organizations, to encourage positive social change such as healthy eating, reduced cigarette and alcohol consumption, safe sex, safe driving, human rights and racial equality.

Commercial marketing techniques such as consumer research, segmentation and marketing mix development are frequently used to achieve these types of goals.
Marketing in Non-profit Organisations

Exhibit 7.5 The Rainforest Alliance ‘Follow the Frog’ viral video has been viewed over 4.5 million times on YouTube and in tone and content is an example of a really effective promotion for a charitable organization.

https://www.youtube.com/watch?v=3ilkOi3srLo
2. Customer relationship marketing
Ladder of Loyalty

Figure 7.3 The ladder of loyalty

- **Prospect**
  - Emphasis on new customers (customer capturing)

- **Customer**
  - Emphasis on new customers (customer capturing)

- **Client**
  - Emphasis on developing and enhancing relationships (customer keeping)

- **Supporter**

- **Advocate**

- **Partner**
  - Emphasis on developing and enhancing relationships (customer keeping)

Transactional marketing vs Relationship marketing

- Transactional marketing
  - Focus on single sale
  - Orientation on product features
  - Little emphasis on customer service
  - Limited customer commitment

- Relationship marketing
  - Focus on customer retention
  - Orientation on product benefits
  - High emphasis on customer service
  - High customer commitment
From transaction-based marketing to relationship marketing
How to go about customer relationship management

- Personalising marketing – important to use the right technology
- Companies are using the following to foster continuous contact between the company and its customers:
  - Email
  - Websites
  - Call centres
  - Databases
  - Social media – a powerful tool in CRM
Basis of CRM

- Requires building and maintaining long-term relationships
- It is based on trust and commitment between the two parties
- The emphasis is on retaining customers over one-off sales
- CRM ranks customer service as a high priority
- It encourages frequent customer contact
- Fosters customer commitment within the firm
‘Leaky bucket syndrome’
Customer lifetime value (CLV)

- Losing an existing customer means losing the entire revenue stream that customer represents – not just this single sale or transaction.
Why retention management is important

- It can cost up to five times more to win a new customer than to retain an existing one.
- It is claimed that a 5% improvement in customer retention can increase profitability by between 25% and 85% depending on the industry.
- It is easier to deliver additional products and services to an existing customer than to a first-time buyer.
The customer pyramid

- **Lead**
  - Least profitable customers
  - What segment costs us in time, effort, and money yet does not provide the return we want? What segment is difficult to do business with?

- **Iron**
  - Least profitable customers
  - What segment costs us in time, effort, and money yet does not provide the return we want? What segment is difficult to do business with?

- **Gold**
  - Least profitable customers
  - What segment costs us in time, effort, and money yet does not provide the return we want? What segment is difficult to do business with?

- **Platinum**
  - Most profitable customers
  - What segment spends more with us over time, costs less to maintain, and spreads positive word of mouth?

- **Most profitable customers**
Platinum tier

- Company’s most profitable customers.
- Typically heavy users of the product – not overly price-sensitive
- Willing to invest in – and try new offerings
- Committed customers of the firm
Gold tier

- Profitability levels are not as high, perhaps because customers want price discounts or are simply not as loyal.
- May be heavy users who minimise risk by working with multiple vendors
- **Iron tier**
  - Essential customers that provide the sales volume necessary to utilise the firm’s production capacity, but their spending levels, loyalty and profitability are not substantial enough to warrant special treatment.

- **Lead tier**
  - Customers who are costing the firm money. They demand more attention than they are due given their spending and profitability and are sometimes problem customers – complaining a lot and taking up resources.
Customer complaints – the iceberg problem

Customer Complaints:
(Business to business)

1 unhappy customer
Complaint made to Management or HQ

25 unhappy customers
No formal complaint made

Each of the 25 unhappy customers tell an average of 10 people about their experience
(250 people in total)

...who in turn each tell an average of 5 more people about what they heard
(1,300 people in total)

Source:
- TARP Research, June 1999
- Direct Selling Educational Foundation, 1982

Average number of people who hear about a problem for every one formal complaint to Management: 1,560
Different levels of relationship marketing

- Basic marketing – the salesperson sells to the final customer. This is also known as direct sales.
- Reactive marketing – the salesperson sells the product and encourages the customer to call with any comments or enquiries.
- Accountable marketing – the salesperson works with the customers to ensure that the product is working and that they are satisfied. He/she asks the customer for feedback and suggestions. The salesperson is taking responsibility for the sale.
Different levels of relationship marketing

- Proactive/partnership marketing – the company works continuously with its large customers to help improve performance. The emphasis is on building and maintaining a mutually beneficial relationship that can serve as a sustainable competitive advantage.
Framework for customer relationship marketing

- **Create a Database**
  - A necessary first step to a complete CRM solution is the construction of a customer database or information file.

