

CUSTOMER SERVICE

MARKETING METHODS IN EUROPE

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CUSTOMER SERVICE
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AUGUST 1987

Published by
INPUT
1280 Villa Street
Mountain View, CA 94041
U.S.A.

Customer Service Program Europe (CSPE)

Customer Service--Marketing Methods in Europe

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Printed in the United States of America.

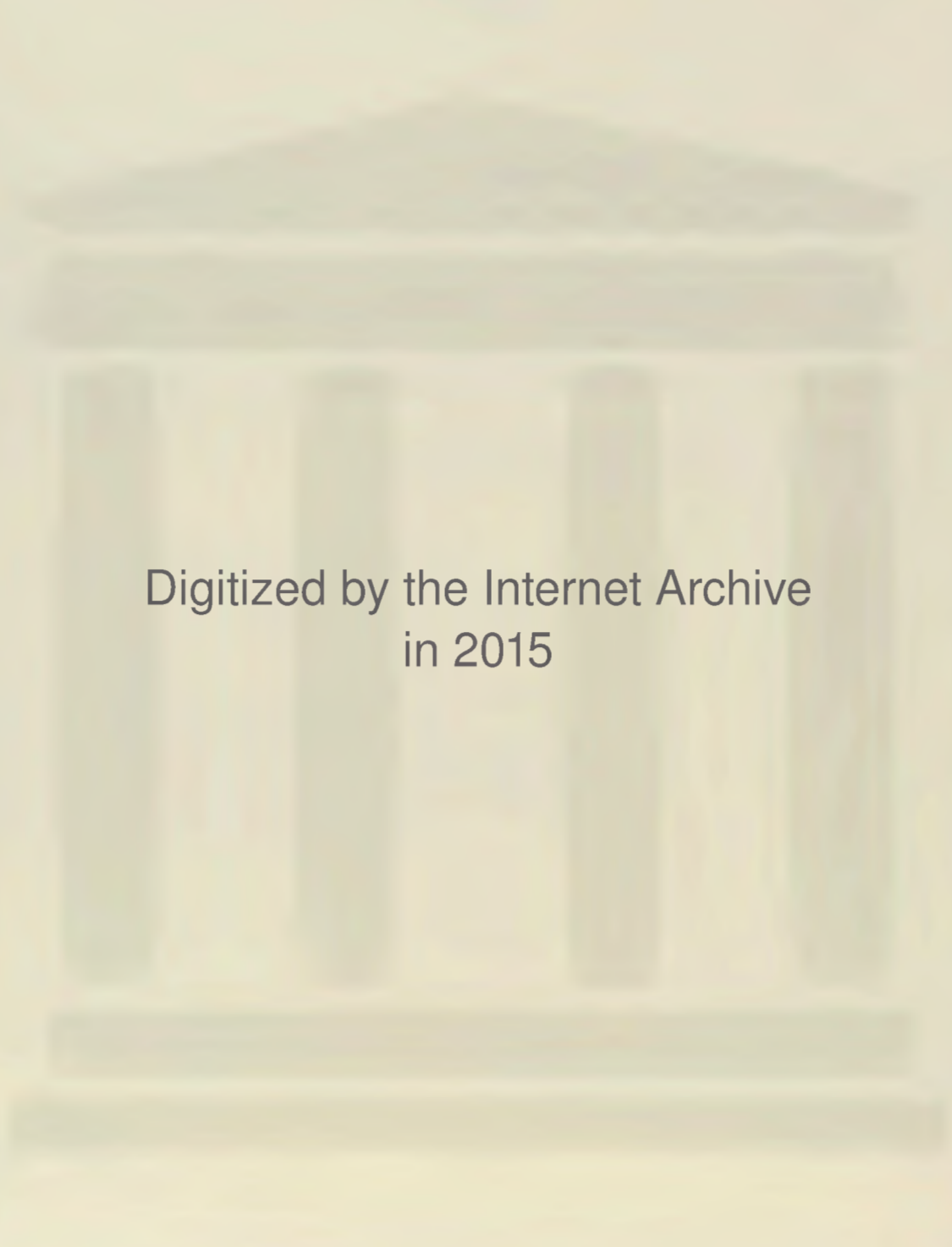
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CUSTOMER SERVICE MARKETING METHODS IN EUROPE

ABSTRACT

This report examines the current observed levels of specific marketing activity amongst customer services organisations in Europe. It looks at the industry trends which are placing increasing emphasis on marketing and describes the formal components of a marketing system. It describes what marketing actions are being taken by customer services vendors. The report also provides recommendations to customer services management for fuller implementation of marketing techniques.

This report contains 79 pages, including 23 exhibits.



