

PART I  
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# CHALLENGES TO THE MARKETING FUNCTION: IMPERATIVE FOR CHANGE

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# NEW CHALLENGES IN MARKETING

## 1.1 THE CHALLENGE: ONE SIZE DOESN'T FIT ALL – QUALITY NOT QUANTITY

### **Intermezzo: A brief evaluation of the term *marketing***

Literature on the subject offers countless definitions of the term *marketing*, while marketing in practice also offers many interpretations of the term. Yet, to expect, let alone formulate, a single, ubiquitously valid definition is simply too much to ask. A historical analysis of the term makes clear that it has come to mean more in both its significance as a commercial function and in its related areas of activity.

While at the beginning of the twentieth century the terms marketing and sales were still considered synonyms, the part of that definition that involved sales gradually incorporated the tool of advertising in its broadest sense. The backdrop for this development was the change from comparatively static supply-driven markets to increasing competition as early as in the 1930s. The most significant contributions to marketing theory at that time were made in the United States.

It was not until the economy had revived after the Second World War that the marketing function, which had taken a back seat to production for so many years, was able to reaffirm itself as an independent business discipline. During the economic prosperity that developed in numerous countries on both sides of the Atlantic, and the emergence of the *marketing mix* (4 Ps: **P**roduct, **P**rice, **P**romotion, **P**lace), the term *marketing* gained further in complexity and breadth.

As part of the discourse on *market-oriented management* in the 1980s, the primacy of an economic theory that was predominantly production-oriented and focused on individual transactions was replaced

by a new perspective that emphasized the customer relationship. This approach to marketing focuses less on completing individual sales, but more on a systematic and lasting relationship with the customer (relationship marketing, Stevens *et al.* 2006).

In its most recent definition of marketing, the American Marketing Association (AMA) broadened and vitalized the term accordingly:

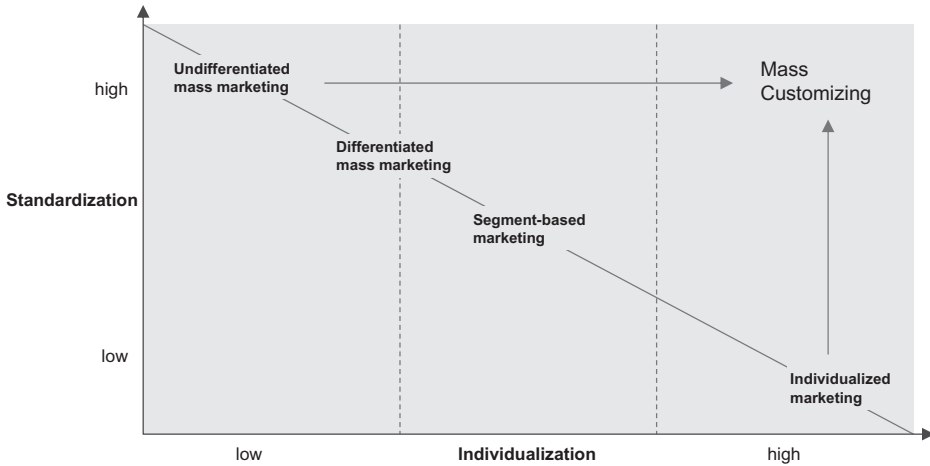
*Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.*

In recent years, relationship marketing has been summed up by the term *Customer Relationship Management* (CRM) – due in no small part to the inclusion of modern IT systems. It should be mentioned, however, that in everyday business language, CRM often only refers to software applications that can support systematic, lasting relationship management. This is too limited and offers further options for developing our understanding of marketing in the future.

Ideally, a definition of marketing that is suitable for the present day would include an *activity-oriented* component (the activity itself), a *relationship-oriented* component (the result of all customer interactions and activities), and a *management-oriented* component (the focus of all company activities) – and each component would change its meaning and form depending on context. After all, for marketing activities to be successful *outside* a company, conditions have to be suitable *inside* the company (e.g. organizational structure and coordination mechanisms along all required processes). They must be designed by everyone involved to form an integral whole if customer relationships are to be developed in an optimal way – this is equally true both for “customer retention” as well as for customer acquisition.

If we use the marketing definitions we have outlined so far as a foundation for analyzing the marketing principles that underlie them, we see that they too have changed a great deal over time. While business marketing activities followed a Mass Marketing principle until the 1960s, it was replaced by a *target group-based approach* in the form of Direct Marketing no later than the 1970s. Beginning in the early 1990s, concepts of *Database Marketing*, which features a strong focus on databases and analysis systems, alongside modern information techniques (together increasingly summarized under the term *Customer Relationship Management* – CRM), have been discussed and implemented to facilitate a comprehensive, highly standardized, yet simultaneously individualized approach to customer management (“Mass Customizing” – Diller 1999, 2001; Seybold 2001 – see Figure 1.1).

Consequently, CRM means improving customer loyalty and profitability in terms of both acquiring new customers and optimizing existing customer relationships. While

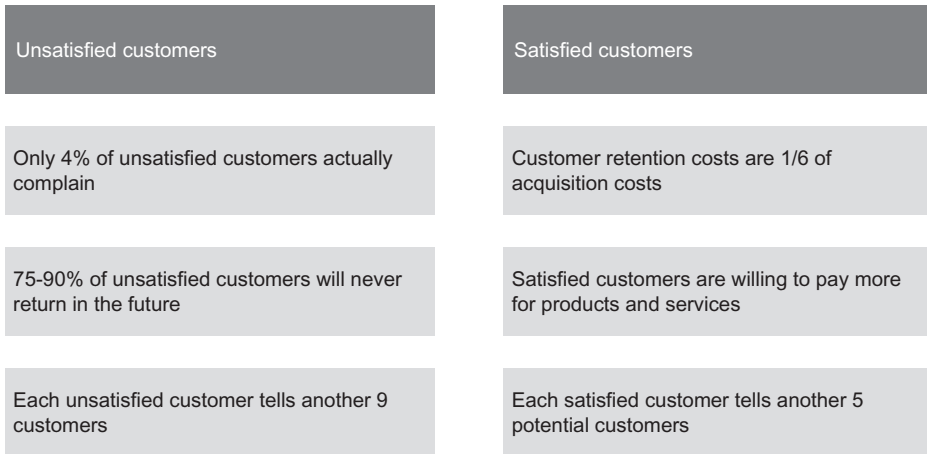


**Figure 1.1** Stages of development of marketing concepts (Jung & Wiedmann 1998; reproduced by permission of Wilde & Hippner).

traditionally structured marketing tends to concentrate on generating sales in the short-term market shares and unidirectional customer information, the relationship-based approach focuses on establishing long-term business relationships, knowledge of individual customers and interacting with customers. The focus on individual transactions discernible in part is replaced by an emphasis on business relationships. The expression *share-of-wallet* is used to indicate that selling the largest possible quantity of product to a buyer (in some cases by means of aggressive advertising) is far less important than finding out as much as possible about a buyer’s problems and needs in order to offer appropriate solutions and ultimately to gain a large “share” of the customer’s “wallet” by becoming the customer’s problem-solver of choice (Seybold 2001).

The reason for the increase in focus on the customer comes from the realization that *dissatisfied customers* are usually gone for good and, more importantly, they can have considerable negative repercussions on their respective market. Retaining satisfied customers, on the other hand, requires far less expenditure and resources than customer acquisition and opens up the potential for additional sales (known as *cross-selling*, see Figure 1.2).

Numerous studies show that customer satisfaction is less a result of one specific interaction with a company, and more the outcome of the entire business relationship (Homburg *et al.* 1999). At the heart of the matter is the comparison between what the customer actually experiences when a service is rendered and the customer’s particular standard for the service (what the customer expects). If the customer perceives that the ACTUAL service is (approximately) equal to the expected level of the (expected) TARGET service, his existing expectations will have been met (known as *confirmation*). The opposite case leads to a satisfaction level that is below expectations. A high degree of customer satisfaction has a positive effect on customer loyalty – besides purchasing again, those customers may also purchase other items (cross-selling and up-selling) or promote the company or product by making a recommendation to people they know.



**Figure 1.2** Comparing the impact of satisfied and unsatisfied customers (Strauss & Schoder 2001; Homburg *et al.* 1999; Tiwana 2001).

The strength of the relationship between customer satisfaction and customer loyalty depends largely on the following critical factors (Coyles & Gokey 2002; Schnaars 1998):

- Features of the business relationship (such as how long the relationship has existed);
- Customer-specific features (such as the level of risk with which they are comfortable);
- Product features (like product complexity and product introduction expenditure);
- The intensity of competition.

The effect of the Internet on customer satisfaction and customer loyalty has been discussed in a wide variety of ways in recent years. The fact that more and more people are using the Internet and the specific characteristics of the Internet itself allow for an efficient, more affordable implementation of the CRM-based approach – by collecting basic customer data and addressing customers individually and interactively with personalized websites and e-mail, for instance. Customers can use advertising on the Internet to communicate with companies directly, without switching media. In terms of customer loyalty, however, the Internet can be a double-edged sword. On the one hand, individualized, interactive customer relationships can improve customer retention. On the other hand, the transparency of information and the direct availability of alternative offers as well as (manufacturer-independent) comparisons of products and prices can reduce customer loyalty. Consequently, the intensification of Internet-based competition generally results in a broader range of alternative offers, which in turn leads customers to refine their expectations of the products offered by providers in an industry sector (Strauss & Schoder 2001).

With this in mind, many companies have tended to view the Internet as a means of accelerating a downward trend in customer loyalty (Strauss & Schoder 2000;

Seybold 2001). Increased company activity online heightens the customer experiences related to online business, which is often considered to entail a further loss in customer loyalty. The only effective way for a company to retain customers in the intensely competitive environment of the Internet is by addressing customers on an individual level and using innovative services and comprehensive information to raise the *retention effect* of the Internet above the *loss effect* brought about by attractive offers from other providers. Studies show that a high degree of interchangeability of the services offered by different providers can, at least in part, be compensated with stable distribution structures (and consequently stable customer relationships, as in the case of insurance providers) and the (technical) uniqueness of products (in areas such as chemicals and pharmaceuticals – Strauss & Schoder 2001). There is also the option of working closely and networking with the customer, and involving them, for instance, in product development and the overall value chains of the company, particularly in the B2B area (Fleisch 2001; Strauss & Schoder 2000).

