

## UNIT 2

### DELIVERING CUSTOMER VALUES AND SATISFACTION

#### 1. BUSINESS COMPONENTS

A successful business operates through the integration of four key components that work together to deliver value to customers and stakeholders.

##### 1.1 Stakeholders:

Stakeholders are individuals, groups, or organizations that can affect or are affected by the business's activities, objectives, and policies.

##### Types of Stakeholders:

1. Internal Stakeholders: Employees, Shareholders/Owners
2. External Stakeholders: Customers, Suppliers, Community, Government, Creditors

##### Stakeholder Management Importance:

- Ensures sustainable business operations
- Builds trust and credibility
- Reduces business risks
- Creates competitive advantages
- Supports long-term growth

##### 1.2 Processes:

Processes are systematic series of actions or steps taken to achieve specific business objectives and deliver value to customers.

##### Types of Business Processes:

##### 1. Core Processes (Primary):

- Product Development: Creating new products or improving existing ones
- Manufacturing/Service Delivery: Converting inputs into outputs
- Marketing and Sales: Attracting and serving customers
- Order Fulfillment: Processing and delivering customer orders

##### 2. Support Processes (Secondary):

- Human Resource Management: Recruiting, training, and managing employees
- Finance and Accounting: Managing money and financial reporting
- Information Technology: Managing technology infrastructure
- Quality Management: Ensuring products meet standards

*Example of Zomato's Key Processes:*

- Core Process: Restaurant discovery → Order placement → Food delivery

- Support Processes: Technology platform maintenance, payment processing, customer service, delivery partner management

Process Optimization Benefits:

- Improved efficiency and reduced costs
- Better quality control
- Faster delivery times
- Enhanced customer satisfaction
- Competitive advantage

### 1.3 Resources:

Resources are assets (tangible and intangible) that a business uses to create value and achieve its objectives.

**Types of Resources:**

#### 1. Financial Resources:

- Cash and Cash Equivalents: Money available for operations
- Credit Lines: Borrowing capacity from banks
- Investment Capital: Funds for long-term investments

#### 2. Physical Resources:

- Infrastructure: Buildings, factories, offices
- Equipment and Machinery: Tools needed for production
- Inventory: Raw materials, work-in-progress, finished goods

#### 3. Human Resources:

- Skills and Knowledge: Employee expertise and capabilities
- Experience: Accumulated learning from past activities
- Leadership: Management capabilities and vision

#### 4. Intangible Resources:

- Brand Value: Customer recognition and loyalty
- Intellectual Property: Patents, trademarks, copyrights
- Organizational Culture: Values, beliefs, and practices
- Customer Relationships: Trust and loyalty built over time

*Example of Infosys Resource Portfolio:*

- Financial: Strong cash reserves and consistent profitability
- Physical: State-of-the-art campuses and technology infrastructure

- Human: Highly skilled IT professionals and strong training programs
- Intangible: Strong brand reputation, intellectual property in software solutions, and long-term client relationships

## 1.4 Organization:

Organization refers to the structure, culture, and systems that coordinate resources and processes to achieve business objectives.

Key Elements of Organization:

### 1. Organizational Structure:

- Hierarchy: Levels of authority and reporting relationships
- Departments: Functional divisions like marketing, finance, operations
- Communication Channels: How information flows within the organization

### 2. Organizational Culture:

- Values and Beliefs: What the organization stands for
- Behavioral Norms: Expected ways of working and interacting
- Decision-Making Style: How choices are made and implemented

### 3. Management Systems:

- Planning Systems: How goals are set and strategies developed
- Control Systems: How performance is monitored and measured
- Reward Systems: How employees are motivated and compensated

Example of Wipro's Organizational Approach:

- Structure: Global delivery model with centers across multiple countries
- Culture: Values-based culture emphasizing integrity, innovation, and customer focus
- Systems: Robust project management systems and continuous learning programs

Integration of All Components:

- Stakeholders provide input and receive value
- Processes transform inputs into outputs
- Resources enable process execution
- Organization coordinates everything effectively

## 2. WHAT IS CUSTOMER SATISFACTION?

Customer Satisfaction is the degree to which a customer's expectations about a product or service are met or exceeded by their actual experience.

$$\text{Customer Satisfaction} = \text{Perceived Performance} - \text{Expected Performance}$$

Outcome Scenarios:

- Performance > Expectations = Delight (Very Satisfied)
- Performance = Expectations = Satisfaction (Satisfied)
- Performance < Expectations = Dissatisfaction (Dissatisfied)