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CHAPTER I - INTRODUCTION

I INTRODUCTION

A. OBJECTIVES

- In recent times changes in the customer service environment have included profit centre orientation, the emergence of the third-party maintenance (or independent maintenance) market, and a more demanding user community.
- In consequence, INPUT has observed a growth amongst vendors in the direct marketing function of customer service.
- The objective of this report is to examine the current levels of marketing activity amongst customer service organisations.
- This report focuses on the need for positive marketing of customer service, the components of the marketing approach, and vendors' approaches to implementing their marketing strategies.
- The scope of this report covers the European customer service market including both computer equipment suppliers and third-party maintenance organisations.

B. METHODOLOGY

- This report, produced as part of INPUT's 1987 Customer Service Programme - Europe, is based on INPUT's continuing research studies.
- During 1987 this research activity encompassed, apart from user research, over 60 vendor interviews conducted with senior management responsible for customer service organisations.
- For this particular report INPUT carried out 12 face-to-face interviews with customer service management, specifically including managers with responsibility for the marketing of customer service.
- Of these twelve interviews, eight were with representatives of manufacturers and four were with third-party maintenance suppliers.
- In terms of equipment coverage, the interview group represented companies with a wide range of equipment, encompassing large mainframe systems, minicomputers, personal computers, and networks.

C. REPORT STRUCTURE

- The remaining chapters of this report are organised as follows:
 - Chapter II is an executive overview providing a summary of the contents of the entire report.
 - Chapter III examines the background to the development of formal marketing initiatives for customer service. It looks at the trends detected in the customer service market that are placing emphasis on

marketing skills and at the formal components of a marketing approach.

- Chapter IV describes the level of marketing activity observed by INPUT amongst customer service vendors. This is analysed according to the principal components of marketing activity.
 - Chapter V summarises the major conclusions that result from this study and provides recommendations for the application of professional marketing techniques.
 - Two appendices to the report provide, respectively, a generic description of how the need for services marketing has arisen and a set of exhibits that provide a framework for vendors to operate a marketing audit.
- INPUT would like to express its thanks to all those companies and individuals who participated in the research undertaken for this report.
 - Inquiries and comments regarding this report and any related topics of interest are welcomed by INPUT.

CHAPTER II - EXECUTIVE OVERVIEW

II EXECUTIVE OVERVIEW

- This Executive Overview is designed in a presentation format in order to:
 - Help the busy reader quickly review key research findings.
 - Provide a ready-to-go executive presentation, complete with script, to facilitate group communication.
- The key points of the entire report are summarised in Exhibits II-1 through II-6. On the left-hand page facing each exhibit is the script explaining its contents.

A. THE CHANGING ENVIRONMENT FOR CUSTOMER SERVICE

- As the growth rate of hardware maintenance revenues has slowed, new market needs for services are emerging in such areas as software support, training, network support, and professional services.
- The emergence of the third-party maintenance market in Europe has also been an important factor in changing the quasi-monopoly market for customer service.
- New market segments are rapidly developing, such as office automation and distributed systems, where many of the new end users are not data processing professionals but managers whose prime objectives are the business advantages of computer systems.
- Consequent to these changes, customer service vendors are beginning to recognise the importance of marketing their service products and devoting significant resources to that activity (up to 3% of customer service revenue in some cases).
- These changes imply a need for understanding the market more fully and for the development and implementation of marketing techniques.
- Customer service revenues (and potential profit contribution) represent a very significant proportion of a system product vendor's total revenues (up to 30%) as well as, naturally, the prime revenue of a TPM operation.
- Thus, there is a recognised need to maintain and develop this aspect of the overall business and to move from the quasi-monopoly 'market thinking' of the past into the 'value-added' opportunities of the future.

