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Customers as the Core of Contemporary Marketing

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Abstract: In recent times the concept of marketing is undergoing changes. Customers, as the greatest assets of a company, have to be viewed not only as the targets of marketing activities, but also of marketing management. Customer satisfaction is and has to be seen as the basic guarantee of the long-term success and survival of a company. Research into economic entities in Croatia has shown that companies which show willingness to become customers oriented realise and expect a significantly higher rate of profit than those which have not yet fully recognised the significance of being customers oriented.

JEL Classification:

Key words: customer satisfaction, expected value, loyalty, marketing

Introduction

If one looks at the successes of marketing perhaps the most significant change in business management in the last half of this century has been precisely the acceptance of a marketing philosophy as a management standard. Marketing has become one of the main features of the competitiveness and profitability of a company. It is beyond doubt that companies led by the traditional philosophy of marketing management have in fact turned out to be more successful than others. Unfortunately, it seems that today it is not sufficient to have only a well-designed concept of marketing in the traditional sense in order to survive and succeed on the market. It is therefore to be assumed that there are many continually unmet needs that can easily be discovered and met. But is this really so?

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Conceptual Framework

The Success of Traditional Marketing

Taking into consideration all the benefits that the managing function of marketing has brought, it seems that the concept is becoming less successful now than when it first appeared. Regardless of the fact that they had a 'right' product, a 'right' price, 'right' distribution (place) and 'right' promotion, results legged behind or did not live up to the expectations. New products too often failed. True, traditional marketing has continuously supplied market with new products. But, main reasons for the growing inadequacy of traditional marketing is because its concept is based on constant high market growth and orientated towards discovering new needs and wants on the market. This is usually a slower process than finding new and/or modifying ways to meet existing needs and wants. Further, traditional marketing too often does not pay full attention to the customers who are mostly seen only as a target of marketing efforts.

The Long-term Success and Survival of a Company

Long term success and survival of a company depends primarily on satisfied customers (external and internal) and employees. These are customers in the real sense of the word, and not only as mere consumers of commodities and users of services. It should be easy to do business with, and within companies, and this can be achieved by devoting more time and attention to the processes which bring in contact the customers. Naturally, this cannot be achieved without costs, but it might be useful to devote more attention to the basic ways of increasing revenue (and consequently profit) and to ensure the long-term survival of the company, rather than to pay attention to cutting costs only.

On developing and developed markets, it is becoming clear that the main 'weapon to fight' is to give greater value to customers, both in general and as compared to the competition. Thus, the only logical way to increase revenue and profit is to keep present customers and to attract new ones. It is extremely important that current customers stay loyal and new ones become so. This is possible only if their satisfaction is sustained, i.e., if the values they are prepared to pay for are continuously provided.

Today, most companies survive on the market due to the fact that customers repeatedly place their trust in them and in their products. The majority of companies set aside a larger part of their marketing resources to win new customers than they do to keep existing ones despite the fact that when the market growth slow and when competition is strong the customer loyalty is a decisive factor of success. For most business the valid fact is to keep the present customer costs several times than winning a new one[1] (Kessler, 1996; Brown, 1995).

Customer satisfaction can be used as an indicator of the success of a company in future. The easiest way to predict the future success of a product or service is by monitoring the level of satisfaction of customers with this particular product or service their satisfaction is the predictor of repeated purchases and is expressed by customer loyalty.

Customer satisfaction can be viewed from two angles – a result of a specific transaction, and as a sum of all the transactions carried out by the customer involving the product, service or company. From the result point of view of a particular transaction, customer satisfaction is an assessment made after the purchase, whereas cumulative satisfaction is the sum of all the transactions carried out in the past. Both forms of satisfaction arise from the choice and purchase of the product and a particular experience linked to its use.

