CHAPTER 1
THE CUSTOMERS

WHAT IT'S ALL ABOUT

- The difference between needs, wants and demands
- Value propositions and marketing offers
- Giving customers sufficient value to make them 'satisfied'
- Building customer relationships

Arguably the most important fundamental concepts in marketing are those of *needs* and *wants*: the prime motivators for the human behaviour which turns us into 'customers'. Without needs and wants there would be no motivation for us to buy. The marketer's first task therefore is to consider what it is that people actually need and want, even if those people don't yet know the answer themselves.

NEEDS, WANTS AND DEMANDS

A self-assured female character in a well-known Bob Dylan song points out to her hesitant lover that whilst his debutante girlfriend might well know what he 'needs', it is she that knows what he actually 'wants'. We know exactly what is being implied here and it points up an important concept in marketing: the difference between needs, wants and demands.

Our needs can be described as things that are fundamental to us as humans. Fundamental, but not necessarily physical. We need air, water, food. We need to be out of the cold, and out of the scorching sun. We need protection from danger. But we need more than those physical and environmental basics. We need to be part of social groups. We need a sense of 'security' which goes beyond immediate safety. And we seem, as humans, to have a need to understand what is going on in our world. From primitive reassurance that the sun will rise tomorrow, through to more sophisticated understanding about 'why' (embracing science, religion, philosophy).

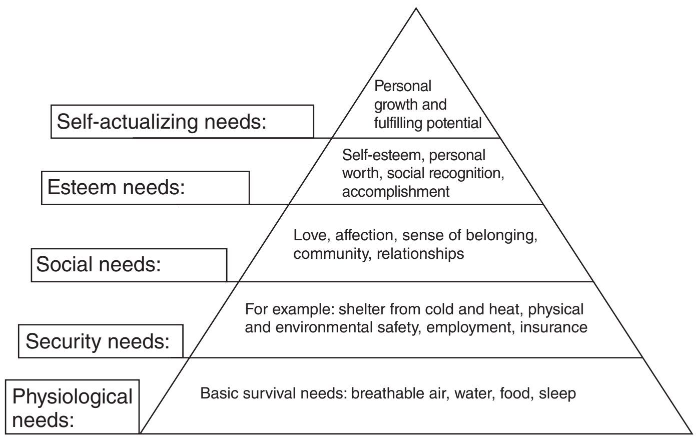
The famous hierarchy of needs described by Abraham Maslow is still hard to beat as a summary of our multilayered human needs. Maslow's model is useful and descriptive, but some contemporary thinkers point out that it is also limited in outlook, in that it is hierarchical. Maslow argued in this model that we only feel, express, and seek to satisfy our 'higher needs' once we have fulfilled the more basic ones. His critics say this is wrong: and that even those people for whom the finding of food, shelter and safety are daily challenges nevertheless have higher needs at the same time. Interestingly, it is remarked by some commentators that Maslow said before his death that he regretted the hierarchical nature of his model and acknowledged that humans strive for higher meanings and for 'self-actualisation' even when they are otherwise at the bottom of his notional pyramid, where they are also struggling daily for the bare essentials to stay alive. Notwithstanding that revision of the concept, it remains a useful model for considering the kinds of needs that humans have.

WHO YOU NEED TO KNOW

Abraham Maslow

Not a marketer at all, but highly influential on marketing primarily because of his Hierarchy of Needs model and his theory of self-actualisation. Abraham Maslow (1908–1970) was a Russian émigré raised in Brooklyn, New York. In the 1950s he was one of the founding thinkers of the school of humanistic psychology, which focused on human potential and personal growth: aspects of psychology intrinsically attractive to marketers. Maslow's hierarchy model suggests that people seek to meet basic physiological needs like food, water, warmth and sleep before they move on to higher level needs. Further up the hierarchy, usually visualised as a pyramid, are 'higher' needs including personal esteem, accomplishment, and ultimately self-actualisation. The model has obvious implications for marketers, although many would now dispute its basic premise and argue that humans are capable and driven to seek higher needs simultaneously to dealing with the lower ones.