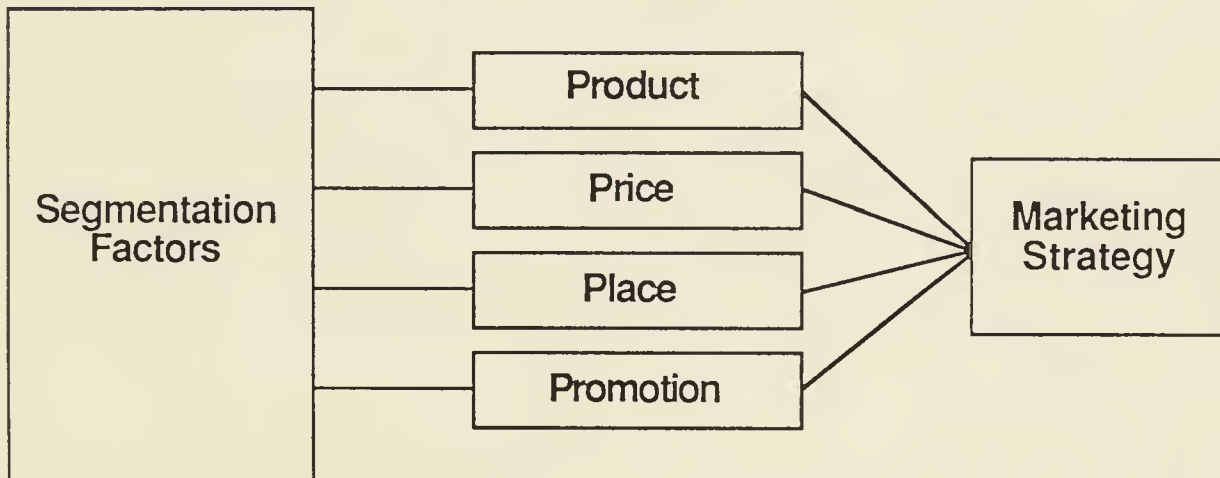
THE CHANGING ENVIRONMENT FOR CUSTOMER SERVICE

- Revenue Mix Changes
- TPM
- New Opportunities
- Marketing Activity

B. THE CUSTOMER SERVICE MARKETING MIX

- The fundamental essence of implementing a marketing strategy concerns the tactical components that define the service product, its form, and the manner in which it is to be delivered.
- These tactical components are often referred to as the 'marketing mix' or the four 'Ps' of marketing, namely the product, the price, the place, and the promotion.
- The service product is the basic offering that provides the solution to a problem or a want/need satisfaction.
- The price is always a key marketing decision, but one which is at the same time overestimated in importance when not evaluated against the perceived value of the service.
- The place is the delivery mechanism or distribution channel through which the service product is consumed by the buyer.
- Promotion activity provides information or persuasion messages to the target market.
- These four service product marketing decision areas must be developed on the basis of knowledge about the target markets. These target markets are identified from the various segmentation factors, e.g., type of equipment, type of user, local market, or industry sector.
- Together, these marketing decisions implement the selected marketing strategy of the firm.

THE CUSTOMER SERVICE MARKETING MIX



C. CUSTOMER SERVICE MARKETING

- In order to control and implement any marketing strategy there must be some management or organisation function that takes responsibility for it. There is the necessity to plan, allocate budgets, collect market intelligence, and monitor progress.
- Significant percentages of customer service revenue are being allocated to this customer service marketing, typically in the range of 2-3%.
- An important indicator of customer service emphasis on marketing is the level of staffing allocated to this activity. All the respondents to this survey recognised the need for customer service marketing, with over three-quarters of them having specific staff responsible for this activity either within the customer service organisation or within their corporate marketing organisation.
- Typically, the larger customer service organisations are employing between five and ten people dedicated to 'marketing' the customer service function. A key challenge for senior management is to develop or recruit skilled professional marketers to staff these functions. Marketing training is thus an area of increasing emphasis.
- The major objectives of customer service marketing organisations are generally seen by vendors as:
 - Meeting customer needs and achieving customer satisfaction.
 - Image improvement and quality concerns.
 - Diversification and development of services.
 - Differentiating services.

CUSTOMER SERVICE MARKETING

- **Organisation/Planning**
- **Budgets/Staff**
- **Objectives**

D. CUSTOMER SERVICE MARKET ANALYSIS

- Tactical marketing decisions should only be made on the basis of reliable data about served markets. Customer service management is increasingly aware of the need to segment their markets, using such criteria as industry sector and type of use.
- Armed with knowledge about the target market segments, marketing management can seek to differentiate their products through the inclusion of new service offerings, e.g., software support and professional services. Packaging and bundling of services, for example, is seen as a way to address specific market segments and to give the basic hardware maintenance more added value.
- Hardware maintenance is no longer seen as the only 'customer service', and those other customer service needs, especially those with a faster growth rate, are the areas that are receiving major marketing effort.
- Another important aspect for market analysis is the selection of the appropriate buyer/seller relationship through which the customer service product can be sold and delivered to the customer. One significant trend observed here by INPUT is the emphasis on development of marketing strategies for major accounts.
- Some customer service organisations are employing separate 'customer service' salespeople, and clearly this activity has been fundamental to the growth of most TPMs.
- Another area of emphasis is to develop more 'marketing' skills amongst the field engineers. Productive account management and customer feedback are important in this area.