High level of satisfaction is an indicator of the loyalty of present customers; it has an effect on lowering the flexibility of prices and in raising the immunity of the company's customers to being attracted by the competition. A high level of satisfaction causes a drop in the costs of future transactions, in the costs of closing a deal for the first time and a growth in the company's reputation. According to Reicheld and Sasser (1990) if the company has loyal customers, this will be reflected in its success in the sense of return on investments, because these customers will ensure the stability of future cash flow. Perhaps it would be worth mentioning that loyal customers provide a kind of guarantee for potential investors in the company that the company will be able to make the investment 'pay off', and therefore, they might be willing to invest funds at lower cost.

Customer satisfaction could reduce the flexibility of prices for the present customers. Satisfied customer will probably buy more frequently and in larger quantities and will also buy other products and services from the same company. The costs of attracting new customers will also be lower for companies with satisfied customers who pass on favourable recommendations by *word of mouth*, which can be a significant factor for assessing expected value by customers who weigh alternatives for the first time. Claims of customer satisfaction can make advertising more effective and all investment into promotion in general more justified.

A higher level of customer satisfaction affects the image of the company, and facilitates the introduction of new products and services by the company and also attract new customers more easily. The perceived risk of the trial purchase of a product from a company whose customers are satisfied with other products is lower. The reputation of a company, reflected in the satisfaction of its customers, can also, present an advantage in making and keeping connections with suppliers, in distribution and in creating mergers. Furthermore, customer satisfaction has a significant role in building the important 'asset' of a company, such as a brand and all the benefits which a brand can have in itself (Anderson and Weitz, 1989, Aaker, 1992, Keller, 1993)

Main task for companies is to find out what value means for the customers, i.e. by what means they use a product or service (or better say, what is their relationship to the company) and to what extent is their satisfaction. We should not forget that by winning customers the company has not yet ensured its future if these customers are not satisfied over a period of time.

Customer satisfaction index is a popular measure of satisfaction, which shows efficiency of the company at a point of time, but customer satisfaction index is a predictor of company's efficiency in future as well. Observing satisfaction index along with all other efficiency indicators of the company (Return on Assets, Return on Investment, Market share etc.); calculating trend of national satisfaction indexes with intention of getting new additional indicator of efficiency and changes in national economy is clearly visible. The main reason for this is the possibility of its application to development policy with a goal to stimulate the economic growth and competitiveness of national economy on global level. Already verified national satisfaction indexes of clients are: SCSI (Swedish), ACSI (American) and DK (German) satisfaction indices.[2] By observing the changes in the same, Ittner and Larcker (1996) and McDermott (1999) have found out positive correlation between customer satisfaction index and profitability. Besides, according to Eklof, Hackl and Westlund (1999) and Martin (1998) there is a positive influence of customer satisfaction index movements toward price of share and Dow Jones stock-exchange index.

Surrvey Results in Croatia

Methodology

The author of this paper has conducted a survey in Croatia. The results of the same are presented here. The hypotheses of this survey were the following:

- *Companies oriented towards customer satisfaction earn a higher rate of profit than other companies*
- *Companies oriented towards customer satisfaction expect a higher rate of profit than other companies*

Secondary data have been collected by searching accessible sources (accessible expert literature, the Internet, studies, project reports, statistical publications etc.) in order to discover, observe theoretically, and explain all previous knowledge regarding the set hypotheses.

Primary data were collected in order to confirm or reject the hypotheses of the research. Primary data were collected on a sample of companies with their head offices in Croatia. The sample frame was made of companies which are based in the country and have an account with the payment Clearing House (Zavod za platni promet), and for which location (address), activities and number of employees data are available.

The criterion of sample selection from the sample frame was the number of employees. The sample consists of companies with 70 or more employees, and there were 1,609 such companies at the time when the survey was carried out.

As method of contact companies, a highly structured questionnaire was posted to the companies, i.e. their managers. The advantages and disadvantages of this manner of collecting primary data, had been taken into account.