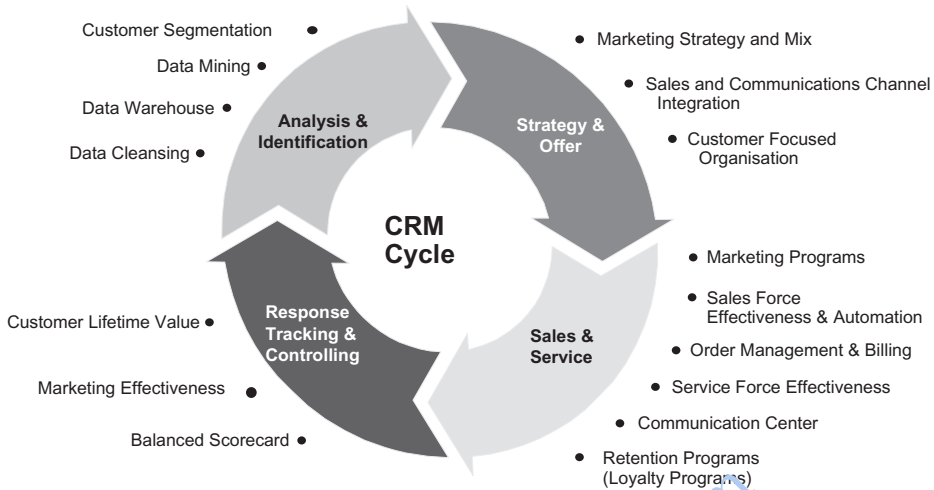
**Amazon.com** has managed to generate long-term customer loyalty. At the heart of its success is quick, free delivery (even for comparatively low order values) and a very large selection, combined with the technical sophistication of personalized lists of recommended products and “1-click ordering”, which saves customers a great deal of time. After the first purchase, the system “recognizes” a returning customer, welcomes him or her by name and allows easy ordering of every single product with a single mouse click, without requiring any other activity or data entry.

Other companies have integrated forums into their Internet presence for this purpose, such as the agricultural group **BayWa** with its *Farmers Forum*, where in-house experts answer questions on products and applications and chat about new developments in biology, chemistry, and technology.

The pharmaceuticals corporation, **Fresenius**, offers customers visiting its website a “guided tour” with experienced employees in the role of “tour guide”. These company representatives not only introduce online guests to the most important pages of the site, but also provide their contact information to answer any questions the visitors may have. This has resulted in an unequivocal increase in Internet customer loyalty.

## 1.2 THE CHALLENGE: CRM – FROM THE BUZZWORD TO SYSTEMATIC CUSTOMER MANAGEMENT

Ideally, CRM allows companies to optimize customer relationships with the retrieval of real-time customer information and a continual innovation cycle induced by markets and customers for products and processes (Muther 2000; Seybold 2001; Peppers & Rogers 1997; Sterne 1996). In a standard CRM process, customer feedback and



**Figure 1.3** CRM cycle (Strauss & Schoder 2001).

additional customer information (e.g. from after-sales support) form the foundation for better customer understanding, which in turn can be used as the basis for better marketing and sales activities.

It is common to reduce CRM concepts to the immediate customer interface (e-mail marketing, call center integration, training for sales personnel, creating innovative websites), but a wider understanding of the term shows that such an approach is insufficient. Traditional approaches from marketing and sales form the foundation for CRM, further supplemented by technologies such as data mining and sales support applications with web access (known as “Sales Force Automation”).

The development of sustainable customer relationships can be described in the form of a **CRM cycle** as a long-term, revolving process. The initial emphasis lies in knowing (*analyzing and identifying*) existing customers (Figure 1.3) and their needs. A technical platform based on a *data warehouse* as well as various applications, such as *error-tolerant synchronization tools* and *data mining* are available for that purpose (Wieken 1999; Mena 1999). Such tools use existing customer data to enable users to draw conclusions about customer profitability, preference models and the likelihood of customers to switch to another provider (called “churn”, Seybold 1998).

As the example of **BMW USA** ([www.bmwusa.com](http://www.bmwusa.com)) illustrates, data from existing customer relationships can be combined with information about potential new customers as part of a comprehensive approach. BMW aggregates customer data from every customer interaction (such as use of the online product configurator, participation in vehicle presentations and product consultations) and analyzes it in terms of purchase probability. Customers classified as potential buyers receive personalized information in the form of e-mail, direct mail, invitations to special events at dealerships, etc. After a sale is completed, the cus-

tomer evaluates the dealership, vehicle delivery and all related purchase experiences. This evaluation is then added to a database with existing customer data. As a result, it is reported that the purchase probability for that customer group tripled (Strauss & Schoder 2001).

Marketing professionals can use their knowledge of the existing market and customers to develop and position specific customer offers (*strategy and offer*). The emphasis here should be on developing a market strategy and integrating the various distribution and communication channels. Different ideas need to be worked out for conveying the advantages of the service being offered, structuring customer preferences with regard to products and services, and addressing different customer interests. The systematic, permanent, flexible development of specific customer offers nearly always requires an immediate adjustment of existing organizational structures and processes in the context of reorganization and training; this is usually referred to as *customer-focused organization*.

These concepts are implemented in sales and service to include all customer interfaces. Sales information systems include functions such as customer analyses, deadline monitoring, scheduling shipments, sales forecasts, support for offer creation, and sales profitability checks. Insurance providers, for example, use what are known as sales support systems to calculate complex insurance products as well as to train internal sales associates. The sales process is complete when order data and customer data have been integrated into existing systems for billing and order management. Services that take place after the sales process has been completed include loyalty programs, measures to improve the effectiveness of the service organization, or services that use a communication center. A *communication center* or *interaction center* is a call center that has been enhanced to accommodate Internet applications.

A call center agent, like the agents active in the added value telephone services of **Deutsche Telekom** ([www.dtag.de](http://www.dtag.de)), can assist customers by opening the same web page that the customer is viewing and help them to enter any missing information or answer their questions (known as *browser sharing*).

Design options for a CRM cycle with telecom support range from simple contact person qualification to systematic, permanent customer support in *Telecoverage* to *Tele-sales* and simple *Tele-Partner Support* concepts (Figure 1.4).

Whereas the term *Telemarketing* includes activities in the areas of data qualification, contact person qualification and qualification of specific potential buyers (known as *lead qualification*), the term *Telecoverage* involves the systematic, permanent support of customers via telephone and support for company–internal partner management in the sense of an internal telephone sales team (Naudi 2003). *Tele-Partner Support* comprises all activities for active sales support and partner tracking as well as support services in the form of an internal sales team (as a sort of outsourced function) for partners. This

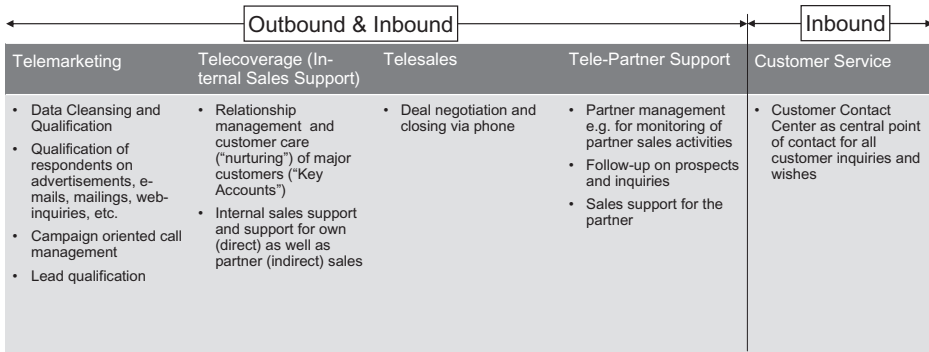


Figure 1.4 Different forms of Telemangement.

includes contact qualification for partners through the respective company. All Telemangement functions can be deployed *inbound* (reactive, initiated by customers or partners) and *outbound* (active, initiated by your own company) (Krumm & Geissler 2005). A Customer Service Center is usually understood to be the central channel for incoming calls for (reactive) processing of customer inquiries, such as those in response to marketing campaigns. The Telemangement tool outlined here, however, is not meant to be exclusive. Depending on how internal processes, customer categories and market segments are structured, Telecoverage functions can also be used to cover Telemarketing tasks, such as in the business-to-business segment (B2B), when generating qualified leads for larger key accounts. The following criteria should be used when selecting and designing Telemangement functions:

- **Customer relationships:** Maintaining existing customer relationships, as performed by Telecoverage agents, for example. Case studies in the B2B area clearly demonstrate that changing telephone contact persons causes an above-average drop in customer retention and willingness to make subsequent purchases.
- **Qualifications:** Qualifications of agents to process individual tasks. This includes a wide range of activities, from simple data qualification in Telemarketing which requires a relatively low level of qualification, to more complex inquiries regarding products and sales in Telesales which require the relevant level of product knowledge and skills.
- **Resource situation:** The quantity of resources present in a specific task area, derived from detailed planning of required telecom capacities during campaign planning, for example.

The term *customer retention*, one of the essential concepts in CRM, subsumes classic customer retention programs such as loyalty points as well as web-specific retention measures such as actively designing online communities (Seybold 2001). The CRM cycle allows us to integrate customers to a point where they are even involved in product development, as in web-based *electronic product clinics*, where customers can test and evaluate products before they come on the market (Chesbrough 2003, 2006; Ulrich *et al.* 2003).

**Fiat** ([www.fiat.de](http://www.fiat.de)) got customers virtually involved in the product development process when it was developing the *Punto*. Using a variety of designs and fitting options, customers could put together and see their ideal car. Within three months, Fiat received more than 3,000 responses, which it used in the development process (Bliemel & Fassott 2000).

With **IdeaStorm** ([www.dellideastorm.com](http://www.dellideastorm.com)), **Dell** maintains and manages a community that has contributed almost 9,000 ideas to date, which serves as a discussion platform where innovative customers can engage in a dialogue with Dell experts. Through collaboration with their customers, companies like Dell are able to cultivate an external information and human capital resource that participates in the company's value creation with the same enthusiasm as the company does itself (Schoder *et al.* 2008).