CUSTOMER SERVICE MARKET ANALYSIS

- Segmentation
- Differentiation
- Buyer/Seller Relationships

E. THE PROMOTION OF CUSTOMER SERVICE

- Promotion is the term used to categorise all those methods and techniques used to communicate the sales message to the customer. Customer service is also being promoted to the 'internal' audience of top management and the salesforce.
- Fundamentally, customer service can be promoted through a direct salesforce, through a specific sales promotion campaign, or through advertising. Typical sales promotion methods for customer service include:
 - The production of promotional material, e.g., brochures, customer information packs.
 - The use of mailshots.
 - Telemarketing, mostly for supplies.
- In addition, many other techniques are utilised, possibly augmenting the promotion of the system or other products. Customer service vendors widely report the use of seminars and presentations, attendance at exhibitions, trade shows, user groups, the development of press articles, and training courses.
- Advertising in the press is a relatively new phenomenon for customer service, and only about half the vendors that INPUT interviewed specifically advertised customer service.
- It was very clear that advertising is a much stronger requirement for TPMs than for equipment vendors. There was evidence of both the specialist press and national newspapers being used for this.

THE PROMOTION OF CUSTOMER SERVICE

- Direct Sales Force
- Sales Promotion
 - Promotional Material
 - Mailshots
 - Telemarketing
- Advertising

F. RECOMMENDATIONS

- Customer service management must carefully evaluate whether they are committing sufficient professional marketing skills to this activity.
- They must also ensure that adequate budgets are being devoted to this area. INPUT recommends that at a minimum 2-3% of service revenue should be considered.
- Vendors should place greater emphasis on formal marketing techniques in customer service marketing, in particular:
 - The segmentation of markets to determine groups of customers identified by their real needs/wants and buying patterns.
 - The differentiation of the service offerings (through bundling of services, supplying different levels of service, etc.) that address the needs of these specifically identified market segments.
- It is important to note, however, that segmentation can only be practiced to a level that still retains economic numbers of installations.
- INPUT recommends that customer service vendors implement marketing audit procedures. This is the examination of a company's marketing environment and an assessment of its objectives, strategies, and business activities.

RECOMMENDATIONS

- Increase Marketing Personnel
- Increase Marketing Budget
- Develop Segmentation and Differentiation
- Implement Marketing Audits

CHAPTER III -
POSITIVE MARKETING OF CUSTOMER SERVICE

III POSITIVE MARKETING OF CUSTOMER SERVICE

- The research carried out by INPUT for this study revealed the growing awareness of marketing as a key issue amongst customer service management.
- This chapter examines the background environmental factors that have led to this development and provides a definition of the activities (and the relationship between them) that can be described as the 'marketing mix'.
- The practical manifestation of marketing in customer service is described in Chapter IV.

A. THE MARKET ENVIRONMENT

- INPUT research has consistently indicated a changing environment for customer service business over the last few years.
- Up until the end of the 1970s the customer service business of the equipment manufacturers was substantially the sole provision of hardware maintenance in a quasi-monopolistic situation.
- The main threats to that situation have emerged from:

- The development of the third-party maintenance vendors (or independent maintenance providers).
 - The creation of complex distribution channels (dealers, value-added resellers, etc.) that have blurred and in many cases eradicated direct contact between the equipment manufacturers and the final customer.
 - The increasing reliability of computer equipment and the trend towards more efficient methods for fault diagnosis.
 - The increased resistance of users to current levels of maintenance charges in the light of these changes.
- The response of equipment vendors to these market dynamics can basically be summed up as an adoption of the marketing approach.
 - INPUT observes that in the industry at large the response has included such tactics as:
 - The introduction of more flexible contracting procedures.
 - The development of new opportunity areas for the creation of additional customer service revenues (e.g., software support and professional services).
 - The engagement of marketing departments and involvement in advertising and promotional initiatives.
 - Essentially these activities can be described as a general move to offer a wide (or wider) range of customer services and options in an attempt to meet customer needs.

- This is, in essence, the classic definition of marketing by Theodore Levitt, the Harvard Business School guru who, back in 1955, introduced the modern concept of marketing as 'doing everything possible to satisfy customer needs'.
- Whilst this statement sums up the very essence of the marketing approach, a slightly more helpful definition of marketing can be given:
 - Marketing is about customers, their needs, and the processes necessary for the efficient and economic satisfaction of those needs.
 - It thus involves understanding customer needs and the marketplace, setting marketing objectives, determining strategies, and then effectively organising and controlling selling operations to achieve objectives.
- Thus has come about the realisation of and the need for the positive marketing of the customer service function amongst the equipment manufacturer community.
- A general description of the evolution of marketing is included as Appendix A.
- The third-party maintenance community, since by definition their entire revenues derive from customer service activity, has always had a high involvement in marketing. Certainly this is true in terms of the definition given above.
- INPUT's discussions with senior managers responsible for customer service organisations have revealed a view of the environment as having become highly competitive.
- Additionally, the independent maintenance sector is viewed almost universally as both a threat and an opportunity.

