# Chapter 3
# Building Customer Satisfaction, Value, and Retention

**by** *Philip Kotler*

## MARKETING MANAGEMENT
ELEVENTH EDITION

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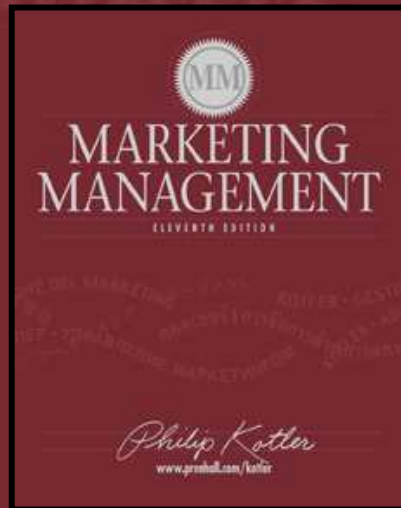
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# Kotler on Marketing

*It is no longer enough to satisfy customers. You must delight them.*
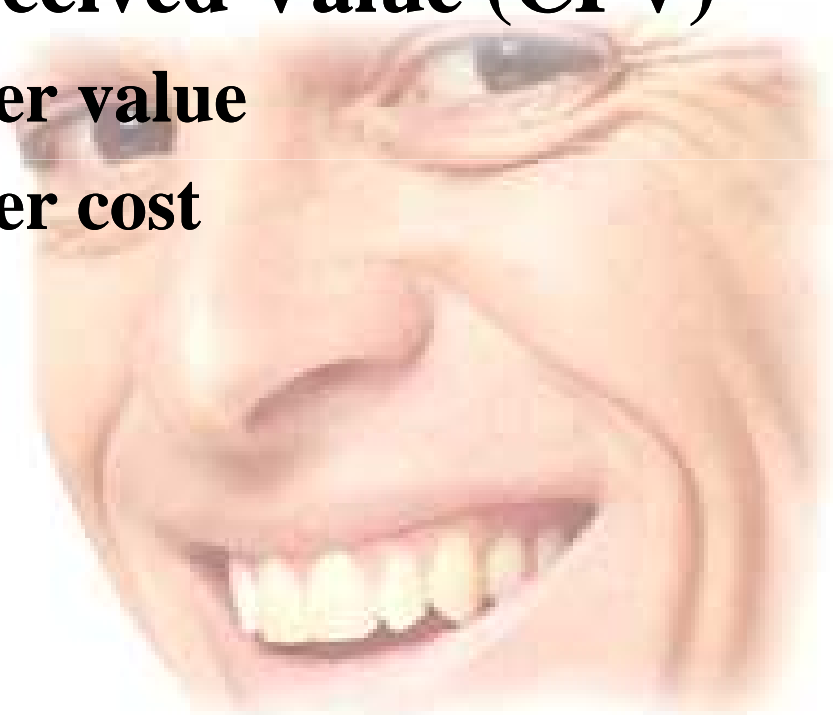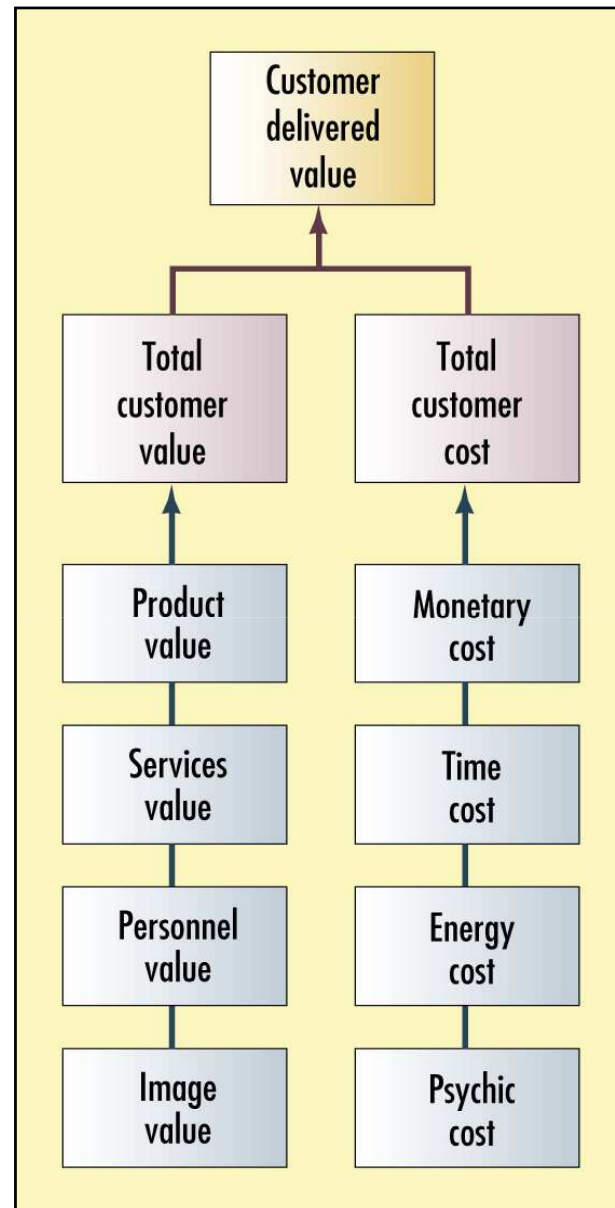
# Chapter Objectives