A prominent example for co-innovation jointly with customer has been established by **BMW**, which receives more than 1,000 innovative ideas from its customers per year without any further promotions or advertisements. The "Customer Innovation Lab" offers each customer, employee as well as further interested persons the possibility to insert ideas in an easy way and post them for further discussions. All proposals following the theme on "How to further enhance my BMW car?" will be valued through an internal expert team.

**Webasto AG**, one of the world's leading suppliers of sunroofs and heaters for the automobile industry, involves end customers directly as partners in product development. Their collaboration ranges from simple customer input and classic market research to lead user workshops and the integration of Internet communities (Lang & Reich 2008).

Most recent approaches in Japan even go so far as to give registered members the opportunity to test all sorts of products (cosmetics, ketchup, etc.) in a **Sample Lab** ([www.samplelab.jp](http://www.samplelab.jp)) and take home the ones they like. The opportunity to test products before purchase appeals to customers, while the opportunity to receive diverse customer feedback, usually before the products are available to the general market, appeals to manufacturers. Similar approaches are used in England, where *Brand New You Tube* sends cosmetics to consumers for them to test at home ([www.brandnewyoumagazine.com/bnytube](http://www.brandnewyoumagazine.com/bnytube)). Consumers are then asked to provide detailed feedback on the products.

The range of activities outlined here for the CRM cycle extends to *complaint management* (Stauss & Seidel 1998; Pepels 2001b). Sales and service include applications that support customer-focused business processes (such as those for automating marketing, sales and service), as well as the entire control, support and synchronization of all channels for communicating with the customer (e-mail, web, telephone – Hippner & Wilde 2001).

After sales and service has been implemented, the measures it introduced are checked (response tracking and controlling) – for example, by calculating the value of the customer throughout the customer relationship (known as *customer lifetime value*) or by means of a more comprehensive evaluation as part of a *balanced scorecard* procedure. This check allows us to collate all the experiences in the cycle and plan additional measures (Peppers & Rogers 1999). The results of this phase should be entered as additional customer information and retained for other measures in the CRM cycle. This analysis of all marketing activities along defined key performance indicators (KPIs) allows conclusions to be drawn about which of the marketing activities performed – some of which may already be established company practice – are actually bringing about the desired results, and which of them need to be stopped immediately.

After **Continental Airlines** narrowly escaped bankruptcy, it moved in a new direction that focused on collecting better information about the profitability of individual customers. Part of this involved generating data about how passengers were treated when their flight experienced a long delay, when they were bumped off a flight, or when they were negatively affected in some other way during their journey (Oldroyd & Gulati 2005).

The first insight gained from this CRM project was anything but positive. It revealed that customer support was disorganized, wasting millions of dollars each year. For instance, check-in personnel acted arbitrarily when providing compensation for delays and other deficiencies. One alarming revelation was the fact that, on average, customers who brought the company the *least* profit received the *most* compensation. In some cases, “stranded” passengers had even succeeded in receiving compensation more than once for the same incident. Customers who had been bumped from their flight received one voucher for a free flight from the check-in staff at the airport, and a second voucher when they called customer service to complain. Agents at the call center had no way of knowing that those customers had already received compensation at the time of the incident (Oldroyd & Gulati 2005).

Continental began viewing its customer information holistically; they gathered all data relevant to customer contact in a central database, then consolidated and analyzed it. This enabled them to provide the same kind and amount of compensation for delays and similar inconveniences. When a passenger receives a voucher for a free flight from the check-in staff at the airport, the occurrence immediately appears in the database along with all other information about that customer. Even if the customer calls the airline’s customer service center immediately after making a complaint at the airport, the person will not receive a second voucher.

Compiling customer interactions in a centralized database also provided a much more sophisticated platform for subsequent measures.

In the mid-1990s, Continental Airlines had 35 to 40 US and another 50 international databases. A good half of these were intended for managing customer data, though almost all of them contained other important data about customers and transactions. The CRM project led to all the databases being consolidated into two. One was for usable information about customer relationships (customer analytics) and data modeling, and the other was for company data relating to order processing.

In the past, having various databases often meant having various answers to a single question. Even the simple question of “which customers were most profitable for Continental?” could not be answered conclusively. The answer varied, depending on whether the calculation basis was the number of miles flown or the ticket price. As a result of consolidating the customer databases, the calculation now includes both the number of miles flown and the ticket price and consolidates them in a unified customer value model.

The group of analysts at Continental also use feedback from 49,000 customer service representatives for continuously forming new hypotheses and pre-defining new measures. Their purpose is to maintain and expand the company’s customer base. Dialog takes place during think tank meetings and training events led by project coordinators from marketing. The job of these marketing experts is to determine measures for improving customer focus at Continental. During these meetings, air traffic controllers, managers and flight attendants from domestic and international operations share their experiences. The marketing team responsible for customer focus then passes the information on to model developers. They, in turn, modify and improve their forecast models, hypotheses and interventions based on the customer database (Oldroyd & Gulati 2005).

This type of workshop has proved to be very successful for Continental and has already produced more than 600 suggestions for how customer data can be used to improve service quality. One suggestion, for example, was to expand the database of information that *President’s Club* personnel have for frequent flyers to include such information as customers’ favorite drinks.

One of the tests Continental performed involved different options for responding to customers who had been inconvenienced while traveling – by a delayed flight, for example. Customers in the control group received no response whatsoever from the airline. Some customers received an apology letter from the CEO, others received a letter and a voucher for a free flight, while others received a letter with a pass to the company’s *Club Lounge*. Subsequent buying behavior was then evaluated for each group. The result was as astounding as it was simple. Although all (active) interaction with these customers was beneficial, the *Club Lounge* response was just as effective as the other, far more costly options (Oldroyd & Gulati 2005, reproduced by permission of Harvard Business Manager; Seybold, 1998).

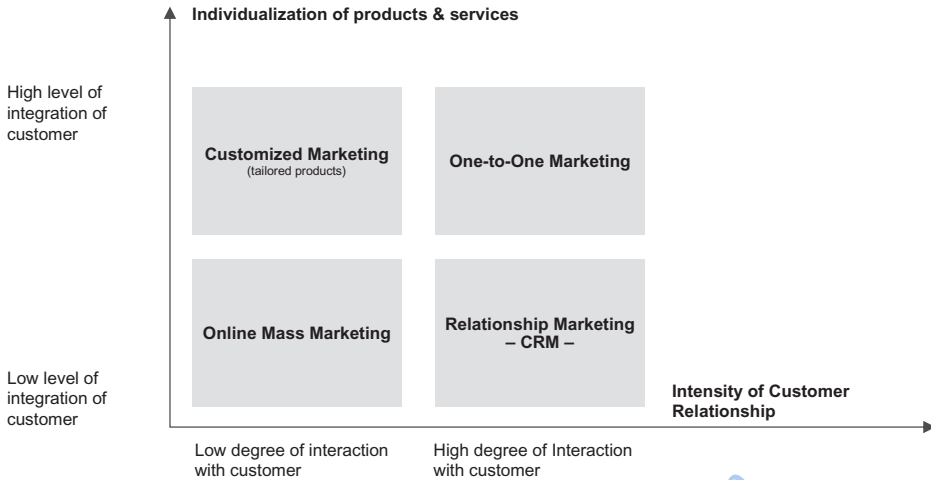
### **1.3 THE CHALLENGE: FROM THE MASS MARKET TO ONE-TO-ONE**

#### **1.3.1 The Goals and Problems of Individualization**

In the eyes of many CMOs, after direct marketing and telephone marketing had prepared the way, it was the Internet that ultimately broke down the barriers for businesses to individualize how they address target groups. Numerous studies predict a steady trend toward individualization in all areas of life and also for the near future. This is due to a growing awareness of quality and function, which demands products that meet specific consumer expectations, as well as a growing desire on the part of consumers for product variety (known as *variety seeking behavior*). As a consequence, many providers have been forced to employ marketing that addresses consumers on a more individual level or offer a more diverse range of products even to the point of made-to-order. Commensurate with this trend, sales markets are constantly becoming more segmented. Ultimately, many companies will be faced with the challenge of addressing and processing customers individually (Piller 2006; Schnäbele 1997).

Individualized services have traditionally been associated with an increase in revenue resulting from the added value generated by a solution that is tailored to a customer's specific needs (Kleinaltenkamp 1995). However, a number of competition factors prevent a company from being able to respond to fragmenting sales markets and the trend toward individualization simply by using the classic strategy of differentiating itself by means of variety or offering individualized services and communication – combined with a *premium price*. Challenges such as pricing pressure due to overcapacity, smaller and smaller differences between competitors in terms of technology and quality, and ever-increasing competition from abroad as a result of recent developments in IT all lead to growing market pressure that has changed many industries from sellers' markets to buyers' markets where consumers are in a much stronger negotiating position. The relationship between price and performance is also shifting. Even at low sales prices, consumers have relatively high demands with regard to quality, service, variety and functionality, or, conversely, in the case of products with a high degree of differentiation, they have very specific additional requirements that must be met within a certain budget (Kaluza 1996). The solution to this area of tension has been to replace small-scale individualization at premium prices with *mass individualization* at costs and prices that are approximately equal to those of standard products already available, while at the same time offering a higher degree of interaction with individual customers (McKenna 1997; Pine *et al.* 1995; Mayer 1993). See Figure 1.5.

Since the beginning of the 1990s, more and more companies have been turning away from classic mass production and segment-based marketing and opting instead for an *individualized approach*. This approach is based on perceiving all customers as independent market segments and serving their needs accordingly, both in marketing and in service delivery. Consequently, individualization has a bearing on the fields of marketing (one-to-one marketing, Peppers & Rogers 1993) and service delivery (*Mass Customization* – Pine 1993; Schnäbele 1997). In both cases, the starting point of individualization is determining what customers want and transferring those needs into specific marketing activities or product and service specifications, which makes it



**Figure 1.5** Intensity of customer relationship and individualization of range of services (Strauss 2008; Link & Hildebrand 1993).

absolutely necessary to increase the intensity of the information exchange between providers and customers.