- All the multinational customer service suppliers that INPUT has interviewed have, however, commented on the very different customer attitudes towards independent maintenance (or TPM) in different European countries.
- Consequently, the individual market environment can vary considerably from country to country. However, the broad trends influencing a stronger need for a marketing approach hold true throughout Europe.
- The service suppliers see the customer service market dividing into two very distinct and different broad segments:
 - Traditional (or existing) computer users who are becoming more knowledgeable and sophisticated in terms of their computer system requirements and are demanding services that are tailored to their needs--commonly through pressure from the various user associations.
 - A very large and quickly growing segment of users who are completely new to computer systems and are thus naive about the equipment and the services they need.
- This second group of new 'computer system' users has arisen with the extension of digital computer technology into new application areas, notably office automation, and the widespread use of PCs.
- Since users in this area are generally inexperienced, and in any event these are new application areas which by definition do not have an 'experience' history, considerable marketing effort is required.
- This marketing effort is related not only to the promotion of services but to the development of an understanding of what services are required by these users.

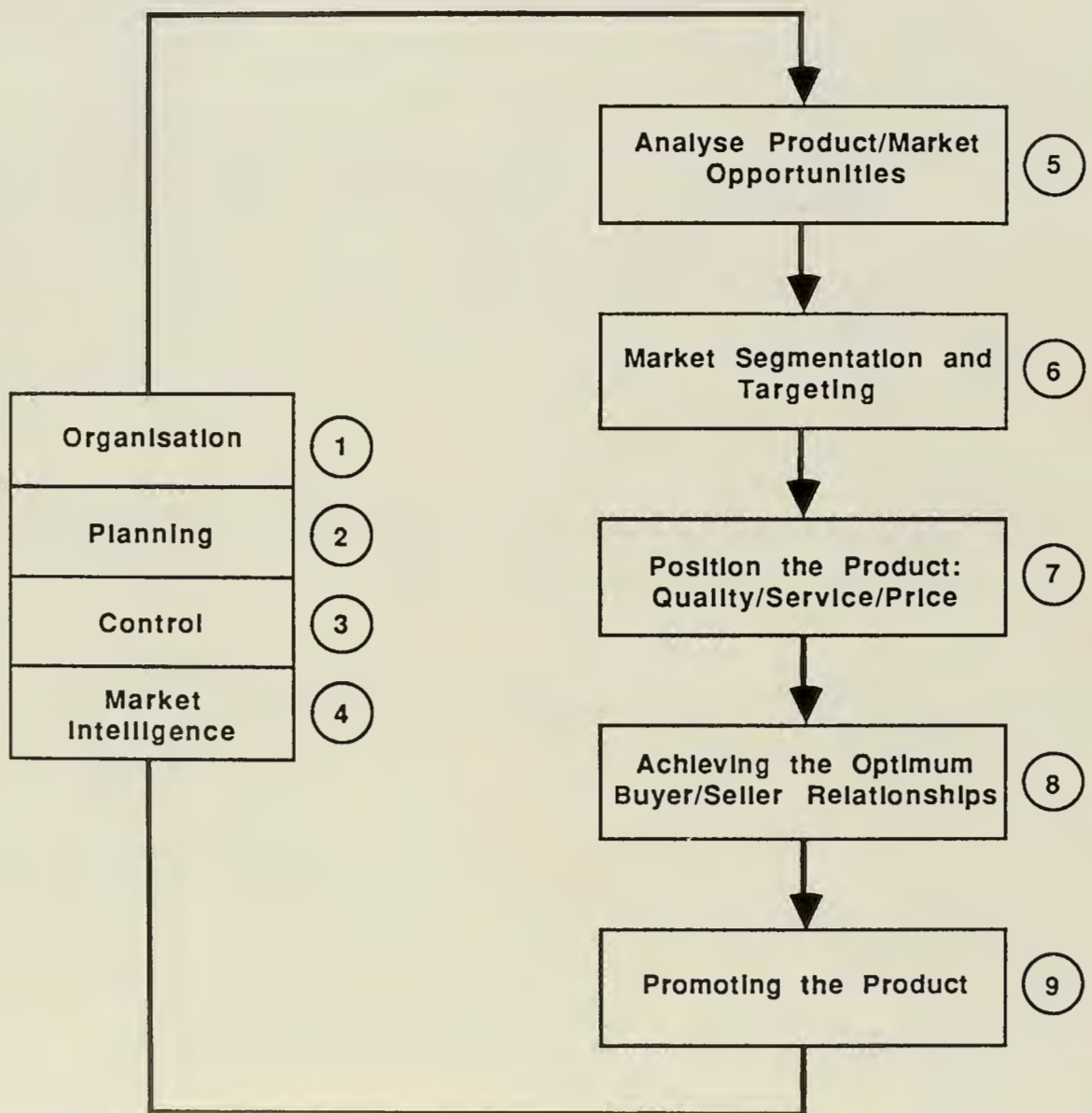
- The types of services envisaged include training, implementation, and 'hand holding' at very fundamental levels quite different to those which the service industry has traditionally provided to the 'computer literate' customers in data processing departments.
- Another significant factor identified by INPUT was that, as a result of standardisation within the industry, major manufacturers are using their service offerings to differentiate their products.
- To be effective in this strategy they have to place considerable emphasis on marketing services as something separately identifiable from the marketing of the base hardware and software products.
- Some service suppliers do not see their traditional hardware maintenance revenues having any significant growth--or even as declining--but at the same time they see software support and other customer service revenues poised for significant growth.
- They see the need to draw customers' attention to these services, and this implies that such services will have to be marketed.
- Another theme that appeared from INPUT's research was the need to package services in order to achieve market acceptance. The need for system services--a combination of hardware maintenance and software support--is seen as a way of getting users to pay for the software support.
- In many cases 'packaged' customer services was identified as the way to address specific market segments.
- The recognition that different market segments have different needs and its impact on the customer service offerings now appears to be generally appreciated. This is probably a spin-off of the general marketing approach of most of the major suppliers of computer systems in offering or attempting to offer complete solutions.