The survey was concluded by the end of 1997, a month and a half after the questionnaire had been sent. 15 per cent of all the posted questionnaires were received back (239).

Description of the Sample

The sample comprised 1,609 companies, whereas the data obtained from 239 companies whose managers returned the filled-in questionnaire were analysed. These companies (whose managers responded) had a total of 89,177 employees, of whom 9,081 had had higher education. If we observe relative indicators, then the average company in this research would have 374 employees among whom 10 per cent (38) have had further or higher education.

According to their organisational structure, most of the surveyed companies (66 per cent) were joint stock companies, whereas 28 per cent were limited liability companies. Other companies (6 per cent) had some other form of organisation. The largest number of companies (56 per cent) were privately owned. These are followed by publicly owned companies – 26 per cent; 16 per cent of the respondents reported forms of ownership other than private or public, whereas 2 per cent of the respondents did not answer this question.

Since the representation of the surveyed companies according to their main fields of activity and depending on the locations of the companies is congruent with the sample, it is possible to consider the results of the survey as highly indicative.

The Results

In line with the stated hypotheses, all the results were analysed with regard to the orientation of the company towards customers, which reflect the orientation of the companies towards customer satisfaction. The label 'satisfaction oriented' was given to the companies whose managers had stated:

a) as one of their objectives – reasons of the existence of the company – *satisfied customers, consumers (customer satisfaction)*

b) customers (buyers, consumers) as one of the 3 values which can ensure the long-term survival of the company on the market (at least for the next 10 years)

c) that they agree (up to a point, mainly or completely) with a list of 10 statements which collectively show their orientation towards customer satisfaction, and individually, the elements or activities which account for this success.

The companies that satisfied the conditions established in this way (noting that all three conditions had to be satisfied), made up 28.9 per cent of the sample, i.e. there were 69 out of 239 such companies.

The respondents were offered answers with appropriate average rates of profit or with a range of profit rates.[3] In order to obtain a more detailed indicator of the average rate of profit, the provided answers (ranges of rates of profit) were transformed into a subjectively estimated mean value. It was therefore assumed that the answer showing a negative average rate of profit could, in the majority of cases, mark a margin of -3 per cent, whereas the answers 1-5 per cent could mark reasonably enough an average profit rate of 3 per cent, 6-10 per cent was presented as average profit rate of 8 per cent etc. The answers observed in this way give an average rate of profit of 2.45 per cent registered by the companies in 1996. A profit rate of 3.78 per cent was expected in 1997, and 6.15 per cent in 1998.

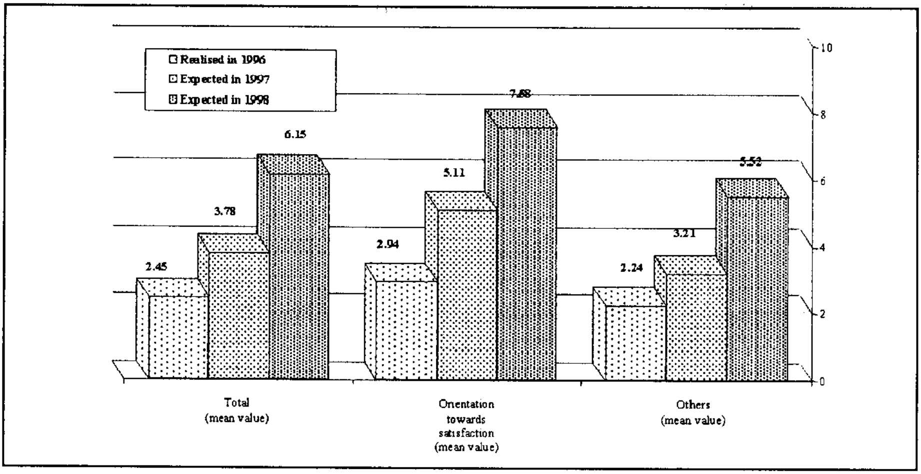
According to the stated hypothesis, the differences in the expected and realised rates of profit are the following (shown in Table 1. and in Figure 1.)

