

Summary

Customers are value maximizers. They form an expectation of value and act on it. Buyers will buy from the firm that they perceive to offer the highest customer-delivered value, defined as the difference between total customer benefits and total customer cost.

A buyer's satisfaction is a function of the product's perceived performance and the buyer's expectations. Recognizing that high satisfaction leads to high customer loyalty, companies must ensure that they meet and exceed customer expectations.

Losing profitable customers can dramatically affect a firm's profits. The cost of attracting a new customer is estimated to be five times the cost of keeping a current customer happy. The key to retaining customers is relationship marketing.

Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy

stated or implied needs. Marketers play a key role in achieving high levels of total quality so that firms remain solvent and profitable.

5. Marketing managers must calculate customer lifetime values of their customer base to understand their profit implications. They must also determine ways to increase the value of the customer base.
6. Companies are also becoming skilled in customer relationship management (CRM), which focuses on developing programs to attract and retain the right customers and meeting the individual needs of those valued customers.
7. Customer relationship management often requires building a customer database and data mining to detect trends, segments, and individual needs. A number of significant risks also exist, so marketers must proceed thoughtfully.

Applications

Marketing Debate

Online versus Offline Privacy

As more firms practice relationship marketing and develop customer databases, privacy issues are emerging as an important topic. Consumers and public interest groups are scrutinizing—and sometimes criticizing—the privacy policies of firms and raising concerns about potential theft of online credit card information or other potentially sensitive or confidential financial information. Others maintain online privacy fears are unfounded and that security issues are as much a concern offline. They argue that the opportunity to steal information exists virtually everywhere, and it's up to consumers to protect their interests.

Take a position: Privacy is a bigger issue online than offline *versus* Privacy is no different online than offline.

Marketing Discussion

Using CLV

Consider customer lifetime value (CLV). Choose a business and show how you would go about developing a quantitative formulation that captures the concept. How would that business change if it totally embraced the customer equity concept and maximized CLV?

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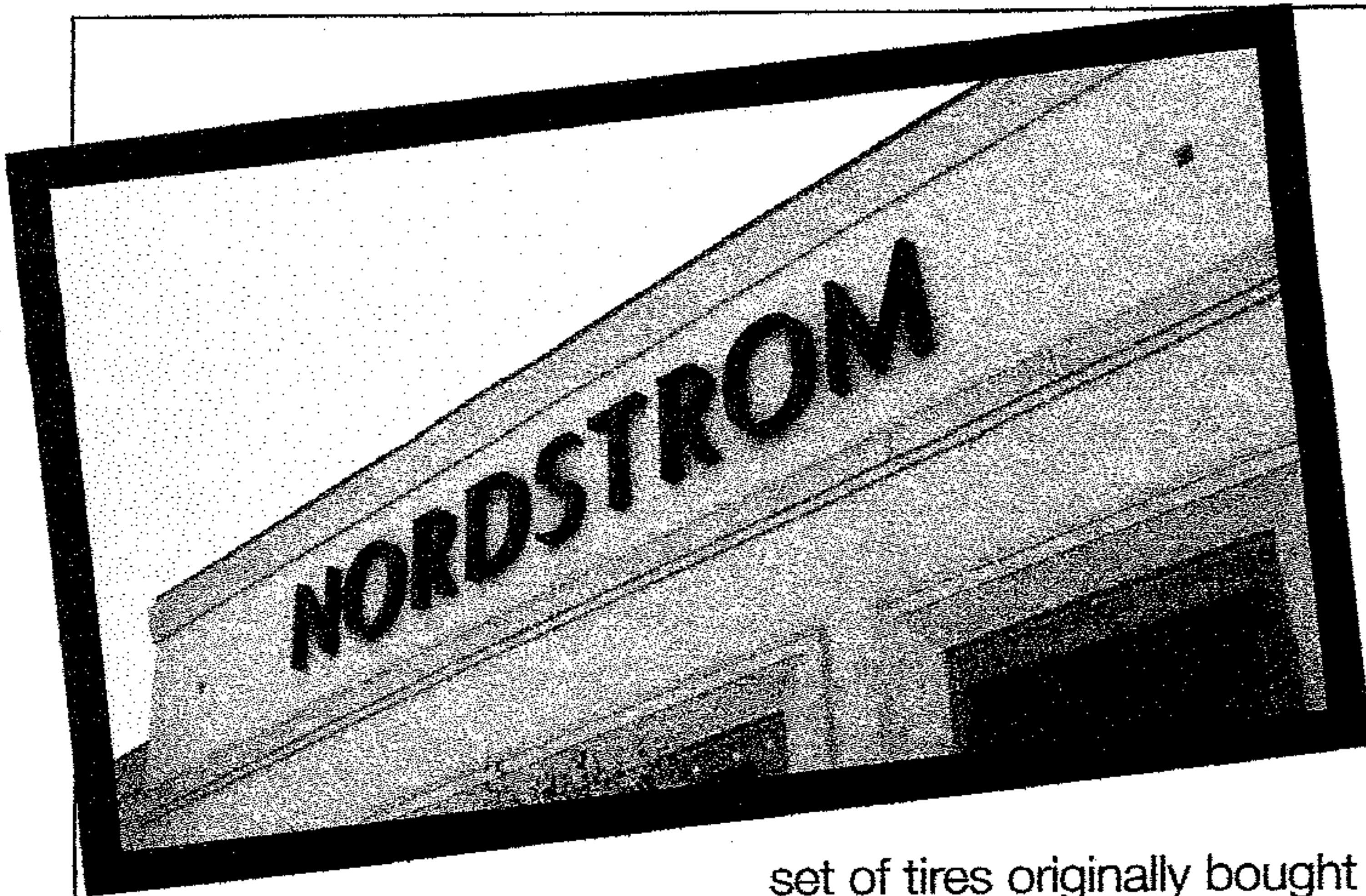
>> Nordstrom

Nordstrom is an upscale U.S. department store chain with sales that topped \$8 billion in 2009. John W. Nordstrom originally started the company as a shoe store but grew it over the years into a fashion specialty chain store selling top-quality, brand-name clothing, accessories, jewelry, cosmetics, and fragrances.