- Price was not identified as very significant, especially if the service products were packaged to address a specific vertical or niche market.
- This indicates that the service suppliers are looking to 'marketing' to enable them to increase and maximise their revenues and to take the pressure off the price of hardware maintenance as a separate and standalone service.
- The significance of the service revenue and profit within a company's total financial performance was highlighted by a number of respondents, and non TPM service providers indicated that up to 30% of their company's turnover was from customer service.
- Customer service management reported that this was appreciated by their general management and was encouraging them to invest more in service marketing.
- European subsidiaries of U.S. organisations stated that their parents had gone a long way in marketing U.S. customer service and were beginning to influence them to increase their service marketing efforts in Europe.
- The growing tendency for modular hardware with the potential of customers performing 'swap-outs', i.e., performing the first line hardware maintenance, also got a number of mentions. This was causing an approach towards overall service management and repair being the service to be offered, with the hands-on field engineer activity declining.
- As a result of this trend, most customer service suppliers are looking to diversify into other types of customer service. This has led them to realize that to succeed in such areas they need to market these services.

B. THE MARKETING PROCESS

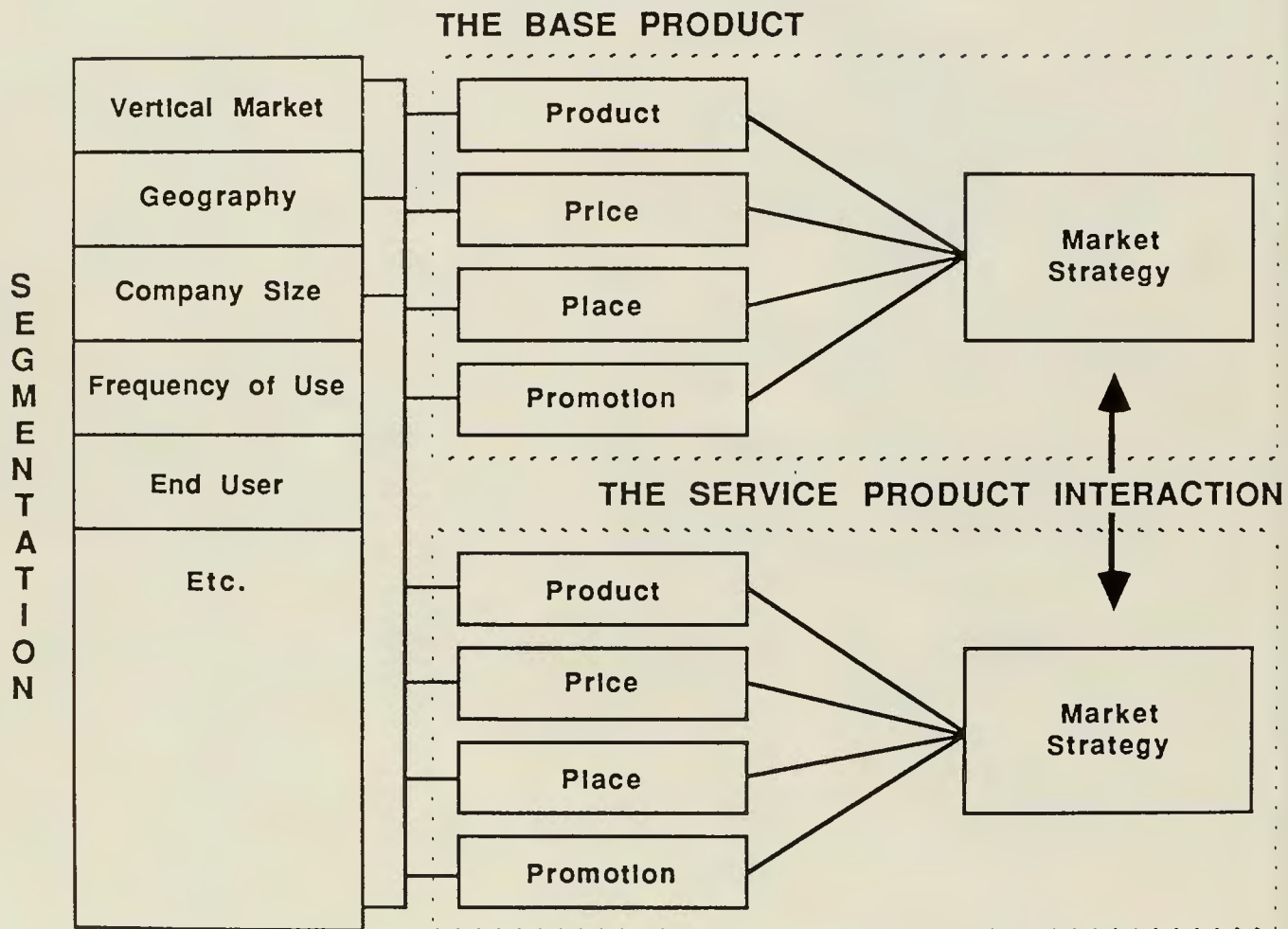
- The adoption of a marketing approach is founded on the application of a number of basic activities.
- These can be conveniently summarised as the nine basic stages shown schematically in Exhibit III-1.
- Fundamental to all marketing activity is the need for overall plans and controls. There must be a marketing organisation to implement these plans, and there must be a marketing intelligence activity that gathers information from the company's environment, its competitors, and its markets.
- The first four steps involve the establishment of organisation, planning, control, and market intelligence.
- Business and commercial opportunities must be analysed from the market perspective as well as from the product aspect.
- The market must be divided into segments and analysed by segment so that the markets with higher needs for the product and thus the highest profit potential can be identified.
- The entire product offering, its price, and any attendant customer services must be carefully considered. Then the product can be positioned as uniquely as possible in the eyes of prospective customers.
- Buyer/seller relationships or channels of distribution that are efficient and effective must be established.