Maslow's hierarchy of needs



The real significance of needs though is that they are unavoidable. As the cliché goes, there will always be a market for undertakers. Meeting needs is the basis of so much of our economic activity of course. From building houses to baking bread, from growing potatoes to making shoes.

But meeting needs is far from the only way to go to market. Because we don't just need: we also want!

If our needs are unavoidable, then at least they are relatively limited. Maslow encapsulated them fairly simply. Our wants on the other hand are discretionary (in other words we can live without them), but they are also virtually unlimited and unpredictable in scope. They are also of course very often deeply irrational.

If you listen to teenagers talking in a shopping mall you'll hear the 'need' word used in an interesting way. One teenage girl shopper will point at a shop window display and say excitedly to her friends: 'Oh my God, I soooo need that top.'

She doesn't *need* that particular top of course. At least not in a way that could be described in purely rational (or in Maslow's) terms. No, she doesn't need to buy it, but she certainly *wants* to do so. 'Wants' may not be as old as needs in the scheme of things, but they aren't far behind, and they have long been rich territory for marketers and arguably the key driver of what we refer to as 'the consumer society'.

WHO SAID IT . . .

"Yes, I sell people things they don't need. I can't, however, sell them something they don't want. Even with advertising."

– John E. O'Toole

Because we have needs and wants we also have the environment in which exchange, business and thus marketing can take place. And the marketer in any given company or organisation should be primarily engaged in understanding those needs and wants and steering their company towards the satisfaction of them.

But there is a third dimension which has to be considered, the pinnacle of the needs/wants model: *demands*. Demands are simply wants which are backed by sufficient buying power to make them unavoidable by the marketer.

There was a time when we did most of our banking by visiting a branch on our high street or in our village or neighbourhood. First Direct pioneered the use of phone banking in the UK, more than 20 years ago. First Direct appealed then to the 'wants' of a relatively small number of customers interested in a new approach to banking, unrestricted by the need to be physically present or by the opening times of high street banks. Not many years later, having been copied in their phone banking offering by most other banks (although less effectively by most), First Direct was one of a new set of banking pioneers focusing on using the internet as the prime interface between bank and customer.

Now of course that early 'want' of a few people (usually referred to as early-adopters) for phone and internet banking has become a 'demand' of many. Very few banking customers in the developed economies would consider choosing a new bank which didn't provide

24-hour phone and internet banking. There are exceptions to this (there are always exceptions in marketing), such as certain private banks, or customers (mainly older) for whom the phone and internet services are much less relevant and appealing (they don't want them).

There is a downside to this example of demand in action. Smaller bank branches are being closed as the big providers consolidate their high street presence, keeping their staff costs low as they continue to develop their internet services. One result is that older people, like my 91 year-old Mum for example, is faced with the imminent prospect of her much-valued local branch closing down. It's not that my Mum doesn't want this branch. She does. The point is that she cannot 'demand' it, because she (even if she along with all her friends of a similar age all marched into the branch in protest at its closure) do not represent sufficient buying power.

Demands are therefore simply wants that are backed with the muscle of buying power!

WHO YOU NEED TO KNOW

Philip Kotler

Widely acknowledged as the world's leading expert on strategic marketing practice, Dr. Philip Kotler has become the 'guru of gurus' in the field. Kotler, born in 1931, is the author of the definitive marketing textbook *Marketing Management*, currently in its 13th edition. He teaches all over the world and his consultancy firm Kotler Marketing Group advises some of the world's leading brands. Kotler's work is so wide ranging and extensive that it is impossible to sum up in a few lines, but his core and most influential idea could be said to be that the discipline of marketing is fundamentally about the creation of value for customers. Coupled with that concept is his observation that the world economic landscape is forever and massively altered by technology and by globalisation. Kotler describes the phenomenon of 'hyper-competition', referring to the ability of companies to produce far more than can be sold, thus putting huge pressure on price but also creating a greater need than ever before for constant innovation and the creation of 'perceived' differentiation. The power, says Kotler, has passed irrevocably to the customer. 'The customer is King'.