- **In this chapter, we will address the following questions:**
    - **What are customer value and satisfaction, and how can companies deliver them?**
    - **What makes a high-performance business?**
    - **How can companies both attract and retain customers?**
    - **How can companies improve both customer and company profitability?**
    - **How can companies deliver total quality?**

# Defining Customer Value and Satisfaction

- **Customer Perceived Value (CPV)**
  - **Total customer value**
  - **Total customer cost**

**Figure 3-1: Determinants of Customer Delivered Value**



Customer delivered value

Total customer value | Total customer cost

Product value | Monetary cost

Services value | Time cost

Personnel value | Energy cost

Image value | Psychic cost

# Defining Customer Value and Satisfaction

- **Total Customer Satisfaction**
  - **Satisfaction**
- **Customer Expectations**
- **Delivering High Customer Value**
  - **Value proposition**
  - **Value-delivery system**
- **Measuring Satisfaction**

# Table 3-1: Tools for Tracking and Measuring Customer Satisfaction

| Complaint and suggestion systems: | A customer-centered organization makes it easy for customers to register suggestions and complaints. Some customer-centered companies-P&G, General Electric, Whirlpool—establish hot lines with toll-free numbers. Companies are also using Web sites and e-mail for quick, two-way communication. |
|---|---|
| Customer satisfaction surveys: | Studies show that although customers are dissatisfied with one out of every four purchases, less than 5 percent will complain. Most customers will buy less or switch suppliers. Responsive companies measure customer satisfaction directly by conducting periodic surveys. While collecting customer satisfaction data, it is also useful to ask additional questions to measure repurchase intention and to measure the likelihood or willingness to recommend the company and brand to others. |

*See text for complete table*

# Discussion Question

**Would you feel more brand loyalty for a company that tried to immediately resolve a complaint via E-mail, or a company that had a customer service representative call within two business days to resolve the problem over the phone?**