- Promotional activities must be developed (e.g., advertising) that communicate the product's value to its potential market.

NINE VITAL STAGES IN THE MARKETING APPROACH



- Whilst these nine vital stages constitute the complete marketing approach, in general most marketing practitioners are concerned on a day-to-day basis with the tactical implementation of the marketing plan.
- The tactical elements are often referred to as the 'marketing mix' or the four 'Ps' of marketing, namely:
 - The product.
 - The price.
 - The place.
 - The promotion.
- These correspond to stages 7, 8, and 9 in Exhibit III-1. All of these elements must be brought together to form a cohesive marketing package; this is the task of the marketing professional.
- These elements are represented diagrammatically in Exhibit III-2 together with the segmentation criteria (stage 6 in Exhibit III-1), which will be prime input for making marketing decisions.
- Exhibit III-2 also indicates the interaction between the marketing plan for the base product (e.g., a computer system) and the marketing strategy for the service products that augment it (e.g., hardware service, software support, consultancy, etc.).
- The segmentation criteria includes such basic parameters as the vertical industry market of the customer (or prospect), geographical location, the size of the company, the frequency of intended use, the type of service end-user, and many others.

THE MARKETING MIX



- It is only by considering carefully all these factors that a customer service marketer can hope to influence customer expectations for service and direct service product development to match customer needs.
- Customer satisfaction, a key marketing aim, will be achieved when the perceived delivered service meets the customers' expectations.
- The vital point about market segmentation is that different types of customers often (and increasingly) have different needs for services.
- Evidence that customer service managers are increasingly involved in marketing decision making is provided in Exhibit III-3. This exhibit provides examples of customer service management comments on the four basic areas of tactical marketing.
- These comments demonstrate the practical day-to-day issues being faced in today's changing customer service market.
- It is particularly interesting to note the final remark in the Promotion section. This comment illustrates the considerable progress still to be made in developing a marketing approach amongst customer service personnel. Attempting to set expectations in line with what is being delivered is the antithesis of marketing. Marketing is about expanding market share through setting deliverables to be in line with what customers need and want.