VALUE PROPOSITIONS

When a company, in whatever field, sees that there are some potential customers out there who appear to need the product or service that they are skilled in providing, all they have to do is provide it, yes?

If only it were as simple as you (a paint manufacturer for example) spotting that some people do indeed like to paint things (their walls perhaps) and therefore confidently boosting your paint production. That'll work won't it? At least you are responding to a market need. Well, again, not quite.

Successful marketers tend to succeed not with a simple response to a perceived need or want (or even demand) but instead by creating what is known as a 'value proposition'. A value proposition just refers to creating a set of benefits which will fulfil the customer's need or want.

Let's unpick that a little. The word benefit is important. Being beneficial means that something or someone does something good for someone. A benefit in our sense therefore does something good for your customer. And if you look closely at almost any customer in almost any scenario you'll see that they are looking for something that does them some good, although the 'good' can vary.

WHO SAID IT . . .

"Authentic marketing is not the art of selling what you make but knowing what to make. It is the art of identifying and understanding customer needs and creating solutions that deliver satisfaction to the customers, profits to the producers and benefits for the stakeholders."

– Philip Kotler

One customer may be on a really tight budget, with minimal cash, but they want to cheer up the walls of their child's bedroom or their kitchen. There's the benefit they're after, right there: cheery and refreshed rooms with absolute minimum negative impact on their purse. Do you have a value proposition for them (a low-cost range of basic but appealing colours)?

Another customer is looking for traditional hues and very high quality coverage to suit their painstakingly restored Georgian town house. Do you have a value proposition for them (a much wider range of subtler shade variations in a quality paint which is as close possible in look and feel to the coverings of 200 years ago)?

Neither of these customers is better or worse than the other. And you might serve either one or both very profitably. But you won't achieve that by just making paint. No, you have to create the set of benefits which will meet and fulfil their specific needs or wants. That's your 'value proposition'.

MARKETING OFFERS

And once the value proposition (benefits that meet wants and needs) is created, is the job done? Sorry, not just yet. You know the old saying about building a better mousetrap and having the world beat a path to your door? It's usually attributed to Ralph Waldo Emerson. Actually he didn't say exactly that. What he wrote was fuller and more interesting, and seductive . . . but still wrong. Emerson actually wrote:

'If a man has good corn or wood, or boards, or pigs, to sell, or can make better chairs or knives, crucibles or church organs than anybody else, you will find a broad hard-beaten road to his house, though it be in the woods.'

Emerson's statement is enormously appealing. It plays to the producer in us: the farmer, the craftsman, the creator. All of Emerson's examples (except for church organs) can be considered needs, and staple needs at that. Folk will always need food, building materials, furniture to sit on. But attractive as it is, this outlook is dangerously misleading. It is in effect the opposite of marketing, but it's a position (a mousetrap if you like) that many companies, both large and small, walk right into and find themselves stuck in. Why? Because it leaves the *customer* out of the equation.

Building a better chair, for example, is a wonderful thing, provided that the amount of time you spent perfecting it, and the cost of the superior materials, do not make the selling price of this king of chairs prohibitive for your neighbours who are predisposed to buy chairs. Unless of course you happen to know that in the not too distant town there are more genteel and affluent folk who can and will pay a premium for your excellent furniture. Aha, you think, they have a need for chairs (we all do) and a want for really nice chairs such as mine! And you have a heck of a value proposition for them (superior hand-crafted chairs with a rustic touch). But what is going to make these highly desirable high-spending customers beat a path to your door? Well you can be certain that the value proposition alone won't do the trick.

No, what you need next is a 'marketing offer'. The marketing offer is what brings the value proposition to life in a way that is relevant to your prospective customer. There are numerous elements to a marketing offer, but in essence it is this: the collection and combination of your product or your service (often both), plus the information you create and provide about it, plus the actual 'experience' of learning about, buying and using the product or service. In other words the marketing offer is the whole shooting match, the entire customer experience (tangible, financial, verbal, visual, behavioural, emotional).