- **Analysis**
  - Each row/customer of the database should be analyzed in terms of current and future profitability to the firm. When a profit figure can be assigned to each customer the marketing manager can then decide which customers to target.

- **Customer Selection**
  - Segmentation type analyses are performed on purchasing or related behaviour the customers in the most desired segments (e.g. highest purchasing rates greatest brand loyalty) would normally be selected first for retention programs.

- **Customer Targeting**
  - A portfolio of direct marketing methods such as telemarketing, direct mail, and, when the nature of the product is suitable direct sales is used to target customers

- **Relationship Marketing**
  - Managers must constantly measure satisfaction levels and develop programs that help to deliver performance beyond targeted customers expectations.
1. Core service

- A key strategy in relationship marketing is the design and marketing of a ‘core service’ around which a customer relationship can be established.

- The ideal core service is one that attracts new customers through its need-meeting character, cements the business through its quality and provides a base for selling additional services over time.
2. Customising the relationship
   • By learning about the specific characteristics and requirements of individual customers, and then capturing these data for use as needed, companies can more precisely tailor service to the situation at hand.
   • This results in the customisation of relationships

3. Service augmentation
   • Service augmentation involves building ‘extras’ into the service to differentiate it from competitors’ offerings.
   • For meaningful differentiation to happen, the extras must be genuine extras – not readily available from competitors.
   • When this is the case, customer loyalty is encouraged.
4. Relationship pricing

- This means pricing services to encourage relationships.
- A better price for a better customer forms the basis of relationship pricing.
- This is another strategy available to service companies pursuing customer loyalty.

5. Internal marketing

- In an internal marketing strategy, employees are treated as ‘internal customers’ who must be convinced of a company’s vision and mission just as aggressively as ‘external customers’.
- Internal marketing is based on the idea that customers’ attitudes towards a company are based on their entire experience with that company, and not just their experience with the company’s products.
- Any time a customer interacts with an employee, it affects their overall satisfaction. Therefore customer satisfaction is deeply dependent on the performance of a company’s staff.
Process followed

- Chart the service delivery system
- Identify critical service issues
- Set service standards for all aspects of service delivery
- Develop customer communication systems
- Train employees on building and maintaining good relationships with customers
- Monitor service standards – reward staff for exceeding service levels
- Each employee fully understands the importance of service quality and customer relationships.
Benefits of relationship marketing

- **To customers**
  - They get greater value
  - They have more confidence in their dealings with the company
    - Trust
    - Reduced anxiety
  - Social benefits
    - Familiarity
    - Social support
    - Personal relationships
  - Special treatment benefits
    - Special deals
    - Price breaks
Benefits of relationship marketing

- To companies
  - Economic benefits
    - Increased revenues
    - Reduced marketing costs
    - Regular revenue stream
Benefits of relationship marketing

- **To companies**
  - Economic benefits
    - Increased revenues
    - Reduced marketing costs
    - Regular revenue stream
  - Customer behaviour benefits
    - Strong word-of-mouth endorsements
    - Customer voluntary performance
    - Mentors to other customers
  - HRM benefits
    - Easier jobs for employees
    - Employee retention
    - Greater long-term organisational learning
Disadvantages of relationship marketing

- Organisational change of priority is required
- Significant investment of time and money
- Threatens management control/possible power struggles
- Can heighten people’s resistance to change
- Inappropriate integration leads to disaster
Conclusions

- There is potential for CRM to help firms compete in very competitive markets.
- Successful implementation means many changes to attitudes and structure in the firm.
- It can be particularly difficult to install and implement customer-centred strategies, depending on the company culture.
- The process would almost certainly be painful.
- If CRM is used, it requires buy-in from all levels of the organisation.
- Companies need to learn from the experience of others to maximise their chances of CRM success.
CRM lessons

