Customer value = Perceived benefits – perceived sacrifice

Or we can put this another way: the **gain** (acquisition of the product or service) must outweigh the **pain** of acquisition (cost, difficulty of obtaining the item, service, uncertainty about making the right choice, cost of making the wrong decision).

We can identify a number of value parameters:

- meet and exceed customer expectation – not just on price
- in a service sector industry – provide a quality environment in which customers feel valued and comfortable
- in a manufacturing sector setting – provide a customer service which exceeds that of the competition.

As a company, you need to match your customers' values and beliefs and reflect them in your product range and in the advertising and promotion that surrounds it.

Q **ACTIVITY 2: QUESTION**

Read the example of McDonald's outlined on Jobber, pages 11-12.

Make sure that you understand the key concepts of 'perceived benefit' and 'perceived sacrifice'. There is no doubt that McDonald's is a globally 'successful' company. From your own experience of entering a McDonald's restaurant, how do you personally rate McDonalds in terms of value?

Note Figure 1.5 – the key dimensions of market driven management. Customer focus is the core of this organisational strategy. Does McDonald's put customers first? Does this mean that they are a 'successful' company offering good 'value'? External customers may agree (millions worldwide do!) but internal customers, the staff at the counter, for example, may have a different perspective!

ACTIVITY 2: ANSWER

You may have concluded that 'value' is a rather nebulous term, hard to measure and define in marketing terms, but that it is a crucial notion if we are to understand and address customer need. Different customer sets may seek quite different benefits. Time and energy costs may assume greater importance as perceived sacrifices for customers when assessing the value of goods and services where no direct monetary price is charged – for example, in many internal, public and voluntary services.

Marketing approaches

Now we look at how the organisation sees and promulgates its marketing strategy through its marketing activities and approach. In a study of 1,700 senior marketing executives, Hooley and Lynch teased out the marketing characteristics of **high and low performing** companies (based on reported profits) (Hooley and Lynch 1985). The way marketing executives in the study perceived and articulated the marketing function through their marketing activities can be seen in their model of marketing approaches. High performing companies are among other factors more committed to marketing research and tend to emphasise market share as a way of evaluating marketing performance (page 20 in the textbook). Note too Figure 1.11 (page 21) that shows the typology of the marketing approaches of Hooley at al (1990); it identifies the four distinct groups of **marketing philosophers**, **sales supporters**, **departmental marketers** and the **unsures**.

Read the sections on marketing and business performance on page 19 and about Virgin Direct and Richard Branson's marketing approach in Case 1 on pages 24-26 of the textbook.

ACTIVITY 3: QUESTION

Compare the marketing approaches of the traditional financial services providers with that of Virgin Direct. You may find it useful to use the table below.

	Traditional services	Virgin Direct
Attitudes		
Organisation		
Practices		

Where would you plot Virgin and its competitors on the marketing approach grid?

ACTIVITY 3: ANSWER

	Traditional services	Virgin Direct
Attitudes	product oriented	customer oriented
Organisation	hierarchical	informal, team approach
Practices	bureaucratic, form-filling	innovative, customer focussed

Virgin places the customer at the heart of its operations and looks to design a product that meets customer needs; the traditional financial services are more concerned with the initial product and hard selling of that product regardless of whether it is meeting customer needs.

The Marketing Mix

Based on an understanding of its customers, a company develops its marketing mix containing four main elements:

- **product**
- **price**
- **promotion**
- **place.**

They form the backbone of marketing activity. Let's examine each one in turn.

Product (or service)

The product or service decision is fairly self-evident; marketers must conduct research into the products that customers actually want or need. The skill of the marketer is in commissioning the right kind of research and being able to analyse the often-conflicting 'evidence' which comes out of that research. Consider, for example, the Renault Espace people carrier launched in 1989 in the UK. Social research showed that people weren't having bigger families, but that those smallish families had more leisure time. In the late 1980s in Britain, there was a rise of 17% in the growth of small businesses. The price of oil had remained stable for the past 8 years.

Disparate information perhaps, but to a skilled marketing department at Renault, this meant that the function and place of the car in society was changing (or indeed had changed). More leisure meant people were travelling for social reasons; small business people were using their vehicles for business purposes. Relative stability in petrol prices meant that buyers weren't necessarily seduced by 'economy'. Renault got it right; they developed a large, boxy car designed almost as an extension of a social living and business space and set the scene for the proliferation of people carriers.

Price

Price decisions can affect the perceived value of a product or service and is a key determinant in the value equation we read about earlier – benefit of acquisition versus the sacrifice required by the customer.

Pricing and price setting is a sensitive area for marketers where price levels are in part determined by the manufacturing and distribution costs over which they do not necessarily have complete control. The marketing environment in terms of prices offered by the competition is a key factor which marketers setting prices must take into account.

Supermarkets with traditionally narrow profit margins over a large range of goods are particularly sensitive to pricing both in terms of what they charge for a product and how much they pay their suppliers. Suppliers, for example, General Foods in the UK, often offer preferential rates to their large supermarket customers over those offered to small corner shops. Supermarkets in turn can offer 'loss leader' items to shoppers to entice them into buying other non-discounted goods.

Promotion

Promotion is often perceived by the general public as being synonymous with 'marketing'. However, promotion is only one part of marketing and covers a range of marketing communications from advertising to public relations. How should goods and services be brought to the attention of the customer? How will the target audience be made aware of the product or service's features and benefits? Should they be advertised using mass media or should there be an element of personal selling? Will publicity alone help sales? Will customers convert their interest into purchase?

Place

You develop a great product or a superb service, offer it at precisely the right price and promote it in a sensitive and well-defined way. However, it can all be wasted effort. If the goods are not in the right place for the customer to make the purchase. This is where the importance of the final part of the marketing mix becomes clear. In many cases, for example, the success of a new product launch depends on the manufacturer's ability to negotiate and secure shelf space in the outlets of increasingly powerful retailers. The choice of distribution outlets for goods and services can also affect the image of the brand.

Sometimes, however, limited availability can prove to be an advantage. Consider, for example, the launch of Tellytubbies dolls in the UK in Christmas 1997. Note the seasonal introduction of this product. We could argue that the fact that demand outstripped supply was a marketing planning decision to increase long-term customer demand. In terms of promotional advantage over the competition, the Tellytubbies campaign scored highly. News of shortages was broadcast on all major UK television channels with pictures of queuing at major stores. Demand soared and Tellytubbies dolls became one of the highest selling Christmas toys of 1997.

Generally, for the marketing mix to be successful it should be well blended to create competitive advantage. Overall, it needs to deliver the benefits which customers seek and to satisfy their underlying needs and wants.

Q **ACTIVITY 4: QUESTION**

Consider the value of the marketing mix to your understanding of your own organisation's marketing. If you are not working in the voluntary and not-for-profit sector, consider the relevance of the marketing mix to this sector. How can a model so dependent on the profit motive have relevance to organisations set up with different organisational objectives?

A **ACTIVITY 4: ANSWER**

The answer lies perhaps only in terminology. Where **price** is a main determinant in the classical marketing mix model, **value for money** may perhaps better define this area in the not-for-profit sector where this criteria is used by funders and users (key customers of many of these organisations) as a primary effectiveness measure.