The basis for individualization is a customer database for saving, analyzing and supplying all available customer data. The permanent collection of customer information builds on this type of customer database, leading to a continuous process of learning and adjustment in marketing and service delivery (known as a *learning relationship* – Peppers & Rogers 1997). On the one hand, CRM, as an approach to systematic relationship management, prepares the foundation for subsequent individualization, while, on the other, individualization is a natural, consistent form of CRM implementation.

**Cortal Consors**, as a “customer-driven investment bank”, is an organization built around its customers. Each week, they check the assignment of customers to different customer group segments using an analytical process. Customers whose behavior and profile have changed are moved to a customer segment that better suits their profile. The only thing customers in this learning relationship see is that they are receiving service that best supports their activities – keeping with the company’s own motto for customer focus in terms of “*knowing what the customer wants without asking them*”. Using sophisticated mathematical and statistical procedures based on high-quality, comprehensive customer data, the company can put together an extensive customer profile. In this comprehensive CRM model that includes analytics, marketing, sales, finance, call centers and IT, information technology helps to address and support customers at an individual level. The sales channels Cortal Consors uses are investment advisers (in the field), call

centers and an online portal. This makes each of its customer support units a multichannel unit. Maintaining customer data is a task shared by everyone who has contact with customers. A structured authorization concept controls who is responsible for maintaining specific data records and who can use specific customer information. With “customer intelligence”, a new customer’s registration data can be used to assign them to an appropriate customer segment group. In this way the customer receives the best possible support from the very beginning (Alvarez *et al.* 2006).

The decisive factor for aggregating customer knowledge is the interaction between a data warehouse and the operational customer database in the CRM system. Call center agents proactively receive customer value reports that contain asset classes as well as soft factors such as estimates of how willing the customer might be to buy other products. The likelihood of individual customers switching to another bank is also forecasted. Customer data queries are supported in real time so that call center agents can immediately retrieve all the information about a customer in the event of a call (Martin 2006; Strauss 2008).

Last year the lingerie brand **Women’s Secret** had limited insight into the particular shopping behaviors and preferences of individual customers. As with many companies, much of the brand’s marketing and planning was based on overall historical sales and intuition. Competition being what it is, Women’s Secret realized that it needed to offer its wide range of customers a more personalized experience. By learning more about each customer, the company could tempt her with specific offers that matched her spending profile, increasing loyalty, sales and the entire customer base at the same time. As the use of its data warehouse progressed, the group integrated all data in its centralized data warehouse from across different marketing channels, while also introducing analytics to better understand and manage customer transaction behavior. Customers who join the club receive “wow-money” – vouchers equaling 5% of their purchases – which they can use toward future purchases at Women’s Secret for the subsequent year. Additionally, loyalty club members receive a “birthday surprise” on their birthdays, along with other discounts and special offers. *Club WOW* also treats its members to free exclusive concerts, festivals and trips. The data warehouse also allows the lingerie brand to launch timely, individualized promotions based on sophisticated CRM customer event triggers.

Advantages of individualization for the customer result from: saving time when searching for relevant information, the option of storing user experiences, and receiving products that match individual requirements exactly.

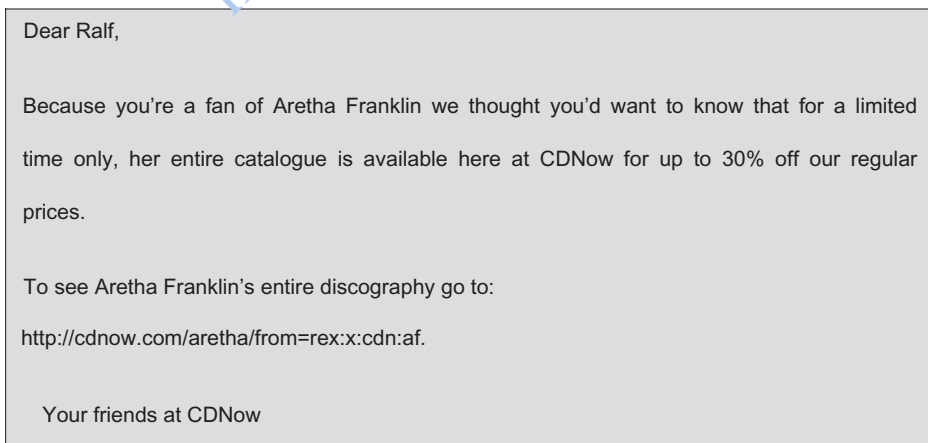
From a company’s perspective, individualization in multifaceted concepts promises (Piller & Schoder 1999):

- Sustainable strengthening of the *competitive position* with increased customer focus and differentiation of the product range *vis-à-vis* competitors, combined with increased revenue;
- *Greater market know-how* by systematically collecting all available customer data and using it for product development and marketing, with the option of in-depth, one-to-one marketing and cross-selling other products that fit the customer's user profile;
- More *targeted placement* of advertising and with it a reduction of losses due to stray ads;
- *Customer-specific solutions*, for which customers may be willing to pay higher prices, compared to standard products at standard prices;
- *Greater customer satisfaction*, which tends to entail greater customer loyalty, results from selectively offering products and services that have been tuned to individual preferences. For example, a screen could include all of the user's previous orders, similar new products, and products that the user has not yet seen but which buyers with a very similar interest profile have found (*collaborative filtering*).

### 1.3.2 One-to-One Marketing

*One-to-One Marketing* involves making all marketing activities customer-centric, with the goal of addressing those customers at an individual level (Peppers & Rogers 1993; Strauss & Schoder 1999b). An example of One-to-One Marketing is the manner in which *Amazon.com* recommends products by showing items that customers with similar product preferences have already bought. Individualized electronic newsletters are also common now, such as the ones sent by online CD stores (*CDNow!*, [www.cdnow.com](http://www.cdnow.com)) that provide recipients with custom content (Figure 1.6).

The emphasis of the offer is added value that “fits”. For example, an offer will present a user with performers and groups that have a similar musical style, or, based



**Figure 1.6** Example of a simple e-mail based on One-to-One Marketing.

on what is known about a music lover's entire collection, an offer will contain the CDs that that person does not yet own, but which would fit right in with the CDs the person already has.

Other ways for implementing mass communication at the level of individual customers include:

- Greeting and addressing customers by name;
- Managing customer-related data, such as credit card numbers and delivery addresses, to spare customers the inconvenience of providing that information each time they place an order.

A new CRM system at **Porsche Cars North America** displays all customer-related information and vehicle histories, which helps to simplify campaigns, mailings and how customer concerns are processed. In the highly competitive automobile industry, the success of a make no longer depends solely on performance, design and safety. Instead, customer loyalty and brand trust are becoming the most important factors. So it is only logical for Porsche to take a 360-degree view of data concerning potential buyers, customers and vehicles the center of its customer relationship management. Transferring the approach to the company's largest market, the United States, was the next logical step. The data pool at Porsche Cars North America (PCNA) in Atlanta contains around 2.7 million completed business transactions, 1.2 million customers and potential buyers, and more than 650,000 vehicles. In the past, all information about customers and vehicle histories was stored in 10 different databases that were not connected with one another. This made it practically impossible to implement total customer and vehicle support. Porsche decided to introduce an integrated CRM system within 10 months in order to have a panoramic view of all its data ("360-degree view of the customer").

In addition to key functions, the project team also introduced new processes, including predictive complaint management. This provides Porsche's customer commitment specialists with early warnings in cases such as when a vehicle is in service for an extended period of time due to delayed delivery of replacement parts, or when a vehicle needs a safety-relevant repair. The system also allows Porsche to follow, without interruption, the relationship between a vehicle and its owners over the course of time: Where was the vehicle purchased? Which dealers delivered services? Is a new purchase planned? When does the leasing agreement expire? etc. Changes to address data or specific customer requests are transferred from the integrated database to the relevant locations automatically and processed. This allows Porsche to implement central campaigns, follow-up processes in sales management and

service activities in a customer-specific manner using up-to-the-minute information. Previously, for example, mailing campaigns had always been selected and performed manually. This meant that a great deal of time was spent for each selection. Introducing the CRM system reduced selection time to 15 to 30 minutes. At the same time, the number of letters returned due to incorrect contact information went down considerably (SAP 2007).

- Product presentation tuned to customer preferences and skills, achieved by involving users in purposefully designed dialogs on the web (giving experts more detailed information, for example);
- Information services that tell customers about areas that might be of interest to them, either because they have explicitly expressed an interest in those areas already or because previous dialog with the customer suggested they might be interested in those areas, for instance;
- Recommendation services with the optional inclusion of profiles and evaluations from third parties with similar preferences, such as in the banking sector (Strauss & Schoder 2001). See Figure 1.7.

Using or not using one-to-one marketing has serious consequences for the future of traditional purchase advice. Empirical findings can be summarized as follows (Strauss & Schoder 2001; Strauss 2008): more and more companies that have already implemented a way of addressing customers individually increasingly expect that one-to-one marketing will replace traditional purchase advice (at least in part), supplemented by quality data from neutral third parties such as Consumer Reports in the US




Source of Information	Source of Rules	Bank	Customer	Automatically Generated
<b>Legacy Data</b>  Bank	<ul style="list-style-type: none"> <li>• Development of different security alternatives → Alerts and new recommendations</li> <li>• Segment → Direct Marketing</li> <li>• Anniversary → Greetings / -Mail</li> <li>• Product Usage → Individual conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Location → offer for local events</li> <li>• accounts, deposits → mailing of quotations</li> <li>• Transactions → order acknowledgments</li> </ul>	<ul style="list-style-type: none"> <li>• Automatic segmentation of customer base according to product evaluations and product assessments → offers / cross-selling</li> <li>• "Comprehensive" advising / offer through expert systems</li> </ul>	
<b>Profile Data</b>  Customer (explicit)	<ul style="list-style-type: none"> <li>• Stockwatch list → information about IPOs of "similar" companies</li> <li>• Preferences → Recommendations for new products</li> </ul>	<ul style="list-style-type: none"> <li>• Stockwatch lists, preferences → short infos / analysis, industries, markets companies</li> <li>• Stock limits → e-mail notification</li> <li>• Preferences for realty → real estate offerings, mailing lists</li> </ul>	<ul style="list-style-type: none"> <li>• Collaborative filtering according to preferences and web usage → offers for articles / news in finance</li> <li>• Analysis of web usage (preferences) → Change of navigation path (short-cuts)</li> </ul>	
<b>Web Activities</b>  Customer (implicit)	<ul style="list-style-type: none"> <li>• Visited categories → recommendations</li> <li>• Used tools, downloads → Offer / hint for further tools / downloads</li> <li>• Reduced logins, period of time without logins → e-mail with information on innovations / news / enhancements</li> </ul>			

Figure 1.7 Personalization at a bank (project example).