## 2.1 Components of Customer Satisfaction

### 1. Product Quality:

- Reliability: Product works consistently without failures
- Durability: Product lasts for expected time period
- Features: Product has desired functionalities
- Performance: Product performs as expected

### 2. Service Quality:

- Responsiveness: Quick response to customer needs
- Empathy: Understanding and caring for customer concerns
- Assurance: Competence and trustworthiness of service providers
- Tangibles: Physical appearance of facilities and personnel

### 3. Price Value:

- Fair Pricing: Price matches perceived value
- Value for Money: Benefits received justify cost paid
- Competitive Pricing: Price is reasonable compared to alternatives

## 2.2 Measuring Customer Satisfaction

### 1. Direct Feedback Methods:

- Surveys and Questionnaires: Structured questions about experience
- Interviews: In-depth conversations with customers
- Focus Groups: Group discussions about products/services

### 2. Indirect Methods:

- Customer Complaints: Number and nature of complaints received
- Repeat Purchase Rate: Percentage of customers who buy again
- Net Promoter Score (NPS): Willingness to recommend to others
- Customer Retention Rate: Percentage of customers who continue buying

### 3. Behavioral Indicators:

- Usage Patterns: How frequently customers use products
- Engagement Levels: Interaction with company communications
- Social Media Sentiment: What customers say online

*Example of Amazon India's Approach:*

- Product Reviews: Customers rate purchases from 1-5 stars
- Delivery Feedback: Customers evaluate delivery experience
- Customer Service Rating: Post-interaction satisfaction surveys
- Return/Refund Analysis: Tracking reasons for product returns

## 2.3 Factors Influencing Customer Satisfaction

### 1. Customer Expectations:

- Past Experiences: Previous interactions with company or competitors
- Word of Mouth: Recommendations from friends and family
- Marketing Communications: Promises made through advertising
- Industry Standards: General expectations for the product category

### 2. Perceived Performance:

- Actual Product/Service Quality: Real experience with offering
- Service Recovery: How well problems are resolved
- Consistency: Reliability of experience across touchpoints
- Personalization: Tailoring to individual customer needs

### 3. Situational Factors:

- Customer Mood: Emotional state during experience
- Time Pressure: Whether customer is in a hurry
- Social Environment: Presence of others during experience
- Cultural Context: Cultural norms and values affecting perception

## 3. CONCEPT OF VALUE

### 3.1 What is Value?

Value is the customer's assessment of the overall benefits received from a product or service compared to the costs incurred to obtain it.

### Types of Value

1. Functional Value:

- Utility: How well the product performs its intended function
- Convenience: How easy it is to use or access
- Reliability: Consistency of performance over time

## 2. Emotional Value:

- Feelings: How the product makes customers feel
- Experiences: Memorable moments associated with the product
- Self-Expression: How the product reflects customer's personality

## 3. Social Value:

- Status: How the product enhances social standing
- Recognition: Acknowledgment from others
- Belonging: Connection to a group or community

## 4. Economic Value:

- Cost Savings: Money saved compared to alternatives
- Time Savings: Efficiency gains from using the product
- Investment Value: Potential for future returns

### 3.2 Value Chain

The Value Chain is a series of activities that a business performs to deliver a valuable product or service to customers, from raw materials to final delivery.

#### **Michael Porter's Value Chain Model:**

#### **Primary Activities (Directly involved in creating and delivering value):**

##### 1. Inbound Logistics:

- Receiving and storing raw materials
- Inventory management
- Supplier relationships

##### 2. Operations:

- Converting raw materials into finished products
- Manufacturing processes
- Quality control

##### 3. Outbound Logistics:

- Storing and distributing finished products
- Order processing
- Delivery management

#### 4. Marketing and Sales:

- Promoting products to customers
- Sales activities
- Customer acquisition

#### 5. Service:

- After-sales support
- Customer service
- Product maintenance

### Support Activities (Enable primary activities):

#### 1. Procurement:

- Purchasing raw materials and components
- Vendor management
- Contract negotiation

#### 2. Technology Development:

- Research and development
- Process improvement
- Innovation activities

#### 3. Human Resource Management:

- Recruiting and training employees
- Performance management
- Compensation systems

#### 4. Firm Infrastructure:

- General management
- Finance and accounting
- Legal and regulatory affairs

### *Example of Tata Motors' Value Chain:*

#### Primary Activities:

- Inbound Logistics: Sourcing steel and components from suppliers across India
- Operations: Manufacturing cars at facilities in Pune, Chennai, and other locations
- Outbound Logistics: Distribution through dealership network across India
- Marketing & Sales: Advertising campaigns and dealership sales activities
- Service: After-sales service through authorized service centers

#### Support Activities:

- Procurement: Strategic sourcing of materials and components
- Technology Development: R&D centers developing new vehicle technologies
- HR Management: Training programs for employees and dealer staff
- Infrastructure: Corporate headquarters, finance systems, and legal compliance

### 3.3 Providing Value-Cost Balance

Customers expect certain benefits from a product. Marketers need to add as many benefits to their 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 marketer has offered him more value. Value-Cost Balance involves optimizing the relationship between the value delivered to customers and the costs incurred by the business.