- Don’t attempt to implement CRM without first adopting customer-centred strategies
- Don’t justify CRM in the hope of achieving operational efficiency and cost reduction
- Don’t take shortcuts that bypass important steps (such as customer satisfaction research)
- Don’t impose changes in workflow and process without involving those affected – both internal and external
- Don’t let software vendors limit your implementation to their capabilities
Pricing
Pricing Methods

Pricing methods

<table>
<thead>
<tr>
<th>Competition</th>
<th>Cost</th>
<th>Marketing</th>
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</table>
Determining the Break-Even Point

Money (£) vs. Units of Production

- Losses
- Fixed costs
- Total variable costs
- Total cost
- Profits

Total variable costs = Total cost - Fixed costs

Break-even point is where Total revenue equals Total cost.
Determining the breakeven point

- To compute a company's breakeven point in sales volume, you need to know the values of three variables:
  - Fixed costs: Costs that are independent of sales volume, such as rent
  - Variable costs: Costs that are dependent on sales volume, such as the cost of manufacturing the product
  - Selling price of the product

- Fixed Costs ÷ (Price - Variable Costs) = Breakeven Point in Units
Cost-based pricing

- Gives an indication of the minimum price needed to break even and make a profit.
- Takes into account fixed costs and variable costs.
  - Full-cost pricing
    - Can lead to a price increase if sales fall.
    - Is illogical, because a sales estimate is made before the price is set.
  - Marginal-cost pricing (prices to cover direct costs plus a contribution to overheads).
    - Popular with service companies
Cost-based pricing

- **Cost-plus pricing**
  - Commonly advocated by accountants and engineers
  - Works by calculating the cost of manufacture, including distributed overhead costs and R&D costs,
  - Then adding on a fixed percentage profit to arrive at the price.

- **Mark-up pricing**
  - Used by most retailers
  - Works by adding on a fixed percentage to bought-in stock to arrive at the shelf price.
Competitor-Oriented Pricing

This type of pricing may take one of 3 forms:

1. Where firms follow the prices charged by leading competitors
2. Where producers take the going-rate price
3. Where contracts are awarded through a competitive bidding process
Competitor-Oriented Pricing

Exhibit 8.2 The launch price of the PlayStation 4 much more closely matched that of competitors than did its predecessor the PlayStation 3 which was priced significantly above the competition and did not reach sales targets as a result.
Predatory pricing

- Means pricing below the cost of production in order to bankrupt the competition.
- Sometimes used by large firms when entering new markets.
- For this to work, the firm needs deep pockets and the market must presently be dominated by firms that cannot sustain a price war.
- Japanese car manufacturers used this strategy when entering European car markets in the 1970’s.
Market-led Pricing

A key marketing consideration when pricing is estimating value to the customer. Three useful techniques for determining customers' perception of value are:

1. Trade-off analysis
2. Experimentation
3. Economic value to the customer analysis (EVC)
Trade-off analysis

- Measurement of the trade-off between price and other product features.
- Asks customers to react to profiled products consisting of different product features and prices.
- Computer models are used to measure the effects of price versus other product features.
- Often used at the test marketing stage for new products.
Experimentation

- Puts a product on sale at different prices in different areas.
- Matches the areas in terms of sales potential
- Measures the impact of price differences on sales
EVC analysis

- Used more in industrial markets
- A high economic value to the customer means that it can sell at a high price and still offer superior value compared to the competition.
- For example, the product may generate more revenue for the buyer, or its operating costs may be lower over its lifetime.
Estimating a product’s value to the customer: the more value a product gives compared to the competition, the higher the price that can be charged.
Other factors influencing price-setting decisions

- Positioning strategy
- New product launch strategy
- Product-line strategy
- Channel management strategy
- Competitive marketing strategy
- International marketing strategy
Ethical Debate: What is a Fair Price?

Price is a hotly debated aspect of marketing. There are several ways organisations can exploit consumers by overcharging for goods and service.

- Price fixing: companies collude with each other to ensure that everyone charges the same or similar prices.