([www.consumerreports.org](http://www.consumerreports.org)) or the consumer association, *Stiftung Warentest*, in Germany. Individual marketing with its higher degree of IT-driven automation brings with it the chance to record and maintain a greater number of business relationships. Though real life examples show that a personalized marketing approach can help to significantly improve customer loyalty, as was the case at *Xerox* ([www.xerox.com](http://www.xerox.com)), many companies are still not fully aware of the link between loyalty and individualized marketing (Seybold 2001; Peppers & Rogers 1999; Strauss & Schoder 2001).

Companies that have not yet been able to solve the problem of base customer data records that are distributed over several systems will not be able to implement individualized marketing in the near future – they must first solve the more basic problem of information management. Once data consolidation has taken place, one-to-one marketers can (Strauss & Schoder 2001):

- Make more individual evaluations in the data records;
- Define customer segments more clearly to identify key accounts;
- Start determining at an earlier date the total value of customers over the course of their life cycle (known as *customer lifetime value*).

Germany's **Postbank** has shown how to implement individualization successfully. "e-Design", a personalized, individualized campaign for customer communication, offers impressive evidence that one-to-one dialog is technically feasible and can be extremely efficient even with a very large number of customers. When a person requests product information from the Postbank call center or Internet site, he or she receives material that is more specifically tailored to his or her interests than ever before. For a demander who needs a credit card for travel, there are product flyers and literature with images and text aimed at travelers. Both the flyer and the image of the credit card on the flyer show the customer's name. The application for the card is already filled with the data provided to the call center, making it almost completely personalized. If the inquiry concerns products for savings and investments, additional building blocks are added, such as the amount the person wants to invest, the duration of the investment and the motive. The customer receives his/her own special offer including the current interest rate and the total payout immediately in "black on white". With a standardized procedure, Postbank individually compiles each piece of printed matter according to the customer's needs. The foundation for this consists of building blocks from the company's own parameter pool, which allows for every possible combination. This starts with appropriately addressing the target group, progresses with socio-demographically tailored images and text blocks for the product, and concludes with personalized calculation examples for each investor. The aim is to make every customer feel as if he/she is being addressed directly in every channel of communication. This strategy has brought Postbank tangible, measurable success. Depending on the product,

sales improved by 20% to 30%, and process costs were cut in half (Dreihues-Uter 2005).

In a similar way, the American banking entity **First Union** recently launched a complex strategy to segment its customer portfolio, assigning them importance according to their current value and potential lifespan in the heart of the bank. The bank's sales reps have a scorecard in which customers are rigorously classified by these two factors, and the scorecard also invites the reps to offer maximally personalized treatment to those customers of greatest interest. At First Union's customer service center, operators have weather information for each state in the United States at their disposal at all times, so that the first thing they do is ask the most potentially "interesting" customers about the weather in the place they're calling from. It is perceived as being a curious and intelligent way of making customers feel that their financial entity is following their steps very closely (Daemon Quest 2005).

### 1.3.3 The Challenge of Mass Customization – From Individualized Marketing to Individualized Products

Customer-specific mass production or *Mass Customization* attempts to combine the advantages of mass production (cost advantages from large lot sizes) and customer-specific production (competitive advantage from product diversity) at a cost level approximately equal to that of mass-produced standardized goods (Downes & Mui 1998; Piller & Schoder 1999; Pine 1993).

The following are examples of Mass Customization:

- The *Original Spin* program by **Levi's Jeans**, which manufactures jeans according to customers' individual measurements. It offers a total of 49,500 different sizes and 30 different styles for a grand total of 1.5 million possible combinations of jeans at a cost of USD 55 each. Orders are filled and shipped within two weeks;
- **3billionbooks**, which implemented "print-on-demand" including bookbinding ([www.3billionbooks.com/](http://www.3billionbooks.com/); McCloskey 2001);
- **Creo-Shoes.com**, which provides personalized shoes ([www.creo-shoes.com/](http://www.creo-shoes.com/));
- The printing and publishing sector, which provides personalized printed matter such as personalized daily newspapers (Conniff 1993; Consoli 1993);
- **Dolzer**, which offers custom-tailored clothing at an affordable price using a multichannel system (online, telephone, stores);
- **xaaaz.de**, Germany's first online department store for individualized products (Piller 2006).

The point is not necessarily to manufacture a lot size of 1 for customers. Rather, the concept of Mass Customization, as it applies to industrial goods for instance, is more about manufacturing a large number of identical products – which have already been adjusted to suit individual customers – for a single consumer.

Literature on the subject sometimes characterizes Mass Customization using terms that clearly suggest conventional made-to-order production (preliminary costing, generation of customer-specific work plans and bills of material, a low degree of preproduction). However, the two need to remain distinct. Mass Customization is neither a case of configure-to-order nor do the products it offers have different basic structures. This type of individualization is about a few small differences in the details, which from the point of view of the customer, however, are of crucial functional importance. All the products normally have the same price or follow a clearly defined pricing structure. Bills of material are dynamic and should be generated automatically; the same is true for production and assembly instructions. Unlike made-to-order, Mass Customization aims at a large sales market whose customers differ with respect to the specific features they want in a product (Piller & Schoder 1999).

Perhaps no other newcomer to Web 2.0 mass customization has harvested so much favor in Europe recently as **Mymuesli.com**. Yet only a few weeks after business started, public enthusiasm became a problem, as response to the site exceeded all expectations. The consequence: delivery problems. Still, fans of the German company based in Passau did not walk away. This is a lesson for how to communicate successfully on the web (Kolbrück 2007).

The business idea is simple. Customers can put together their very own breakfast cereal by choosing from around 70 different organic ingredients. "Custom made cereals" is their slogan. The entire site makes a highly personalized, friendly impression. Customers are addressed with the German informal form ("du"). The three founders introduce themselves as "the guys". Customers who create their own mixture can give it a name. The principle of Mass Customization has electrified the blogosphere more than any other space, and it's no wonder – self-determined content and brands are part of that space's core values. Bloggers also helped to make the site popular on the Internet. The search engine *Technorati* now counts almost 300 links to the site. Radio and printed media reported the story, providing additional PR – at no cost (Kolbrück 2007).

Yet the founders attribute their quick success to more than just web logs; it was also the use of conventional media to reach traditional target groups. The print media reacted to the blogs. Bloggers then responded to those articles, starting a ping pong effect. There are no plans for a marketing campaign, however. Instead, the hope is that no-compromise transparency will win people over and generate new customers. The most important tool is the company blog, which was also where the company clearly explained the reasons for the delivery problems as they arose. This made Mymuesli even more curious and popular to people (Kolbrück 2007).

Customers even provided suggestions about how to fix the packaging bottleneck or proposed new products and additional supply sources

for ingredients. The muesli makers promptly respond to e-mails and similar offers made by bloggers. According to company information, not even being sold out of muesli had hurt the company image. The blog continues to remain an essential part of their PR work. It is intended to create transparency and announce new products and features.

Once the logistics problem is solved, we can expect to see many new developments. The company is to extend its business to further European countries soon, and a relaunch of the website is in progress. The plan is to make it more interactive so that it can develop into something like a community. Then customers might be able to present and evaluate their own mixes. Until now, the mix gallery focuses primarily on the favorite mixes of the founders themselves (Kolbrück 2007; reproduced by permission of Horizont).

Alternative forms of mass customization range from customization that does not interfere in manufacturing (known as *soft customization*), as in the following examples (Piller 2001; Pine 1993):

- **Service individualization:** Individual services are added to standard products, as at *Hertz Gold Service*, which enhances its standard service, car rentals, with additional services like bus transfers or road maps for the trip that the customer has planned;
- **Self-individualization:** Customers modify products, like making their own birthday cards at *Hallmark*;
- **Point of delivery customization:** Products are adjusted according to customer needs, like *Dynafit*, which makes the molds for the insoles of its ski boots in the store, or *Build-A-Bear* ([www.buildabear.de](http://www.buildabear.de)), which offers limited customization of teddy bears;

Soft Customization: No intervention in manufacturing process	Hard Customization: Manufacturing oriented variety
Service individualisation Enhancement of standard products with individualised secondary services	Modularisation according to a construction set Development customer specific products out of standardised components
Self-Individualisation Construction and manufacturing of standardised products with built-in flexibility, which might be adapted by the customer himself	Mass manufacturing of single products Cost efficient individualised manufacturing of a product across the whole value chain via standardised processes
Customer specific final or pre-production	
Individualised final assembly in retail store / sales channel Delivery of a uniform raw product, which will be finalised according to customer preferences at the point-of-sale	Individualised pre/final production with standardised finishing Either the first or the last parts of the value chain are customer specific, all others are highly standardised.

**Figure 1.8** Different forms of Mass Customization (Piller & Schoder 1999; reproduced by permission of the authors).

At the other end of the spectrum is *hard customization* (Figure 1.8). Hard customization means:

- **Modularization**, as at *Ohaus*, which uses a modular system to manufacture precision scales; or custom, paper-based daily newspapers, like at *First!* and the *Wall Street Journal*;
- **Mass-produced one-offs** that use standardized processes, as at *Sandvik Coromant*, which manufactures custom tools;
- **Standardized manufacturing that employs customized pre/postproduction**, where either the first process steps (such as metalworking) or the last process steps (such as assembly) are customer-specific. One example is the clothing retailer *Dolzer*, whose custom-tailoring involves cutting cloth to custom sizes at the beginning of the manufacturing process and standardized mass production for the rest of the process.