# Premier Dell.com is a special business-oriented part of the Dell Web site that allows customers to interact with Dell and customize all phases of doing business with Dell.
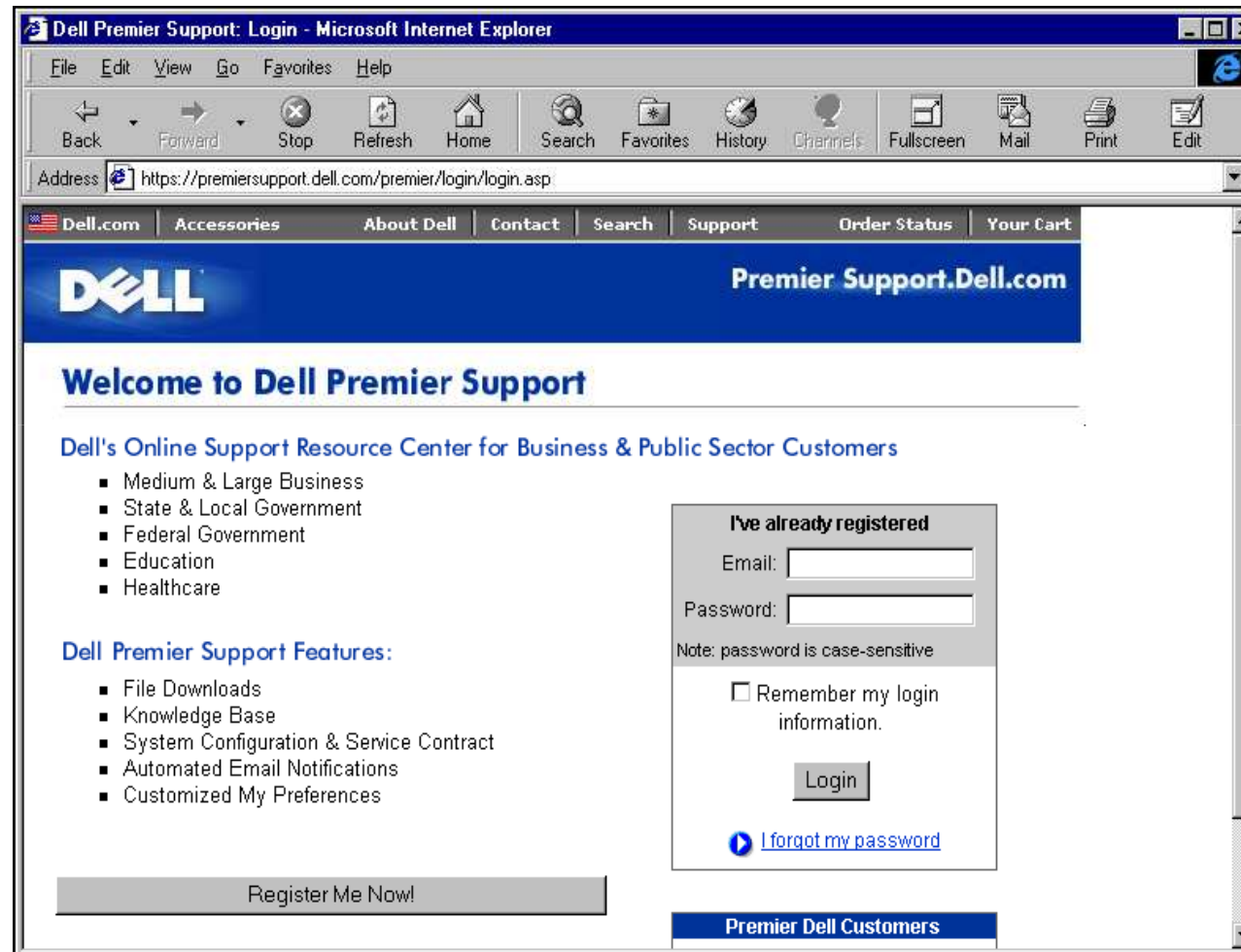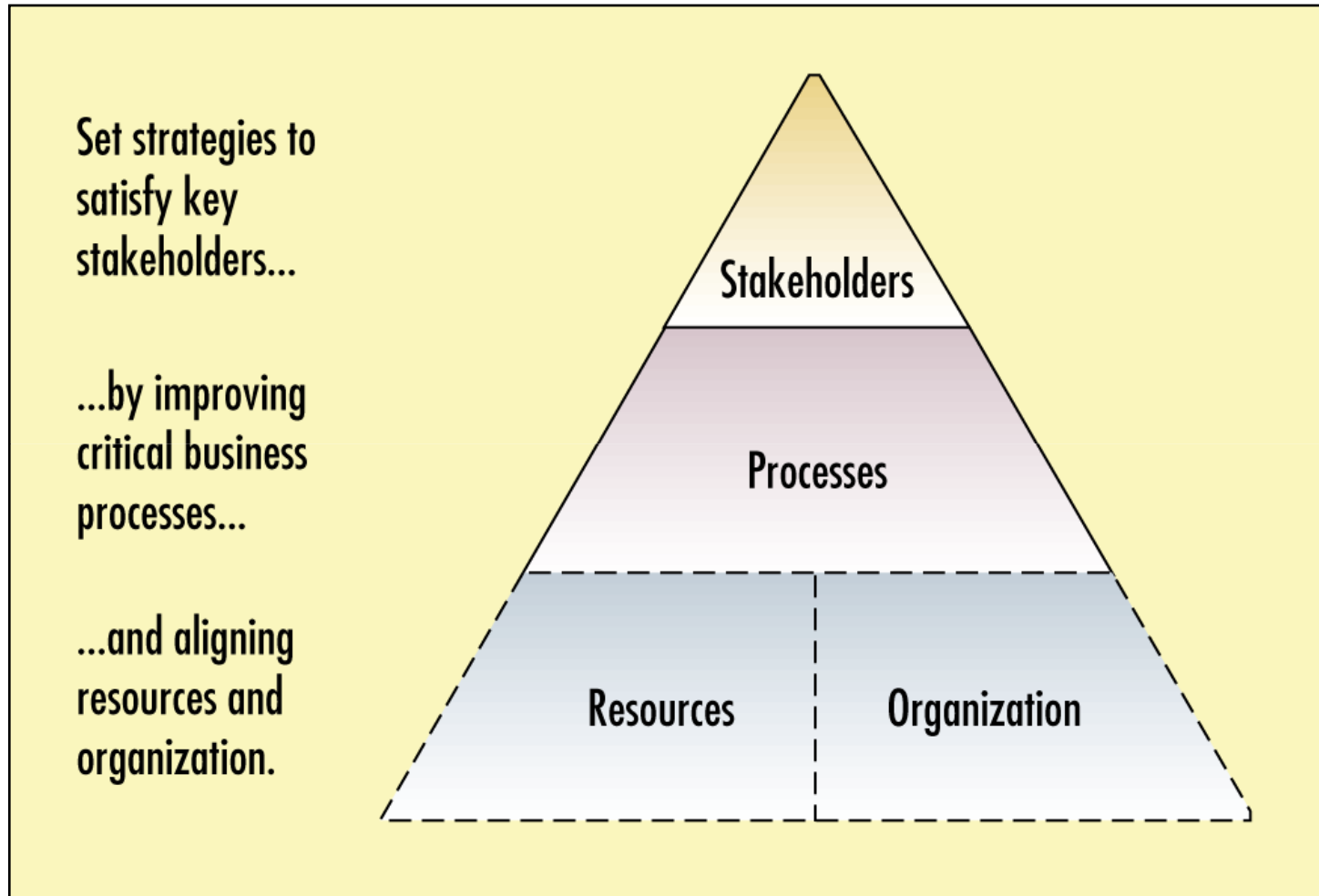
# The Nature of High Performance Business