The marketing offer therefore embraces the value proposition but goes way beyond it. And that gives another handy description of marketing and its fundamental and unique character. Marketing begins long before the product exists, and it goes on long after the sale is made. Marketing thus embraces production as well as sales.

When it comes right down to it, you can build the best mousetrap that the world has ever known and you can protect it with patents and trademarks to your heart's content. But unless you create first a value proposition that meets the needs and wants of your customers, and then a marketing offer that 'speaks' to them, you ain't going to make any money. And as you often hear the investors of *Dragon's Den* say: that won't be a business, that will be a hobby.

Businesses that are focused on sales, or on production, rather than marketing, can become so fixated on the former aspects that they become blind to the latter: the really important thing, finding a solution or a fulfilment to customers' needs and wants.

Kotler puts this customer-centric view of marketing very simply and elegantly. There are five steps he says:

- First, understand the marketplace and the customer needs and wants.
- Second, design a customer-driven marketing strategy.
- Third, construct an integrated marketing programme that delivers superior value.
- Fourth, build profitable relationships and create customer delight
- Fifth, capture value in return from customers to create profits and customer equity

THE DIFFERENCE BETWEEN CUSTOMERS AND CONSUMERS

In all this talk of the importance of customers, we have to remember that there is an important difference between the concepts of the 'customer' and the 'consumer'. The child who goes into the sweetshop and buys and then eats the sweets is both customer and consumer. But customer (buyer) and consumer (user) are not always the same person, and the marketer has to consider both: which is why for example so many children's food products are advertised with apparent health benefits highlighted alongside fun aspects.

The same distinction (and sometime blurring) occurs in business-to-business marketing. The individual authorising the purchase of the photocopier or company car (customer) is unlikely to be the user (consumer). To whom should the marketer be talking? Well, both, as we will examine in due course.

CUSTOMERS AND PROFIT

An uncomfortable truth about customers is that not all of them are good for business. Anyone who has ever worked in retail or hospitality will recognise that a relatively small proportion of customers create a relatively large proportion of issues and problems, ranging from complaints to demands for extra product information, special variants and so on. As the old saying goes: 'the customer isn't always right but he/she is always the customer'. So the resource-sapping customer must of course be looked after. But the business, of whatever kind, has to consider whether this kind of customer is profitable to the business.

The question we have to ask, in relation to the resource these customers demand, is do they buy enough, pay enough, return enough, or recommend to others enough, in order to be profitable?

With that caveat in mind though we should also bear in mind that some apparently unprofitable customers are in fact worthwhile, either because they can be nurtured and educated, or because they represent the crossover into a new market which can itself become profitable if handled correctly. The important behaviour for marketers is to observe and analyse sufficiently in order to decide which customers are profitable now, and of those which aren't which may become so in the future.

CUSTOMER VALUE AND CUSTOMER SATISFACTION

When people buy stuff (products, services, or experiences) they make their purchasing decision based on their perception (either their actual understanding or their wild imagining) of the value they are going to receive in return for their money. But it's important to remember that perception is very far from always being rational.

'Customer value' is a measure of the difference between what the customer gains from using, owning or experiencing the purchase, and the cost of obtaining it. It's a measure of 'worth', but that worth is highly subjective, and indeed subject to any number of external and internal forces.

Picture this scene. A few weeks ago I stopped at a rural petrol station en route for an important meeting (well it seemed important at the time). After filling it up, the flippin' car wouldn't start again. It was clearly a battery problem. The garage had no one present who could help, but a local farmer offered to start my car with jump leads from his truck. This was a value proposition. I needed to get moving or I would miss my appointment.

And here's where customer value comes in to the mix. The farmer had my car working again in about two minutes.

> 'What do I owe you?' I said to the farmer.
> 'What have you got?' he replied.
> 'I've only got a twenty pound note on me,' I said.
> 'That'll do it,' he said.

