

TU-A1300

# Introduction to Industrial Engineering and Management

Week 2 Pre-lecture Reading

# How Does One Become a Customer?

The foundation of profitable business is customer demand - but how does someone (or a company) become a customer of a firm, and what can the firm do to make it happen? This question takes us into the realm of sales and marketing, which is connected to every business activity in the firm. Marketing is about managing customer relationships, and it seeks to both create new customer relationships and to maintain and develop existing customer relationships. If a firm beats its competitors in marketing, it is likely that it will gain market share and increase profitability.

Marketing starts from human goals and ambitions, which, when pursued, translate to human needs. These needs may be either conscious or unconscious, the latter of which is more challenging from a marketing point-of-view. Needs can be perceived as basic human qualities and can be categorized as physical (such as the need for food), social (such as the need for cohesion) and individual (such as the need for self-expression). When we become aware of our need, a desire to satisfy that need emerges. Desires, however, are also influenced by cultural factors (including advertising) and personality, that is, you might be hungry, but still want pizza, even though there might be other options to satisfy your hunger. Then, when you combine a need and desire with purchasing power, you have demand - which drives business and, in the end, the market economy.

In pursuit of new customer relationships, the company needs to understand the goals and needs of potential customers. However, although people's needs are quite similar, people's desires may be very different. This creates the need to divide customers into groups with similar desires. This is called segmentation, and can be based on many different factors such as area, age, gender, occupation, income, etc. Once the company has formed segments based on some principle, there will be some segments that are more attractive to the company than others, and it is worthwhile for the company to focus (or target) its marketing resources on these segments. By focusing on one or more segments, the company deepens its understanding of needs and desires in these segments, and how they develop, which in turn allows the company to stay at the forefront of this development. In the best case, the company understands the customer's needs better than the customer itself, allowing the company to lead the development by providing the customer with solutions that the customer did not know he/she needed. If there is competition in the target segment of the company, as is usually the case, there is a further need to position the company's offering in relation to that of its competitors. Positioning can be understood, for example, in terms of price and value, whereby possible positions are, for example, "much more for slightly more", "more for the same price", "slightly less for much less" etc. Positioning can also lead to a more fine-tuned targeting of the offering, if you for example position your offering as the most economical, safe, luxurious, high-performance, environmentally friendly, etc..

Customers are different, and no company can provide a superior solution for every customer. A marketing strategy based on careful and sensible segmentation, targeting and positioning (STP) answers the question of whom the company is trying to provide the best possible solution for - which in turn creates the conditions for the company to attract a customer.

When putting their marketing strategy into practice, the company still has to address tactical issues that can be perceived as the 4 Ps (Product, Price, Place and Promotion). The first P, that is, the product or service (or combination thereof), naturally plays a major role. The product should redeem the promise that is made to the customer, preferably exceeding the customer's expectations. For example, something that is marketed as a high quality, durable product, should look as if it is high quality and durable, it should come in high quality packaging, and it should probably have the longest warranty on the market. The second P, or price, is challenging in the sense that both the customer's ability and willingness to pay varies from one customer to another - even from time to time. Pricing reflects positioning, that is, the customer expects the highest quality product on the market to be more expensive than competing products and is also willing to pay more for that product. In the short term, it would seem wise to set the price of a product as high as possible, so that as many customers as possible would be willing to pay. However, in the longer term, a slightly lower price may also be the most viable option, if it leads to an increase in the company's market share, if it increases customer loyalty, or if it discourages a potential competitor from entering the market. The third P, or place, is concerned with distribution channels, i.e. about how a product ends up in the hands of the customer. A key consideration with reaching your customer is how many intermediaries there are in the distribution channel. Each intermediary does something valuable from the customer's point of view (e.g. shortens delivery time or provides financing) or does something more efficiently than the manufacturer (e.g. product promotion). On the other hand, intermediaries increase the complexity of the distribution channel, making it harder to control, and increases the distance between the manufacturer and the customer, which may undermine or distort the manufacturer's understanding of the customer's needs. Another key consideration is how many parallel distribution channels the product has. While parallel channels may broaden your customer base, they present a control challenge, and may lead to conflicts due to competition between them - for example, if a manufacturer's online store competes with its retailers, it will have a negative effect on the relationship with the retailers. The fourth P, or promotion, is what most people understand as marketing, that is, how to make customers aware of the company's products and how to convince them that they are worthwhile purchases. In addition to advertising and various campaigns, this decision category also includes sales activities and product related corporate communications. Decisions related to promotion are also tied to positioning, i.e. Mercedes-Benz and Peugeot, for example, reach their target segments through different communication channels, and emphasize different issues in their communications.

Although there are different opinions about where the boundary between sales and marketing is, we can safely say that the closer you are to the actual purchase event, the more it's about sales. Whereas marketing works with groups of customers, seeking to influence a relatively homogeneous demand, sales is done on a more individual level. Through interaction, sales seek to understand the individual customer's need and desire, in an attempt to present the company's offerings so that it stands out from the competition, with the ultimate goal of influencing the customer's purchase decision. We can understand sales through the customer's purchase process, which is represented by the AIDA model (Attention, Interest, Desire and Action). First, you need to get the customer's attention, with the aim of making the customer aware of the company's product or brand. Customer attention can be gained through marketing, but also through other customers, for example. If the company's product seems (to the customer) to meet his or her

perceived need, the customer will be interested, wanting to know more about the product. If the customer is not aware of their need for the product, sales can try attracting the customer's interest through articulating the need. Next, if the customer finds that the product fits well with his or her need, and the image associated with the product is aligned with the customer's values, the interest turns into a desire to buy the product. At this phase, from the sales perspective, you need to convince the customer that, of all the alternatives, this product is the most suitable one for the customer. Although the customer desires a product, you still might have to encourage the customer to act - that is, to make the purchase. At this point the purchase decision can still be influenced by offering (just for you-type) something additional, such as free delivery, or by offering a discounted price, say 10% off the list price if the customer makes the decision now.

The customer may also go through these steps independently and simply "show up at the checkout with the product in hand". However, through sales, a company can "help" the customer advance in their buying process (to the company's advantage of course). This outlines the core of sales work – to identify what stage in the purchase process the customer is in, and adjust your sales effort accordingly

After the purchase, we move on to another important realm in marketing, which is to nurture the customer relationship. A satisfied customer can be much more valuable to the company than the money the customer spends on the initial purchase. A satisfied customer can not only be expected to purchase more in the future but can also bring in new customers for the company by marketing the product they purchased to their friends. In some industries, the value of customer relationships may be very different from customer to customer (for example, a wealthy customer is more interesting to a bank than a poor customer), making it worthwhile to prioritize customer relationships, and focus on nurturing and developing the more valuable ones. However, as a rule of thumb, acquiring a new customer is always more expensive than keeping an old customer.