Intelligent customer interfaces in the form of design tools help to customize products and services for individual customers by enabling them to quickly and intuitively find a combination that offers them the most value. The Internet has *online product configurators* that lead buyers to the optimal product, harmonizing their needs with the capabilities of the company. Without tools of this sort, customers (or their representatives in retail and sales) often face so many basic designs and combinations of options that the resulting over complexity may well prevent them from finding a suitable solution (Piller & Schoder 1999; Pire 1993; Reichwald & Piller 2001).

Find the right kit to install your **Lintech** hands-free system in any car model with just a few clicks – that is what the German company Lintech promises with its new online configurator. Installers, for instance, can use the company's database to access information about nearly any established make and model ([www.lintech.de/fse-konfigurator/](http://www.lintech.de/fse-konfigurator/)). The user chooses a vehicle and the tool recommends the installation kit that fits. The same page offers users the option of downloading an installation guide. The configurator is currently available for two of the company's hands-free Bluetooth systems, *Basic* and *Comfort*. In the future, however, the tool will support more products, says LinTech (*Telecom Handel* 2007).

**Verpackung24 GmbH** ([www.verpackung24.com](http://www.verpackung24.com)) has a new online store for corporate customers. The portal can be used to purchase boxes, plastic foil, bags and pallets, plus items for worker safety. An online packaging configurator completes the offer. The tool plans and calculates packaging solutions based on specific customer data. This makes it possible to configure special packaging that goes beyond standard solutions.

**Inframa** ([www.inframa.de](http://www.inframa.de)) offers an online configurator that helps users to select a look for their banquet chairs, from different frame models, colors and even fabrics and patterns. The assortment includes

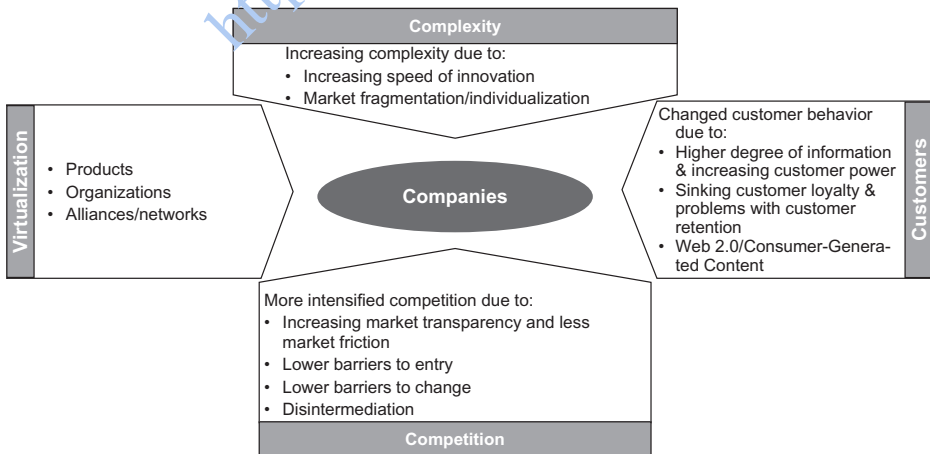
stackable banquet chairs made of aluminum and steel, folding banquet tables, accessories like carts for moving chairs and tables, personalized consultation and custom-fabrication. The company has developed chairs and tables for events such as the World Expo 2005 in Japan (*Allgemeine Hotel- und Gastronomie-Zeitung* 2006).

The foundation of manufacturing-based Mass Customization is the use of flexible manufacturing systems such as universal CNC machines, flexible transfer lines, flexible production cells and flexible manufacturing systems using different degrees of flexibility (Doringer 1991; Wildemann 1994; Mayer 1993). However, Mass Customization does not necessitate state of the art production technology. For instance, one part of the manufacturing process could employ the advantages of mass production, while custom manufacturing would only be used for specific value-adding activities.

### 1.4 THE CHALLENGE: THE CHANGED CONDITIONS OF MARKETING STRATEGY

Companies face a variety of changes that affect their business strategy and marketing strategy – the rise of Web-based applications is just one example for such changes (Hartman & Sifonis 2000; Porter 2001). See Figure 1.9.

On one hand, the rise of virtual company networks and customized products promote a virtualization of organizational structures and products. Examples can be found in the manufacture and marketing of customized CDs via the Internet (Piller 2001; McCloskey 2001). *Virtual organizations* come into being when independent companies collaborate for a limited period of time, involving parties such as suppliers, distributors, customers and even competitors (Fleisch 2001).



**Figure 1.9** Changes affecting company strategy (Porter 2001; Fitz-Enz 2001; Wirtz 2000; Hartman & Sifonis 2000).

One frequently cited example is **Dell** ([www.dell.com](http://www.dell.com)), which custom assembles and delivers all of its computer systems within 12 days. Production takes place in tightly woven value chains and in sync with supplier procurement and customer procurement. Supplier warehouses were positioned near production areas for this very purpose.

The increasing *complexity* in developing and implementing company strategies can be traced back to two different phenomena. Firstly, an increase in *innovation* speed leads to an immediate and significant *decrease in product life cycles* (Brown & Engelhardt 1998).

**Leica** offers one example of shorter product life cycles and the “digital threat”. Leica revolutionized photography when it invented the small-format camera in 1913 and then mass produced it in the 1920s. The cameras were lightweight with excellent technical execution. Yet this traditional company has been having serious problems. Its losses have been piling up since 2003. The reason for the crisis is that the company, once a technological leader, appears to have failed to accurately assess the importance of digital photography. Management assumed for a long time that demanding customers would not be interested in megapixels, but in the photographic experience – meaning top quality, from optics to mechanics to final images (Koch 2005).

Leica did not decide on a *hybrid strategy* until much later. It developed a digital back for what were originally analog single-lens reflex cameras. In doing so, the company intended to enable customers to continue using the lenses and cameras they had been collecting for decades. Despite increasing economic pressure, management refused to allow any compromises that would affect the quality of the new product. The consequence: The module, which had been announced at Photokina 2004, did not appear on the market until mid-June 2005 – significantly later than expected (Koch 2005).

Despite these economic troubles, Leica remains a cult brand that continues to attract customers. Principal shareholders, however, are losing patience and demanding that the company change its strategy. The concern is that the company’s downward spiral will only get worse and become a vicious circle. Yet the phenomenon of *self-fortification* was also what played a central role in establishing and maintaining Leica’s unique expertise (cf. Schoder 1995). An item that succeeds on the market becomes an easy sell. A product that sells well draws more and more customers, who trust the decisions other consumers have made or because the commercial channels really only support one particular standard. When a brand has a good reputation, the effect is even stronger. Yet expertise in a particular area – in the case of Leica,

first-class analog photography – can also lead to a situation where management is no longer capable of doing anything but what it has always done. Then management is locked in its own success. Straying from the path that made it successful would seem foolish for the short term and would be difficult to communicate to the market and its own shareholders (Koch 2005).

Even when the company is very successful, management judges developments in the market against the backdrop and in the context of its own, highly developed capabilities. Leica executives were almost forced not to take digital technology seriously, because objective criteria showed that when the technology was in its infancy, it was far from matching the quality of analog photography. The problem with assessing developments in a technology or market is the fixed frame of reference – here it was the company's high degree of expertise in its field. In situations like this, companies end up using what they know to block their own path, which makes it necessary for them to “unlearn” insights and knowledge that took years to acquire (Koch 2005; Strauss 1996; reproduced by permission of Harvard Business Manager).

As demand increases for customized products and services, so does *complexity in market reach and production* (Zerdick *et al.* 2001). Implementing one-to-one marketing requires more than a detailed analysis of customer data; it requires using that analysis to target even very small customer segments, and then changing the manufacturing process to accommodate very small lot sizes. Customization increases market fragmentation, in turn increasing the complexity required in marketing management.

Customer behavior is changing more with time and is acting as both a cause and a catalyst for the type of changes in company strategy just mentioned. An increase in the amount of customized information together with better options for collaboration and coordination like those provided by groups of people with common interests (*virtual communities* and *blogs*) lead to more finely-tuned approaches for demanders. The exchange of positive and negative experiences with products and companies (e.g. the customer service department) concentrates demander power in virtual communities and blogs and increases the amount of information on specific topics within the virtual group. The increase in information that is available to consumers along with the removal of barriers that prevented new providers from entering the market leads to a gradual drop in customer loyalty, which causes companies to introduce customer retention measures (Eggert 2001). In the 1970s, in the context of the use of independent test reports (like Stiftung Warentest or Consumer Reports), experts foresaw an archetypical customer who would have access to a comprehensive, independent source of information and who would be very willing to switch brands or dealers (*an information seeker*); today it is the information transparency of the Internet that offers an easily accessible information platform for making that type of consumer a reality (Thorelli *et al.* 1975; Tölle *et al.* 1981; Silberer *et al.* 1984).

Results from the current online shopping surveys show that the number of consumers who consult the Internet before making a purchase has risen in various countries by more than 8% in the last year. In the case of travel services, the Internet influences up to 70% of the buying decisions online users make. The biggest increase in pre-purchase research versus the previous year was in comparisons of retailers, say the results of various online shopping surveys. The group of online users who use the Internet as a source of information before buying products has risen by almost 10% compared to the year before. This means that the Internet has gained more strength as an influential purchasing factor than as a sales channel, since the number of actual online buyers has only risen by 6% during the same time period. The purchase of travel services such as airline tickets and accommodation was most strongly affected (GfK, June 2007).