You may think this was a high price for two minutes activity or not, but at that moment, in my particular situation, it was sound customer value. Had my need not been acute (in terms of time) then I could have called out my breakdown service and not paid anything (I already pay membership after all). But right there and then, my breakdown service could not have solved my problem quickly enough. Only the local guy with the jump leads could do that. That's customer value.

In fact the customer value here is quite complex: both tangible and intangible, logical, practical and also highly emotional (because solving the problem removed my rapidly escalating stress).

And on that particular day, for those few minutes, there was a marketing niche which the farmer filled by starting my car quickly, and this in turn led to 'customer satisfaction' (notwithstanding the £20 price). He promised value to me and delivered on it, thus creating a satisfied customer.

CREATING PROFITABLE RELATIONSHIPS

The next step in the marketing process, which couldn't happen in this particular case, but which can and should happen in any marketing-focused business, is to build on that satisfaction to create a long-term relationship. This time around we made a transaction, a satisfactory one-off exchange, and no further relationship could happen. But successful marketing businesses go an important extra step to create profitable relationships.

We all know, instinctively almost, that an existing customer is more valuable to our businesses than a new customer. And there is plenty of research to back it up: new customers are undoubtedly more expensive (most sources say five times more) to find and to attract than existing customers are to retain. At least that ought to be the case if we are looking after our customers properly. If we are, as we should be, delivering on our promises and fulfilling needs and wants to create truly satisfied, truly loyal customers. The genuinely loyal customer has a number of benefits to the business. They tend to be less demanding/difficult (and thus less draining of resource). They are less price sensitive than non-loyal customers. They buy more, and more often. And they can become ambassadors or customer-advocates for the brand.

There is a great deal of talk in marketing about 'customer loyalty'. The oft-described ideal is to take the customer along what might be called the 'line of loyalty': from new customer, to satisfied customer, to regular customer, to loyal customer, to customer-advocate. The last describes the dream customer who is voluntarily and enthusiastically championing your product, service and brand to everyone they meet.

But there are bear pits to watch out for on this apparently desirable path. The most obvious of course is at the 'new' customer stage. Your company will quite possibly have spent massive resources to get a potential customer to the point of purchase: but even when the purchase has taken place you cannot assume success, because something in the experience may have dissatisfied the customer: and as is well known, they may not tell you about it. They may simply never buy from you again, or worse, they may well tell others (many others if they are active on Twitter or TripAdvisor for example) about their dissatisfaction.

Even if they are 'satisfied' with the purchase in every way, and become 'regular' customers the marketer cannot rest on her laurels. Satisfied customers are potentially dangerous creatures. They rarely complain and as such they are easy to take for granted: and as such they are highly vulnerable to being wooed by competitor activity. And of course being a 'regular' customer is not as such an indication of any kind of commitment or connection: regularity may simply be a function of geographical convenience (as with most supermarket shoppers for example), or price.

Taking the customer to the point of genuine 'loyalty' is one of the most difficult steps in the whole marketing process: because loyalty is concerned with and dependent upon emotional engagement. Customer loyalty has two key elements:

1. The customer's rational understanding that they are receiving value (encompassing product and service quality, combined with what they perceive as appropriate pricing);
2. The customer's emotional engagement with the brand (which is dependent on a variety of elements that constitute a set of positive 'meanings').

This is quite a different definition of loyalty from that implied by loyalty cards and other such schemes (prevalent everywhere from coffee shops to airlines, from supermarkets, to high street retail chains, to dry cleaners). Loyalty cards would be more accurately described as 'regularity cards' in that, whilst they do appear to encourage regular purchase from the given store or brand, this is on the rational basis of receiving reward (points or discounts), rather than any emotional engagement.

So loyalty cards can appear to bring customers back on a regular basis, but that is not quite the same as real loyalty, which is important to note, because it does not therefore result in itself in helping customers towards the next step in the path: that of becoming 'customer advocates'. We shall come back to loyal customers and customer advocates later on.