- **High-performance business**

# Figure 3-2: The High Performance Business

Set strategies to satisfy key stakeholders...

...by improving critical business processes...

...and aligning resources and organization.

**Stakeholders**

**Processes**

**Resources**

**Organization**

# The Nature of High Performance Business

- **Stakeholders**

- **Processes**

- **Resources**
  - **Core competency**
  - **Distinctive capabilities**

- **Organization and Organizational Culture**
  - **Organization**
  - **Corporate culture**
  - **Scenario analysis**

# Discussion Question

Can you name a company that has changed the public's perception of their corporate culture? Has this effectively rehabilitated that company's image?
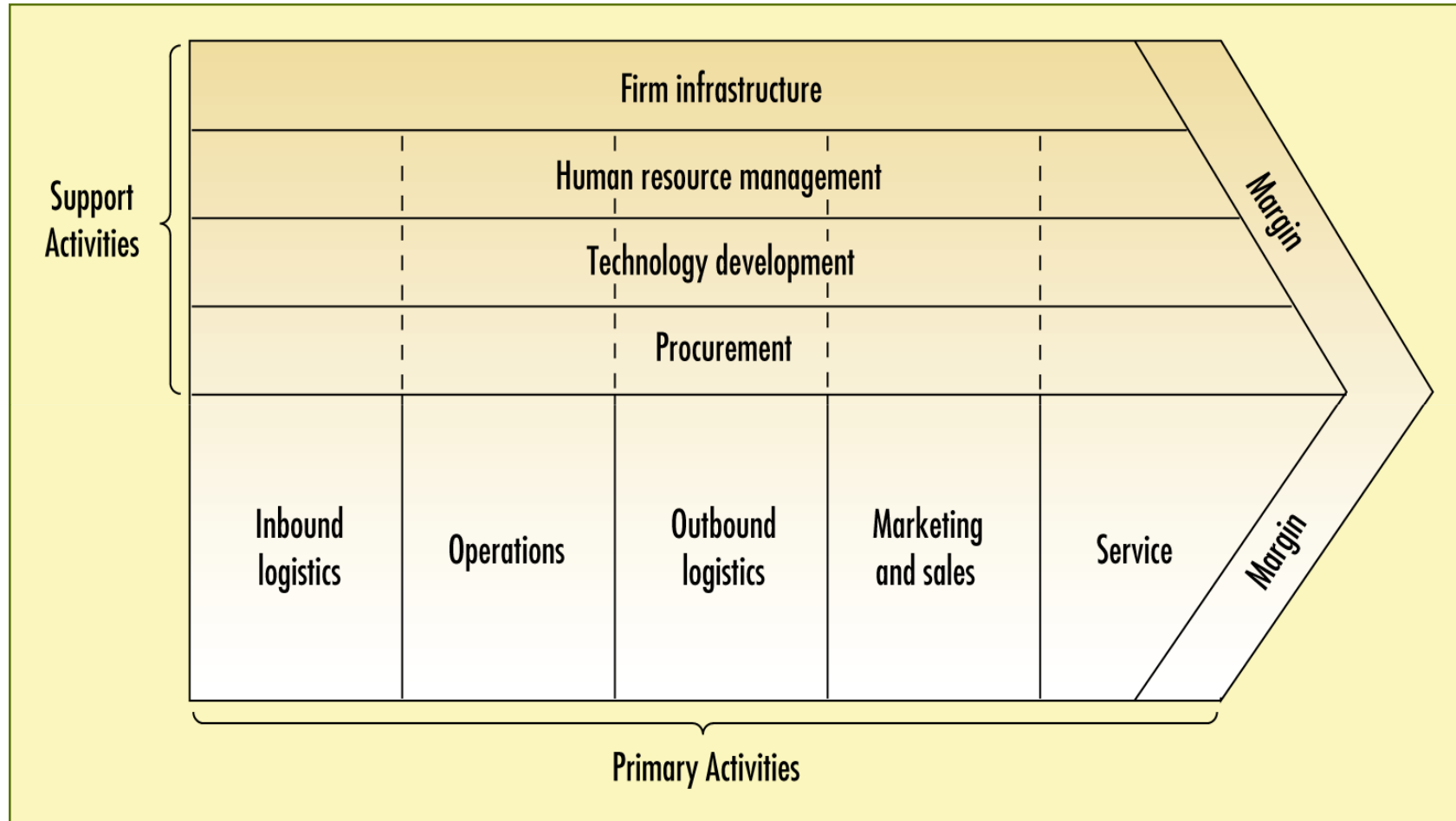
# Delivering Customer Value and Satisfaction