**Toyota's** approach is a good example of the systematic use of information transparency on the Internet. For most people, buying a car is associated with taking a great deal of time to reach a decision. Toyota responded to this behavior by offering a link on its website to *Edmunds*, a reliable source for car reviews. Customers trust the objectivity of the *Edmunds* site, which is independent – and Toyota trusts in the fact that its cars do well in those reviews, compared to the competition. In this way, Toyota gives a third party the job of supporting customers during the decision-making process. When customers have the information they want and they know the precise differences between the makes and models they are considering, the *Edmunds* site guides them back to the Toyota site, where they begin the purchasing process (hopefully with greater peace of mind that Toyota is the right choice). Some dealerships, such as **Boch Toyota** in Boston (USA), went even further by showing the vehicles they have in stock with their suggested retail prices and information about dealer costs, asking customers to make them an offer online. Dealers believe that today's (unbound) customers have access to a great deal of information about dealers' acquisition costs. In light of this fact, the best thing a provider can do is maintain the connection to the customer throughout the process. Traditional sales channel logic would suggest that the company should define certain customer segments (like in-store buyers and online buyers) and then use that supplier-side definition as a foundation for building up a direct, indirect or hybrid sales channel for each segment. Instead, Toyota, like other companies, concentrated on and recognized the buying behavior of customers as a whole. This (plus the special features of products and logistics in the markets of partner companies) enabled them to build up distribution channels that best met customer needs (Nunes & Cespedes 2004). **Progressive Insurance** takes a similar road, when honestly sharing both their prices and their competitors' – even when they are not as good. The result: customers respond and acknowledge by placing trust in the new collaborative web (Tapscott & Ticoll 2003).

The availability of comprehensive information and the improved capacity to compare products and services increases the level of knowledge of substitution options from other providers, and in turn, the intensity of competition. One consequence is a drop in the importance of market friction – in the form of fewer barriers that prevent a switch to a new provider, for instance. In traditional (offline) markets, information asymmetry between vendors and demanders with regard to the actual quality of products and services can be significantly reduced by improving general information transparency, as well as with specific services such as *expert forums* and *opinion portals*. Automatic price comparisons from autonomous agents, for instance, further improve market transparency for specific product selection criteria and further limit the room that companies have for pricing and price differentiation. In theory, the only factors stopping markets that are completely transparent (with regard to price) from becoming a reality are:

- Alternative company strategies;
- An individual's limited ability to process information ("information overload");
- The inefficiency of available search methods.

The result is that companies focus more and more on differentiation strategies to avoid being compared to rivals purely on the basis of price, which is often perceived as being unfair (Collins *et al.* 2005).

A search for a **Fujitsu-Siemens Amilo Xi2428** laptop returned 39 matches with prices ranging from EUR 330.50 to EUR 1,133.43 (idealo.de). That is a saving of over EUR 150.00. A search for a **Panasonic NV-GS320** camcorder on Geizkrager.de returned prices between EUR 388.99 and EUR 599.00. This means a potential saving of over EUR 210.00.

Other barriers preventing customers from switching from one provider to another (switching barriers) are technological (systems are not completely compatible, for instance), knowledge-related (as when existing knowledge or additional knowledge is required) and psychological, as in the case of brand loyalty (Schoder 1995; Skiera & Garczorz 2000). All these barriers result in and even increase *switching* costs, which can lead a customer who is rationally considering the pros and cons to not choose an objectively better alternative that is only marginally below the switching costs because that person already has their mind set on the alternative that they already chose.

One example of such a *lock-in* arose when **VHS** was becoming the standard for video recorders in the early 1990s. Even though experts deemed VHS to be technologically inferior to other formats of the time (e.g. Betamax and Video 2000), VHS prevailed as the standard. The reason: VHS managed to establish itself as the standard for video rentals; consequently, the demand for players gradually shifted to VHS-

compatible devices, even though they really did not work as well (Schoder 1995).

The situation is similar for the various providers of coffee pad and coffee capsule systems on the market. These are general terms for coffee machines that work with single and double portions, known as coffee pads and coffee capsules. The essential feature of these coffee systems is that they make coffee quickly and easily. The most established coffee pad systems are *E.S.E.* (Illycafé, in Switzerland: Amici), *Cafissimo* (Tchibo), *Caffita* (Gaggia and Ècaffè), *Dolce Gusto* (Krupps and Nestlé), *MyCup* (Melitta), *Nespresso* (Nestlé), *Senseo* (Philips and Douwe Egberts) and *Tassimo* (Braun and Kraft Foods). These systems are not compatible with one another, so each system requires specific coffee pads and coffee capsules. At the beginning they were only available from the manufacturer, which greatly limited the choices available. Now, even the coffee packs are available from other providers. When a person buys a particular manufacturer's coffee system, to avoid switching costs he/she must also buy the pads that that system requires for operation. Critics claim these coffee systems exploit price capturing. This means that while the cost of acquiring these coffee machines is relatively low, the subsequent cost for the coffee pads is higher than the cost of traditional coffee – sometimes several times higher.

It can be assumed that such obstacles will gradually erode as a result of new technical standards (that offer the option of easily integrating various technologies), a broader diffusion of knowledge, decreasing loyalty to brands and dealers and increasingly product homogeneity (Seibold 2001).

At the same time, changes in institutional framework conditions as part of the liberalization and deregulation of markets further lower existing barriers to market entry. The intensity of competition will increase in proportion to the time that customers use the Internet and experience what is available there (Strauss & Schoder 2001). As web-based direct distribution (known as *disintermediation*) replaces traditional retail structures, the focus will shift to differentiating the competition.

### **1.5 THE CHALLENGE: MARKETING STRATEGY FOLLOWS CORPORATE STRATEGY... OR VICE VERSA?**

A company's basic goals are the starting point for determining its marketing strategy. At the highest level of a company's goal hierarchy, the **mission** describes its long-term goals and provides a basic framework for all its activities.

The mission of **Merck**: "To provide society with superior products and services by developing innovations and solutions that improve the quality of life and satisfy customer needs, and to provide employees

with meaningful work and advancement opportunities, and investors with a superior rate of return.” (Reproduced by permission of Merck.)

The mission of **Microsoft**: “A computer on every desktop and in every home, running Microsoft software.” (Reproduced by permission of Microsoft.)

The mission of **Novartis** : “We want to discover, develop and successfully market innovative products to prevent and cure diseases, to ease suffering and to enhance the quality of life. We also want to provide a shareholder return that reflects outstanding performance and to adequately reward those who invest ideas and work in our company.” (Reproduced by permission of Novartis.)

The vision of **Credit Suisse**: “It is our vision at Credit Suisse to become the world’s premier and most admired bank, renowned for our expertise in private banking, investment banking and asset management, and valued for our advice, innovation and execution.” (Reproduced by permission of Credit Suisse.)

The mission of **Credit Suisse**: “Our mission is to set new standards in partnering with our clients and providing them with innovative, integrated financial solutions. As a global bank serving clients in every region of the world, cultural diversity is essential to our success. We strive to create an open, respectful workplace that encourages people to work together and with our clients to deliver superior products, services and results and support the success and prosperity of all our stakeholders.” (Reproduced by permission of Credit Suisse.)

A company’s goal pyramid is a visual expression of how to further operationalize its goals, right down to the level of instrumental goals (Figure 1.10). At the same time, the functional goals at the lower levels – including marketing goals – represent a means of achieving the superordinate goals of the company. While goals tend to remain relatively abstract at the corporate level, it is better to make them more concrete and measurable all the way down to the instrumental goals.

This is used to define the actual *corporate goals* on the next level (Level 2). These goals can be formulated more precisely as financial or non-financial targets. While financial targets are usually defined in terms of return on investment (ROI) or dividends, non-financial targets tend to include dimensions such as improving customer satisfaction or improving the company’s ability to innovate (Jenner 2003).

**BP**, for example, included employee satisfaction as one of its corporate goals, reporting on how it developed in the company’s annual review for 2006 ([www.bp.com/liveassets/bp\\_internet/annual\\_review/annual\\_review\\_2006/](http://www.bp.com/liveassets/bp_internet/annual_review/annual_review_2006/)).



**Figure 1.10** Corporate goal system (Jenner 2003; Backhaus & Schneider 2007; Kreikebaum 1989; Homburg & Krohmer 2006).

**Tesco** reported in a similar fashion about non-monetary KPIs such as employee turnover rate in its annual review for 2007: ([www.tescocorporate.com/images/TESCO\\_FULL%20low.pdf](http://www.tescocorporate.com/images/TESCO_FULL%20low.pdf)).

**UBS** strives to increase shareholder value. It proclaims goals such as a sustained return on equity of 15–20% after taxes and average growth of (undiluted) earnings per share in the double-digits – regardless of how the market is performing at any given time.

In most planning scenarios, the strategy follows superordinate corporate goals. In their groundbreaking book, *The Discipline of Market Leaders*, Treacy and Wiersema describe the overarching goals of a company as **value disciplines** (Treacy & Wiersema 1995a, 1995b). It says that successful companies do not serve all heterogeneous customer needs, but rather focus specifically on a unique service promise. That promise is aimed at one of three known customer types: (a) customers that prefer tried-and-true services; (b) customers that prefer innovations; and (c) customers whose individual needs must be met as satisfactorily as possible. A total of three strategies, called *disciplines*, can be derived from those customer types (Schnaars 1998):

- **“Operational excellence” companies:** Distinguish themselves with optimized and rationalized processes. This enables them to guarantee services at a low price and fixed quality. Doing so puts them in a position that competitors in their market cannot reach. Their focus is on having the best prices – setting price standards – as

well as on a relatively limited range of services, average quality, limited service and short value process chains.

One example for this approach comes from **Wal-Mart**, which focuses on very low prices and high efficiency in all its internal and external processes (e.g. its relationship with suppliers). Companies such as Aldi, McDonald's and Toyota have adopted a similar approach.

The Neumarkt plant of Delphi Deutschland GmbH (a subsidiary of the Delphi Corporation) received a gold medal for operational excellence. Plant director Johann Lang bowed to his employees, who received the medal with him. His plant produces high-quality contact parts and plug connections for the car industry. To guarantee the highest quality, the company has been emphasizing insourcing and process excellence for the past seven years. The result: No complaints and zero defects since 2001, as well as no occupational accidents and a below-average number of staff on sick leave (less than 3%) for the past five years. Auditors were impressed with how seriously everyone at the plant takes the guiding principle of "exceptional quality". In recent years, the company has won many awards, such as Factory of the Year in 2005 and the 2007 Prize for Quality, as well as numerous internal distinctions. The chance to be audited by outside experts was what motivated the company to apply for external distinctions. The target: To find areas of the company that could still be improved in spite of all previous efforts ([www.cetpm.de/](http://www.cetpm.de/)).