### 3.4 Value-Delivery System

A Value-Delivery System is the network of partnerships and alliances that a company forms to source, augment, and deliver its offerings. 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 are optimized, its own cost structure will also become optimized.

#### 1. Company's Internal Value Chain:

- All activities within the company that create value
- Core competencies and capabilities
- Internal processes and systems

#### 2. Suppliers' Value Chains:

- Activities performed by suppliers
- Quality of inputs and materials
- Supplier relationships and partnerships

#### 3. Distributors' Value Chains:

- Channel partner activities
- Distribution efficiency
- Customer reach and service

#### 4. Customers' Value Chains:

- How customers use the product/service
- Customer's own value creation process
- Integration with customer operations



## 4. ATTRACTING AND RETAINING CUSTOMERS

### 4.1 Attracting Customers

Customer attraction involves strategies and activities designed to identify, interest, and convert potential customers into actual buyers.

The Customer Attraction Process:

#### 1. Awareness Creation:

- Making potential customers aware of your brand/product
- Building brand recognition and recall
- Establishing market presence

#### 2. Interest Generation:

- Creating desire for your offering
- Highlighting benefits and value proposition
- Differentiating from competitors

#### 3. Consideration Facilitation:

- Providing information for decision-making
- Building trust and credibility
- Addressing concerns and objections

#### 4. Conversion Achievement:

- Facilitating the purchase process
- Removing barriers to buying
- Incentivizing immediate action
- Customer Attraction Strategies

### 4.2 Cost of Losing a Customer

The Cost of Losing a Customer represents the total financial impact when a customer stops doing business with a company.

#### 1. Direct Revenue Loss:

- Immediate Loss: Revenue from current purchase not made
- Future Revenue Loss: Lifetime value of customer relationships lost
- Repeat Purchase Loss: Regular purchases that will no longer occur

#### 2. Replacement Costs:

- Marketing Costs: Expense to attract new customers
- Sales Costs: Time and resources spent on acquisition

- Onboarding Costs: Resources needed to service new customers

### 3. Negative Word-of-Mouth Impact:

- Reputation Damage: Dissatisfied customers tell others about bad experiences
- Social Media Amplification: Negative reviews and comments online
- Lost Referrals: Missed opportunities for customer recommendations

### 4. Competitive Advantage Loss:

- Market Share Reduction: Lost customers often go to competitors
- Competitive Intelligence: Customers may share your strategies with competitors
- Brand Equity Damage: Reduced brand value and market position

## 5. CUSTOMER PROFITABILITY

### 5.1 What is a Profitable Customer?

A profitable customer is one whose revenue generated over time exceeds the company's costs of attracting, selling, and servicing that customer.

$$\text{Customer Profitability} = \text{Customer Revenue} - \text{Customer Costs}$$

Where:

Customer Revenue = All revenue generated from the customer over time

Customer Costs = Acquisition costs + Service costs + Retention costs

#### Revenue Components:

- Direct Purchases: Money spent on primary products/services
- Cross-selling Revenue: Additional products purchased
- Up-selling Revenue: Premium versions or upgrades
- Referral Value: Revenue from customers they refer

#### Cost Components:

- Acquisition Costs: Marketing and sales expenses to win the customer
- Service Costs: Ongoing support and service delivery expenses
- Retention Costs: Investments to maintain the relationship
- Processing Costs: Transaction and administrative expenses

#### Customer Profitability Segments:

##### 1. Most Profitable Customers (20% of customers, 80% of profits):

- High-value purchases
- Low service requirements

- Long relationship duration
- High loyalty and low price sensitivity

2. Moderately Profitable Customers (70% of customers, 20% of profits):

- Average purchase amounts
- Moderate service needs
- Some loyalty but price-sensitive
- Potential for growth

3. Unprofitable Customers (10% of customers, negative profits):

- Low purchase amounts
- High service demands
- Frequent complaints and returns
- Price-sensitive and likely to switch

*Example of Reliance Jio's Customer Profitability Analysis*

High-Profit Customers:

- Business Customers: High data usage, premium plans, multiple connections
- Family Plans: Multiple connections with high total billing
- Heavy Data Users: Customers using 100+ GB monthly on premium plans

Moderate-Profit Customers:

- Regular Individual Users: Standard plans with consistent usage
- Occasional Users: Basic plans with steady but low usage
- Price-Conscious Users: Responsive to offers but maintain loyalty

Challenge Customers:

- Minimum Recharge Users: Using only mandatory minimum recharge
- High Support Users: Frequent complaints and service requests
- Churning Customers: Frequently switching between operators

## 5.2 Activity-Based Costing (ABC)

Activity-Based Costing is a costing method that identifies activities in an organization and assigns the cost of each activity to products and services based on actual consumption.

**Traditional vs. Activity-Based Costing:**

Traditional Costing	Activity-Based Costing
Uses simple allocation methods (like percentage of sales)	Traces costs to specific activities

Assumes all customers consume resources equally	Assigns costs based on actual resource consumption
May hide true profitability of different customer segments	Provides more accurate picture of customer profitability

## 6. RELATIONSHIP MARKETING

Relationship Marketing is a strategy designed to foster customer loyalty, interaction, and long-term engagement by providing value to customers beyond just the product or service.

### The Five Levels of Investment in Relationship Building

Based on customer relationship management theory, companies can invest at five different levels to build long-term relationships with customers. Each level represents increasing investment and deeper relationship development.

#### Level 1: Basic Marketing

Basic Marketing focuses on delivering the core product or service without additional relationship-building efforts.

Example of Traditional Retail Stores: Many small electronics stores in India operate at this level

- Customer comes to buy a phone
- Shopkeeper shows available models and prices
- Customer makes purchase and receives product
- No follow-up contact or relationship building
- Customer returns only when they need another product

#### Level 2: Reactive Marketing

Reactive Marketing involves responding to customer inquiries and problems when they arise, encouraging customer feedback.

Example of Maruti Suzuki's Service Approach:

- Customer Service Centers: Network of service centers for repairs and maintenance
- Customer Care Helpline: 24/7 phone support for customer queries
- Service Reminders: SMS notifications for scheduled maintenance
- Customer Feedback: Post-service satisfaction calls and surveys
- Problem Resolution: Dedicated teams to handle customer complaints

Customer Experience:

- Customer buys Maruti car
- Company provides contact information for future needs

- Customer calls when service is needed
- Company responds promptly and resolves issues
- Follow-up call to ensure satisfaction

### **Level 3: Accountable Marketing**

Accountable Marketing involves proactively contacting customers to gather feedback, provide updates, and ensure satisfaction.

Example of HDFC Bank:

- Relationship Manager Assignment: Dedicated RM for high-value customers
- Regular Portfolio Reviews: Quarterly meetings to review financial goals
- Proactive Service Calls: Calls to check satisfaction and offer new products
- Performance Reports: Monthly statements showing portfolio performance
- Preventive Alerts: Notifications about account status and opportunities
- Priority Service: Dedicated phone lines and branch counters

Customer Experience:

- Customer opens premium account with HDFC Bank
- Assigned relationship manager introduces themselves
- Regular calls to check satisfaction and financial needs
- Proactive offers for relevant financial products
- Immediate escalation and resolution of any issues
- Continuous monitoring of account health and usage

Implementation Framework:

- Customer Segmentation: Identify high-value customers for proactive attention
- Contact Schedule: Regular calendar for customer interactions
- Performance Metrics: Track satisfaction scores and relationship health
- Staff Training: Relationship management skills for customer-facing staff

### **Level 4: Proactive Marketing**

Proactive Marketing involves anticipating customer needs and contacting them with relevant solutions, offers, and value-added services.

Example of Amazon India's Proactive Approach:

- Customer buys smartphone from Amazon
- Amazon analyzes purchase and usage patterns
- Proactively recommends phone cases, screen protectors, and accessories
- Offers installation and setup services
- Suggests complementary products like power banks and headphones
- Provides timely updates about newer models and trade-in opportunities

- Anticipates replacement timing and offers upgrade options

### **Level 5: Partnership Marketing**

Partnership Marketing represents the highest level of relationship investment, where the company works closely with customers as strategic partners to help them achieve their business objectives.

Example of TCS and BFSI Clients:

- Joint Innovation Labs: Collaborative development of fintech solutions
- Shared Infrastructure: Common technology platforms and data centers
- Regulatory Compliance: Joint management of regulatory requirements
- Market Expansion: Collaborative entry into new geographic markets
- Talent Development: Joint training and certification programs