- **Value Chain**
  - **Value chain**

# Figure 3-3:  The Generic Value Chain

| Support Activities | Firm infrastructure | | | | | Margin |
|---|---|---|---|---|---|---|
| | Human resource management | | | | | |
| | Technology development | | | | | |
| | Procurement | | | | | |
| | Inbound logistics | Operations | Outbound logistics | Marketing and sales | Service | Margin |

Primary Activities

# Delivering Customer Value and Satisfaction

- **Benchmarks**

- **Core Business Processes**
  - **The market sensing process**
  - **The new offering realization process**
  - **The customer acquisition process**
  - **The customer relationship management process**
  - **The fulfillment management process**

# Delivering Customer Value and Satisfaction

- **The Value Delivery Network (Supply Chain)**

**Figure 3-4: Levi Strauss's Value-Delivery Network**



DuPont (Fibers)

Delivery ↓ | Order ↑

Milliken (Fabric)

Delivery ↓ | Order ↑

Levi's (Apparel)

Delivery ↓ | Order ↑

Sears (Retail)

Delivery ↓ | Order ↑

Customer

Competition is between *networks*, not companies. The winner is the company with the better network.
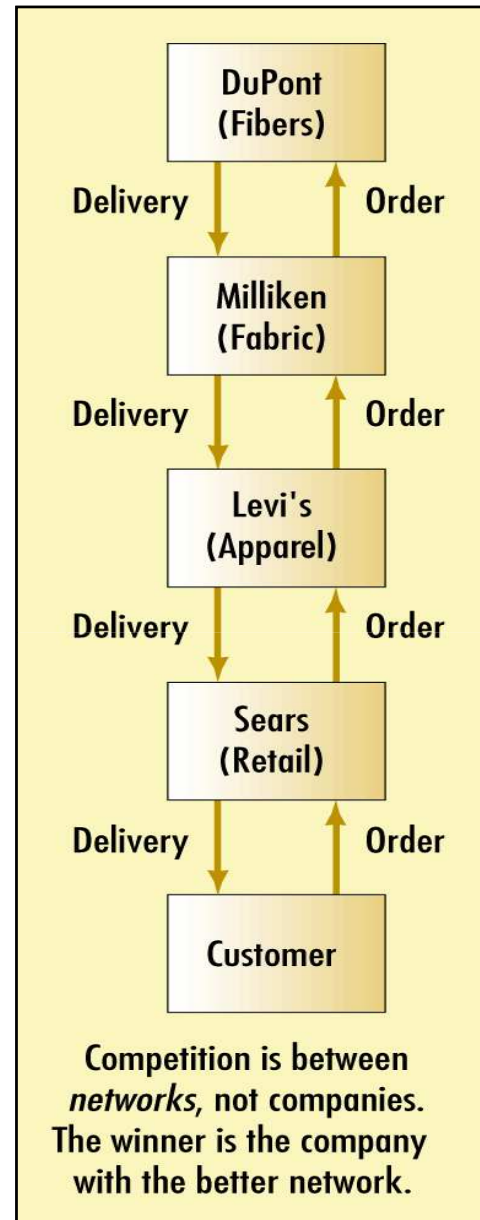
# Attracting and Retaining Customers

- **Partner relationship management (PRM)**
- **Customer relationship management (CRM)**

# Discussion Question

Saturn has gained a customer loyalty rate of more than 60% by fundamentally changing the buyer-seller relationship. Can you think of another company that has made a change of similar magnitude? Have they had similar results?