- Deceptive pricing: prices are not the same as they may first appear. Consumers need to be very careful when judging the price of a good or service.
New Product Launch Strategy

Figure 8.2 New product launch strategies

- High Promotion, High Price: Rapid Skimming
- High Promotion, Low Price: Slow Skimming
- Low Promotion, High Price: Slow Penetration
- Low Promotion, Low Price: Rapid Penetration
Marketing-orientated companies need to take account of where the price of a new product fits into its existing product line. Where multiple segments appear attractive, modified versions of the product should be designed, and priced differently, not according to differences in costs, but in line with the respective values that each target market places on a product.
Competitive Marketing Strategy

Strategic objectives
- Build objective
- Hold objective
- Harvest objective
- Reposition objective

Price implication
- Price lower than competition
- Maintain or match price relative to competitors
- Set premium prices
- Price change
Channel Management Strategy

When products are sold through intermediaries such as distributors or retailers, the list price to the customer must reflect the margins required by the distributors.

The implication is that pricing strategy is dependent on understanding not only the ultimate customer but also the needs of distributors and retailers who form the link between them and the manufacturer.
International Marketing Strategy

The first challenge that managers will have to deal with when exporting is price escalation.

Price escalation means a number of factors may combine to put pressure on the firm to increase the prices it charges in other countries. These may include inflation rates, exchange rates and custom duties.

In such instances it is important for firms to guard against parallel importing – this is when products destined for an international market are re-imported back into the home market and sold through unauthorized channels at levels lower than the company wishes to charge.
Managing Price Changes

There are 3 key issues associated with initiating price changes:

1. Circumstances which might lead a company to raise or lower prices
2. Tactics
3. Estimating the competitor’s reaction
## Initiating Price Changes

<table>
<thead>
<tr>
<th>Circumstances</th>
<th>Increases</th>
<th>Cuts</th>
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<tbody>
<tr>
<td></td>
<td>Value greater than price</td>
<td>Value less than price</td>
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<td></td>
<td>Rising costs</td>
<td>Excess supply</td>
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<td></td>
<td>Excess demand</td>
<td>Build objective</td>
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<td></td>
<td>Harvest objective</td>
<td>Price war unlikely</td>
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<td>Pre-empt competitive entry</td>
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<tr>
<td>Tactics</td>
<td>Price jump</td>
<td>Price fall</td>
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<td></td>
<td>Staged price increases</td>
<td>Staged price reductions</td>
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<td>Escalator clauses</td>
<td>Fighter brands</td>
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<td>Price unbundling</td>
<td>Price bundling</td>
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<td></td>
<td>Lower discounts</td>
<td>Higher discounts</td>
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<td>Estimating competitor reaction</td>
<td>Strategic objectives</td>
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<td>Self-interest</td>
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<td></td>
<td>Competitive situation</td>
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<td>Past experience</td>
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# Reacting to Competitors’ Price Changes

## Table 8.3 Reacting to competitors’ price changes

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<tr>
<th>When to follow</th>
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<tr>
<td><strong>Rising costs</strong></td>
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<td><strong>Excess demand</strong></td>
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<td><strong>Price-insensitive customers</strong></td>
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<td><strong>Price rise compatible with brand image</strong></td>
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<td><strong>Price fall compatible with brand image</strong></td>
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<td><strong>Harvest or hold objective</strong></td>
<td></td>
<td><strong>Build or hold objective</strong></td>
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<td><strong>Stable or falling costs</strong></td>
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<td><strong>Harvest objective</strong></td>
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<tr>
<td><strong>Build objective</strong></td>
<td></td>
<td><strong>Offset competitive threat</strong></td>
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### Tactics

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<tr>
<th>Quick response</th>
<th>Margin improvement urgent</th>
<th>Offset competitive threat</th>
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<tr>
<td>Slow response</td>
<td>Gains to be made by being friend</td>
<td>High customer loyalty</td>
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Reacting to Competitors’ Price Changes

Exhibit 8.4: The Amazon Kindle has pursued a strategy of aggressively reducing its price in response to competition from other e-readers.
Customer Value Through Pricing

Cost management:
- Cost control is critical for firms that attempt to lead on price as their success in controlling costs has a direct impact on profit margins.

Yield management
- Very popular in services businesses like travel and hotel is the monitoring of demand or potential demand patterns.

Dynamic pricing
- This means that prices are adjusted continually, based on demand and potential demand.