Table 1.: Realised and expected rates of profit

Average rate of profit	Total (mean value)	Satisfaction oriented (mean value)	Others (mean value)
Realised in 1996	2.45	2.94	2.24
Realised in 1997	3.78	5.11	3.21
Expected in 1998	6.15	7.58	5.52

By applying a t-test on independent samples, a statistically significant difference was found (with a statistically significance of 95 per cent, p-level.05) in mean values (average expected rates of profit in 1997 and 1998). In this sense it can be seen that satisfaction-oriented companies realised a higher rate of profit in 1996 (over 20 per cent higher). This difference is particularly evident in expectations for 1998. This can be explained by the starting enthusiasm of companies which took a step in the direction of customer satisfaction and which recognised the importance of this concept. In the same way, this shows that 1998 was a really crucial year for today's poor performance of Croatian economy as a whole. This is partly caused by some wrong measures in fiscal (e.g. introducing inappropriate value added tax system) and monetary policy (obligatory reserve in the Croatian National Bank) from 1997 end till now.[4] The optimism of managers as a chance for the beginning of recovery of the Croatian economy as a whole is missed.

Fugure 1. Realised and expected rate of profit (estimate)



Limitations

As one of the limitations of this survey we can say that the number of employees was chosen as a sampling criterion, and this does not have to be the best indicator of the size and importance of a company. The return rate of 15 per cent can also be considered as a limitation. Furthermore, a certain level of subjectivity is present in the analysis of the data itself in determining the criteria to be met for a company to be conditionally regarded as oriented towards customer satisfaction. Consequently, the determination of the average rate of profit is influenced by subjective estimates.

Conclusion

Managers have to persist in directing attention to the key elements of marketing – the 4Ps. However, regardless of the success of marketing in the past, with today's prevailing circumstances (technological development, the globalisation of competition and a reduced rate of growth of the economy as a whole) traditional focus primarily on product, price, promotion and place/distribution could be irrational and fatal for companies over a longer period of time.

Unlike the early stages of marketing, when customers were simply the targets of marketing activities, in contemporary thinking we have to consider customers through their level of satisfaction as an element of marketing. This element of marketing have to be managed by the company and on the basis of which marketing need be managed.

NOTES

[1] This indicator shows a certain discrepancy, since some sources record 5-7 or, even 5-12 times, e.g. S. Kessler, *Measuring and Managing Customer Satisfaction*, ASQC, 1996. p. 49, citing the source, Mentzer, T.J., 'Fundamentals of Customer Satisfaction Measurement and Management: What are Other Companies Doing?' presentation at the Seventh ASCQ Conference on 20 February 1995. In most cases in all the consulted sources there is agreement that winning a new customer is many times more expensive than keeping an existing customer, whereas A. S. Brown, , in *What Customers Value Most*, John Willey & Sons, 1995, p. 8, shows the indicator 5-12 times.

[2] SCSI - *Swedish customer satisfaction index* or SK - Svenkst kundindex, established 1989; ACSI - *American customer satisfaction index, established* 1994; DK -*Deutsche Kundenbarometer, established* 1991. As the pilot project ECSI - *European customer satisfaction index*, started at beginning of 1999.

[3] It should be stressed that it was explained to the respondents of the questionnaire that the average rate of profit '... can be regarded as earnings before taxation in relation to invested capital and reserves, shown in percentages'.

[4] For detail and further explanation see materials from conferences: 'Tranzicija: izazovi i mogućnosti hrvatskog gospodarstva', Zagreb, Croatia, November, 1999 (paper by Sandra Švaljek) and 'Monetarna politika i nelikvidnost hrvatskoga gospodarstva', Opatija, Croatia, November, 1999 (paper by Ivo Lovrinović)

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