# Attracting and Retaining Customers

- **Attracting Customers**
- **Computing the Cost of Lost Customers**
  - Customer churn
  - Lifetime value

# On the Lands' End Web site, customers can click a button to talk with a customer service representative
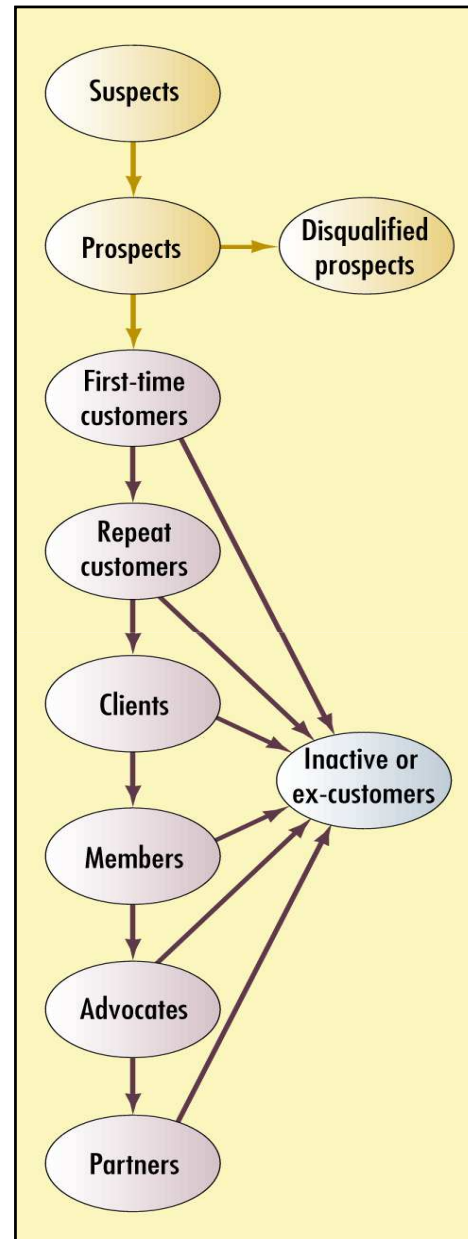
# Attracting and Retaining Customers

- **The Need for Customer Retention**
- **Measuring Customer Lifetime Value (CLV)**
- **Customer Relationship Management (CRM): The Key**
  - **Customer equity**
  - **Three drivers of customer equity**
    - **Value equity**
    - **Brand equity**
    - **Relationship equity**

**Figure 3-5: The Customer-Development Process**



Suspects → Prospects → Disqualified prospects

Prospects → First-time customers → Repeat customers → Clients → Members → Advocates → Partners

(First-time customers, Repeat customers, Clients, Members, Advocates, Partners) → Inactive or ex-customers

# Attracting and Retaining Customers

- **Five levels of investment in customer relationship building**
  - Basic marketing
  - Reactive marketing
  - Accountable marketing
  - Proactive marketing
  - Partnership marketing

# Figure 3-6: Levels of Relationship Marketing

|  | High Margin | Medium Margin | Low Margin |
|---|---|---|---|
| Many customers/ distributors | Accountable | Reactive | Basic or reactive |
| Medium number of customers/ distributors | Proactive | Accountable | Reactive |
| Few customers/ distributors | Partnership | Proactive | Accountable |

# Attracting and Retaining Customers

- **Forming Strong Customer Bonds: The Basics**
  - Cross-departmental participation
  - Integrate the Voice of the Customer into all business decisions
  - Create superior offering for the target market