- **"Product leadership" companies:** These companies encourage the development of innovative products, which enables them to regularly bring out products that redefine technological standards. They focus on the core processes of innovation, product development and research into market availability, and are always on the look-out for the "first mover" advantage. They emphasize performance, not price. Their essential characteristics can be summarized as (1) having the best products, (2) setting product standards in (3) waves of innovation, and (4) achieving premium prices.

**Intel** can be cited in this section as an example of a company with a large number of innovative products. **BASF** received the 2005 Product Leadership of the Year Award. The award was presented for the development of a new method of delivering triphenylphosphine (TPP); BASF was the first company in the world to offer it in the form of pellets. The pellets generate less dust than the conventional flakes, which makes them easier to handle and process while also significantly improving safety. Besides pellets, BASF also markets TPP in the form of a meltable mass. In this form, the

product can be pumped, allowing it to be processed in a closed system – eliminating the need for costly manual labor. BASF produces TPP using the largest system of its kind in the world, located at its headquarters in Ludwigshafen, Germany. It is the only company in the world to manufacture TPP using a single-strand process, which prevents cross-contamination with other products. The consequence: Consistent, high product quality ([www.bankkaufmann.com](http://www.bankkaufmann.com)).

- **“Customer intimacy” companies:** These companies focus on the greatest customer proximity possible. They focus on (1) developing solutions, (2) implementing those solutions and (3) maintaining relationships. They emphasize long-term relationships, not individual transactions.

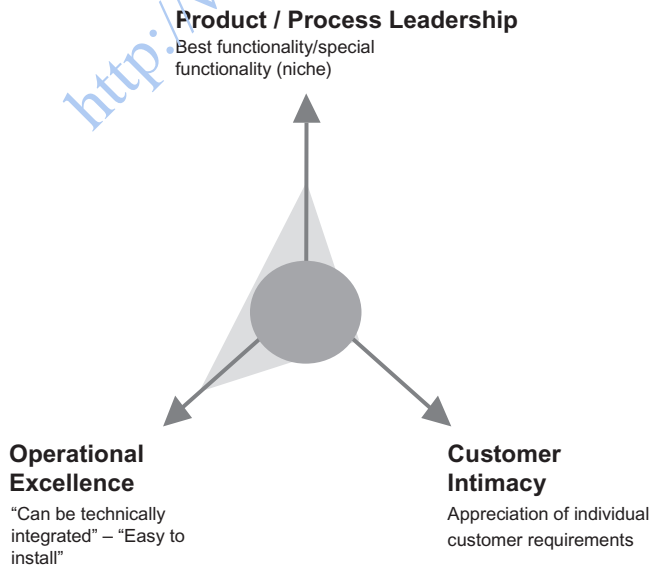
A good example for a customer intimacy strategy with a superior customer service strategy is **HyperFit** ([www.hyperfitusa.com](http://www.hyperfitusa.com)), addressing customer needs on a personalized basis. When new members join HyperFit, they fill out forms that highlight their fitness goals and any health issues. The information is stored in a database so all experts on staff have access to their records. The gym also helps clients to stick to their regimes. If a customer doesn't show up for three weeks, he automatically gets an e-mail alert. Sometimes trainers phone with a pep talk. It is reported from the company that recently a man joined the gym planning to run a marathon, but stopped coming during a messy divorce. After three weeks an alert went out. The gym followed up by e-mailing an article about marathon training to the client. The man soon returned to the gym.

Quite the same way is taken by **SimplySoles** ([www.simplysoles.com](http://www.simplysoles.com)), dedicated on customer service and intimacy. Shoppers who call the toll-free customer-service number can even reach the founder, Kassie Rempel, directly. For certain customers SimplySoles will send out a selection of shoes – no charge, no commitment. These shoppers can try on shoes in their homes to see which pair looks best with a particular outfit – still being in the top price range where the average pair of shoes goes for \$275. They are billed only when they make a purchase and can send the remaining shoes back to SimplySoles in prepaid mailers at a cost of about \$12 a returned pair roundtrip. SimplySoles also sends out handwritten thank-you notes to every customer who orders shoes. The notes address the customer and shoe by name – a little touch that builds loyalty.

As part its customer care activities, the English real estate agent **Foxtons** ([www.foxtons.co.uk/](http://www.foxtons.co.uk/)) offers customers everything they need when searching for real estate. The agency focuses on the strong demand for temporary property for people who spend time

in London on business. Some of these people do not have the option of viewing real estate in person. The website solves that problem by using every option available to provide a virtual impression of the property, such as numerous detailed photos and a 360-degree video, a map that identifies the location of the property as well as directions to a particular destination (e.g. the city center), a detailed description of the area’s infrastructure (schools, public transportation, etc.) and a planning tool that calculates the way to the customer’s workplace. The provider also uses technology to stay in contact with its target group. SMS Property Alert, for example, sends customers text messages with new offers that match their search criteria and e-mails with brochures.

To have a position that effectively differentiates it from competitors, a company must focus on one of the three disciplines – Product Leadership, Customer Intimacy or Operational Excellence (Figure 1.11). While the three disciplines present positioning options at their highest levels, each discipline also contains an off-limits zone area that should be avoided (i.e. a performance minimum is required in each discipline). According to Treacy & Wiersema, a successful company must be excellent in at least one discipline and at least on the same level as their most important competitors in the other two. The following empirical analyses show that companies are most successful when they follow one of the three value disciplines mentioned and systematically and consistently use that same value discipline to determine the content for their strategic marketing planning (Tomczak *et al.* 2008; Stevens *et al.* 2006).



**Figure 1.11** Competitive positioning according to Treacy & Wiersema (1995a, b).

According to Treacy & Wiersema, one company that breaks down its corporate goal according to the “value disciplines” is the US pharmaceuticals corporation **Eli Lilly**. It emphasizes “product leadership” (Stevens *et al.* 2006).

- *Corporate goal*: To maintain product leadership in all new markets.
- *Functional goal at the level of the strategic business unit*: To protect a market share of 80% in a certain segment of the pharmaceuticals market (non-narcotic analgesics) for the next five years. *Strategy*: Introducing new products to replace profitable products (known as “blockbusters”) after their patents expire.
- *Instrumental goal at the product market level*: Using telemarketing to explain to doctors and pharmacists the advantages of these new medicines and offer them introductory discounts. *Strategy*: Extend the product line and employ aggressive pricing to protect market share when replacing products.

Automobile maker, **Saturn** (a General Motors company) has an entirely different approach: This company focuses on *customer proximity*. The Saturn Family came into being after Saturn recognized that people often feel uncomfortable going to car dealerships and believe that dealers have an excessive number of preconceptions about customers (Dirkes *et al.* 1999). New *Saturn* owners are automatically enrolled in a club whose benefits include access to a variety of information. Being a member of this special club improves brand loyalty while at the same time making visits to the dealership much more pleasant. Combined with other activities, the customer club has helped Saturn to sell nearly twice as many vehicles as other General Motors brands (Court *et al.* 1999).

The further operationalization of corporate goals takes place at a third level, in *functional areas* (such as marketing, production, etc.) or strategic business units. However, functional goals, such as those of marketing, are not necessarily the same as the goals of specific organizational units. This is why some marketing tasks and goals can be carried out by other functional areas outside of marketing. Examples include holding events or creating sales brochures.

At the lowest level of the goal hierarchy are *instrumental goals*, which can refer to components in the marketing mix, such as improving product quality, improving price differentiation versus competitors or improving the company image in the relevant target segment.

In the example from **Eli Lilly**, the instrumental level included goals, like numbers of doctors and pharmacists to contact in a certain time period.

At this level we can distinguish three different goal categories for marketing (Schnaars 1998; Homburg & Krohmer 2006):

- **Economic marketing goals:** Relate to common economic references as found on a profit and loss statement, e.g. revenue directly attributable to marketing campaigns or number of qualified leads with (at least an indirect) reference to revenue and, by extension, to the profit and loss statement.
- **Marketing goals relating to market success:** Relate to target values that represent the actual success of a company or strategic business unit, using customer behavior as the foundation. An example is increasing relative market share.
- **Marketing goals relating to potential:** Relate to variables that precede actual customer behavior, such as using a measurement of customer satisfaction to determine revenue for a later time.

These goal dimensions can be interdependent – improved customer satisfaction (a potential-oriented goal) can lead to greater market share (a goal relating to market success) when satisfied customers make repeat purchases.

Whereas a **corporate strategy** defines the basic long-term direction of a company (for instance, by stating goals for KPIs, the further development of strategic resources or the distribution of resources within the corporation as a whole), a **business area strategy** describes the direction of a strategic business entity and a **functional strategy** describes the strategic orientation of individual business functions (Jenner 2003).

There are at least three different ways of viewing the **marketing strategy** within this categorization (Homburg & Krohmer, 2006):

- **As a functional strategy:** The marketing strategy is determined to be one of several, equal, functional strategies. In so doing, the corporate strategy defines the strategic framework for activities in the marketing strategy over a long period of time. The marketing strategy then focuses on optimal implementation of marketing instruments (such as communication policy).
- **As being equal to the corporate strategy:** Strategic marketing is equal to the core strategic tasks of the company.
- **Dominant marketing strategy:** The marketing strategy dominates other functional strategies by virtue of its role as an interface to the company environment and a supplier of information for other functional areas in the company.

Empirical studies and real-life examples show that the dominant marketing strategy has some advantages over other functional strategies. It ensures that the corporate strategy is systematically geared toward the requirements of customers and the market (“Customers.com”) and that the marketing strategy becomes a key element in the corporate strategy (Seybold 1998; Rayport & Jaworski 2005). This perspective tends to allow marketing to move beyond its immediate functional area so that it plays a central role in the corporate strategy. In practice, what role the marketing strategy takes depends heavily on the product portfolio, the market segment (B2B or B2C) and the industry. Consequently, the marketing strategy has tended to also dominate the corporate strategy in B2C environments with strong brand management.

Regardless of what role of the marketing strategy plays in a company's goal hierarchy, the results from empirical studies of the marketing situation in various companies shows that the decisive factor when developing a marketing strategy is the process-related perspective. This means systematically aligning the marketing strategy with other functional areas (*horizontal*) as well as with corporate goals (*vertical*) in all its important dimensions, KPIs and content (*marketing programs*).

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