THE MARKET AND THE INDUSTRY

A final few words in this chapter about the terms 'market' and 'marketing'. Of course the word market originally referred to the physical place where trading (exchange) actually took place. For our purposes though, and thus throughout this book, the word 'market' refers to the collection of people who buy (*actual* market) or might buy (*potential* market) your products or services.

You on the other hand (as the maker of product and the creator of services) are the 'industry'. In the modern era we are less inclined to barter like our cave dweller friends, and more likely to use money in one form or another as the method of exchange. Thus the simplest marketing model of all is simply described like this: the 'industry' provides products or services to the 'market' in exchange for money. In parallel with that exchange, in order to help it happen, the 'industry' communicates to the 'market' (telling it all about the products and services) and the 'market' provides information to the 'industry' (about its size, demography, needs, wants and demands).

Recent thinkers and practitioners often say that this simple circular system no longer adequately describes the reality. In the twenty-first century it seems that the communication (previously a one-way flow from 'industry' to 'market') is now a two-way conversation. And information (formerly a one-way flow in the other direction, from 'market; to 'industry') is now also two-way, with 'industry' and 'market' collaborating in product design, value propositions and so on.

WHO SAID IT . . .

"It's really hard to design products by focus groups. A lot of times, people don't know what they want until you show it to them."
– Steve Jobs

In many ways the boundaries between market and industry are becoming blurred. Many brands are now engaging customers in genuine conversations, allowing and encouraging customers to influence product and service design to an extent that goes far beyond traditional market research. More and more companies are creating online communities which not only stimulate discussion about the brand in question, but which also allow the brand to get under the skin of its customers and in turn give the customers a sense of 'ownership', which in turn can generate loyalty and advocacy.

But like all open conversations, this development carries the risk of misunderstanding and of causing offence. In 2010 the clothes retailer Gap notoriously asked its customers to submit designs for a new logo, having launched its own new design to widespread and severe criticism. Seeking input from the 'crowd' of customers in this way has become known as crowd-sourcing, but Gap got the crowd-sourcing approach wrong for two reasons. First because they asked their customers only after having launched their 'official' new logo and having realised that it was being met everywhere with mockery and scorn. So the resulting perception was that for Gap the customers were an afterthought, only consulted because of the negative reaction to the first logo. That was interpreted as a lack of respect for customers on the part of the brand. Second, because asking customers to provide a logo design was widely interpreted as 'cheap' and was attacked as unethical by wide sections of the design community, particularly in the United States.

It is no longer enough to think of a simple circular relationship between industry and market, and many marketers are embracing the notion of a more complex relationship with customers. Yet as the Gap example shows, it is very easy to misunderstand and mishandle the nuances and mores of this new style of relationship.

WHAT YOU NEED TO READ

- Philip Kotler's output is so vast and so extensively commented upon that perhaps the best place to begin investigating his thinking is on his website and in particular his answers to frequently asked questions www.kotlermarketing.com/phil_questions.shtml.

- Of Kotler's many books this is perhaps the best introductory example: *Kotler on Marketing*, Philip Kotler, Free Press, 2001.

- The hugely popular Seth Godin presents an excitingly irreverent take on marketing which balances Kotler's more academic stance. For an introduction to Godin see his daily blog www.sethgodin.typepad.com.

- For those who get the Godin bug this book demonstrates his style applied specifically to developing customer relationships: *Permission Marketing: turning strangers into friends and friends into customers*, Seth Godin, Pocket Books, 2007.

- Not strictly or exclusively marketing based, but always featuring the latest thinking and behaviour by many of the world's most dynamic and marketing-savvy entrepreneurs and businesses: www.fastcompany.com.

- For a thrilling account of the world's most famous marketing-oriented modern businessman see: *ICon, Steve Jobs: the greatest second act in the history of business*, J Young & W Simon, John Wiley & Sons Ltd, 2005.

IF YOU ONLY REMEMBER ONE THING

Marketing is not about selling the things you've made, but about making the things that people need and want.