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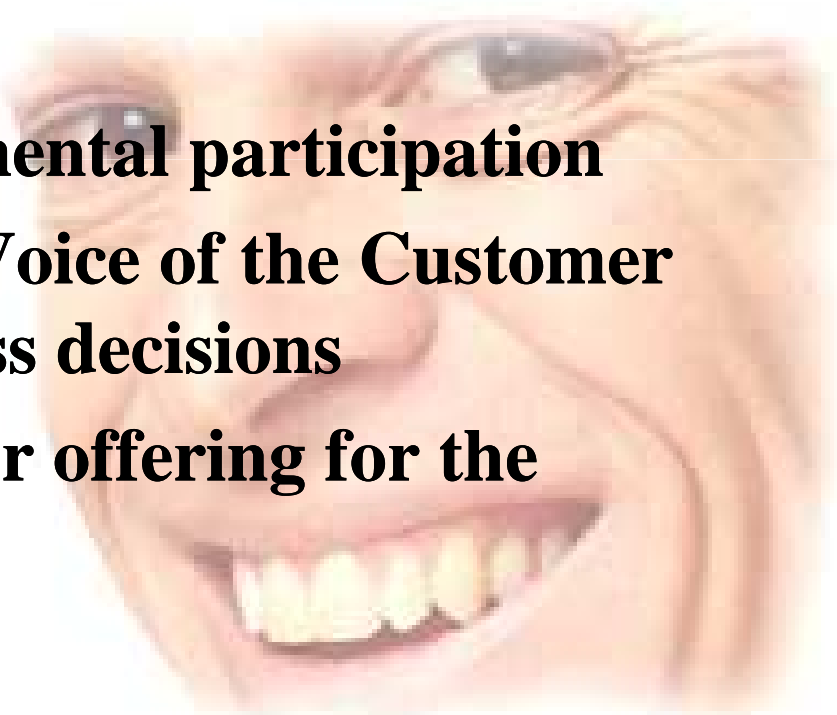
# Attracting and Retaining Customers

- **Organize and make accessible a database of customer information**
- **Make it easy for customers to reach the appropriate personnel**
- **Reward outstanding employees**
- **Adding Financial Benefits**
  - **Frequency programs (FPs)**

# The H.O.G. Web site presents the benefits of joining.

# Attracting and Retaining Customers

- **Adding Social Benefits**

**Table 3-2: Social Actions Affecting Buyer-Seller Relationships**

| Good Things | Bad Things |
|---|---|
| Initiate positive phone calls | Make only callbacks |
| Make recommendations | Make justifications |
| Candor in language | Accommodative language |
| Use phone | Use correspondence |
| Show appreciation | Wait for misunderstandings |
| Make service suggestions | Wait for service requests |
| Use "we" problem-solving language | Use "owe-us" legal language |
| Get to problems | Only respond to problems |
| Use jargon or shorthand | Use long-winded communications |
| Personality problems aired | Personality problems hidden |
| Talk of "our future together" | Talk about making good on the past |
| Routinize responses | Fire drill and emergency responsiveness |
| Accept responsibility | Shift blame |
| Plan the future | Rehash the past |

# Attracting and Retaining Customers

- **Adding Structural Ties**
  - **Create long-term contracts**
  - **Charge lower price to high volume customers**
  - **Turn product into long-term service**