From the beginning, Nordstrom has believed in and stressed the importance of providing the highest level of

customer service possible along with top-of-the-line, high-quality merchandise. As a shoe retailer, the company offered a wide range of products to fit most everyone's needs and price point. As it expanded into fashion and apparel, it maintained these goals.

Today, Nordstrom sets the standard in customer service and loyalty. In fact, the company is so well-known for this trait that urban legends of unusual acts of customer service still circulate today. One of the best-known tells how in 1975 a customer came into a Nordstrom store after Nordstrom had purchased a company called Northern Commercial Company. The customer wanted to return a



set of tires originally bought at Northern Commercial. Although Nordstrom has never carried or sold tires, it happily accepted the return and instantly provided the customer cash for his purchase.

While Nordstrom's "no questions asked" return policy remains intact today, there are many other examples of its exceptional customer service. Its sales representatives send thank-you cards to customers who shop there and have hand-delivered special orders to customers' homes. Nordstrom installed a tool called Personal Book at its registers that allow salespeople to enter and recall customers' specific preferences in order to better personalize their shopping experiences. Nordstrom also provides customers with multichannels for shopping, allowing them to buy something online and pick it up at a store within an hour.

Nordstrom's customer loyalty program, Fashion Rewards Program, rewards customers on four different levels based on their annual spending. Customers who spend \$10,000 annually receive complimentary alterations, free shipping, a 24-hour fashion emergency hotline, and access to a personal concierge service. Customers at the highest rewards level (\$20,000 spent annually) also receive private

shopping trips complete with prestocked dressing rooms in the customers' specific size, champagne, and live piano music; tickets to Nordstrom's runway fashion shows; and access to exclusive travel and fashion packages, including red carpet events.

This strategic and often costly customer-focus approach has reaped great benefits for the company. Not only has Nordstrom emerged over the past 100+ years as a luxury brand known for quality, trust, and service, but its customers stay loyal even in hard times. During the economic crisis in 2008 and 2009, many customers chose to shop at Nordstrom over its competitors due to their existing relationship and hassle-free return policy.

Nordstrom currently operates 112 full-line stores, 69 Nordstrom Rack clearance stores, two Jeffrey Boutiques, and one clearance store, with plans to open 50 new stores over the next 10 years. When a new store opens, Nordstrom connects with the surrounding community by hosting an opening night gala complete with live entertainment, a runway fashion show, and the ultimate shopping experience to help raise money for local charities.

As Nordstrom moves forward, the company continues to be flexible and look for new tools and means to help deepen and develop its customer-salesperson relationship.

Questions

1. How else can Nordstrom continue to provide exceptional customer service and increase brand loyalty?
2. What are Nordstrom's greatest risks, and who are its biggest competitors?

Sources: "Annual Reports," Nordstrom.com; "Company History," Nordstrom.com; Chantal Todé, "Nordstrom Loyalty Program Experience," *DMNews*, May 4, 2007; Melissa Allison and Amy Martinez, "Nordstrom's Solid December Showing Suggests Some Shoppers Eager to Spend," *Seattle Times*, January 7, 2010.

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>> Tesco

If you asked a customer of UK supermarket chain Tesco what the shopping experience there was like in the early 1980s, "customer friendly" would probably not be the answer. Though it began upgrading its stores and product selection in 1983, Tesco continued to suffer from a reputation as a "pile it high and sell it cheap" mass market retailer, lagging behind Sainsbury's, the more upscale market leader. To gain share against Sainsbury's, Tesco needed to reverse the public perception of its stores. It decided to improve the shopping experience and highlight improvements with an image campaign to "lift us out of the mold in our particular sector," as its 1989 agency brief put it.

Between 1990 and 1992, Tesco launched 114 separate initiatives to improve the quality of its stores, including adding

baby-changing rooms, stocking specialty items such as French free-range chickens, and introducing a value-priced line of products. It developed a campaign entitled "Every Little Helps" to communicate these improvements with 20 ads, each focused on a different aspect of its approach: "doing right by the customer." As a result, between 1990 and 1995, Tesco attracted 1.3 million new customers, who helped increase revenues and market share until Tesco surpassed Sainsbury's as the market leader in 1995.

Tesco then introduced an initiative that would make it a world-class example of how to build lasting relationships with customers: the Tesco Clubcard frequent-shopper program. The Clubcard not only offered discounts and special offers tailored to individual shoppers but also acted as a powerful data-gathering tool, enabling Tesco to understand the shopping patterns and preferences of its customers better than any competitor could. Using Clubcard data, Tesco created a unique "DNA profile" for each customer.