# Customer Profitability, Company Profitability, and Total Quality Management
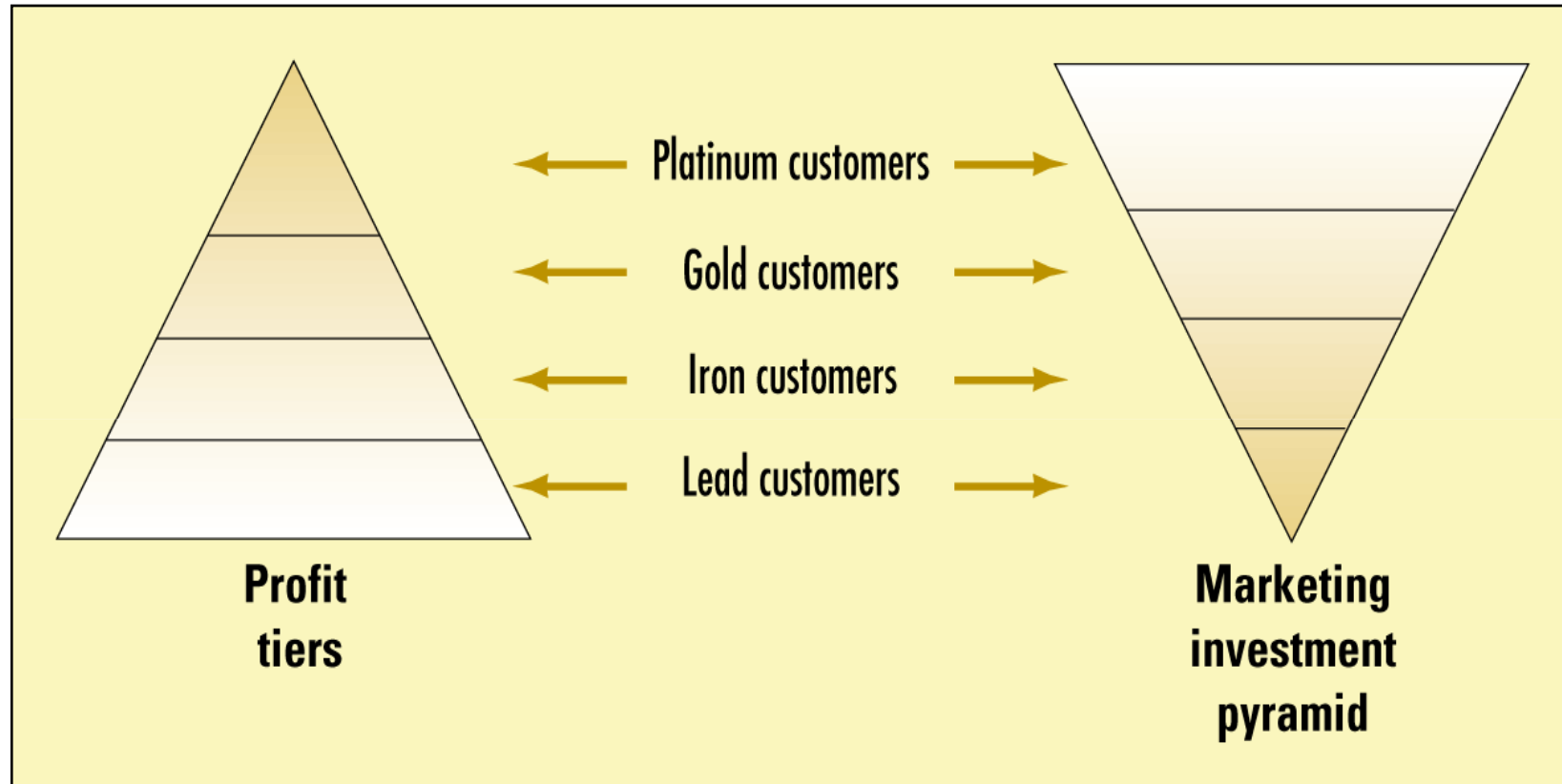
- **Measuring Profitability**
  - **Profitable customer**
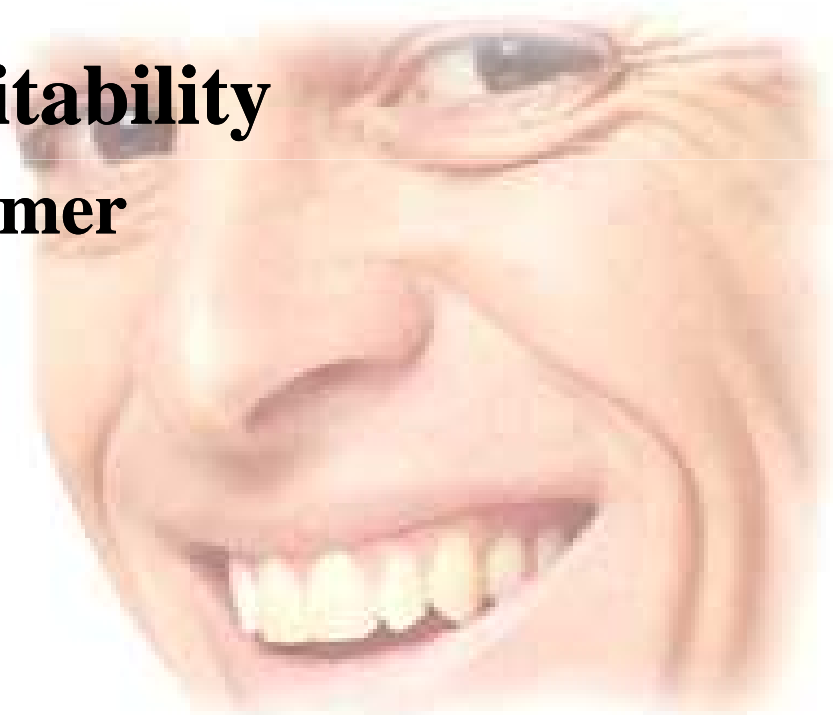
# Figure 3-7: Customer-Product Profitability Analysis

| Products | Customers | | | |
|---|---|---|---|---|
| | $C_1$ | $C_2$ | $C_3$ | |
| $P_1$ | + | + | + | Highly profitable product |
| $P_2$ | + | | | Profitable product |
| $P_3$ | | − | − | Losing product |
| $P_4$ | + | | − | Mixed-bag product |
| | High-profit customer | Mixed-bag customer | Losing customer | |

# Figure 3-8: Allocating marketing investment according to customer value



Platinum customers

Gold customers

Iron customers

Lead customers

Profit tiers

Marketing investment pyramid

# Customer Profitability, Company Profitability, and Total Quality Management

- **Increasing Company Profitability**
  - **Competitive advantage**
- **Implementing TQM**
  - **Total Quality Management**
    - **Quality**