CUSTOMER SERVICES MANAGEMENT COMMENTS ON TACTICAL MARKETING DECISIONS

The Product

- No longer simple hardware maintenance.
- Packaged into a system service.
- Diversified - supplies, training, implementation, 'hand-holding', etc.
- To address specific market segments or niches.
Software and application services.

The Place:

- Many different distribution channels - traders, retailers, direct sales, telesales, etc.
- Different customer attitudes in different geographical areas.
- New IT applications necessitate different policies, e.g. networks.

The Price:

- Hardware maintenance on its own is becoming price sensitive.
- With packaged services containing added value, price sensitivity is reduced.
- High prices can be obtained for high quality segment tailored services.

The Promotion:

- Need to make end users aware of the available services.
- Need to educate the distribution channel(s).
- Image is fundamental to service suppliers.
- Setting the customers EXPECTATIONS to the planned deliverable service.

CHAPTER IV -
CUSTOMER SERVICE MARKETING APPROACHES

IV CUSTOMER SERVICE MARKETING APPROACHES

- This chapter provides information about the actions being taken to market the customer service function.
- It is based on information gathered from vendors of customer service during the first half of 1987.
- The actions being taken by customer service vendors to market their services are classified below according to the analysis given in Exhibit III-1, namely the nine vital stages in the marketing approach.
- The structure of this chapter is as follows:
 - Firstly, an examination of how the marketing function is organised and staffed corresponding to Step 1 - organisation.
 - The planning stage, Step 2, is discussed in respect of the aims and objectives being set for customer service marketing. Also relevant to this area is the budget being committed to the marketing function.
 - Step 3, the control of the entire marketing function, is not addressed here, being considered beyond the scope of this study. It remains to state the obvious, that, like any activity, marketing must be controlled, clear objectives set, and progress towards meeting them monitored.

- Market intelligence, Step 4, and the analysis of product/market opportunities, Step 5, are examined from the standpoint of the research activities conducted by vendors' marketing departments.
- Step 6 is market segmentation.
- Step 7 is positioning the product, which largely corresponds to a need to differentiate through emphasis on service components, quality, and price.
- Achieving the optimum buyer/seller relationships, Step 8, is manifested in moves on the part of some vendors to develop special strategies for major accounts.
- Finally, the promotion of customer service, Step 9, is examined. Considerable emphasis is being placed on this both internally and externally by customer service management.

A. ORGANISATION

I. CUSTOMER SERVICE MARKETING

- One important indicator of the emerging customer service emphasis on marketing is the creation of a specific marketing function within the division or group responsible for maintenance activity.
- Just under half of the major customer service vendors that INPUT specifically interviewed as part of this research study had a separate customer service marketing function with dedicated customer service marketing staff.

- Another substantial group of vendors placed responsibility for the marketing of customer service within the corporate marketing organisation.
- Interestingly, this group of vendors all claimed to have plans to move this function into the customer service organisation. The maximum period of time envisaged for this change to take place was two years.
- A minority of vendors placed customer service marketing responsibilities upon the line management of the customer service or field maintenance organisation. These vendors placed emphasis on the marketing training given to their line managers or, in some cases, on the fact that they had line managers with product marketing or sales experience.
- The emergence of separately identifiable marketing departments is in any case a relatively recent phenomenon. The longest established department identified by INPUT was only five years old.
- Consequently, it must be recognised that the marketing of customer service is still at a relatively early stage in its development. For most managers involved in this activity there exists the challenge of a considerable learning curve.
- Under these circumstances it is not surprising to observe emphasis being placed on the recruitment into the organisation of professional marketers. These people with marketing and sales experience in other functions, probably product oriented, will considerably extend the possibility of the service marketing function being developed rapidly.
- The focus of these new marketing functions within the customer service organisation is the development of new services and options.
- Where specific new business streams were being developed, e.g., independent maintenance and sale of supplies, then, de facto, a full-time marketing function tended to be present.

2. MARKETING STAFF

- Closely associated with the recognition of the need for a separate marketing function within the organisation is the need for staff to be dedicated to these responsibilities.
- The number of staff, relative to the overall size of the customer service organisation and their experience and seniority profile combine to form an interesting guide to senior management's commitment to this activity.
- Not surprisingly, the number of staff dedicated to services marketing varied significantly with the size of the company and its geographical spread.
- For example, multinational companies tended to have at least one person dedicated to services marketing per country subsidiary.
- Typically, the larger customer service organisations employed between five and ten people who were dedicated to marketing the service function.
- However, one organisation that INPUT interviewed employed 24 people. The individual responsibilities of these personnel were organised as follows:
 - General marketing functions (12 people).
 - Services product marketing (6 people).
 - Market research (6 people).
- The category of general marketing functions covered such activities as:
 - Image creation.
 - Promotion campaigns.

- Advertising.
- Brochure production.
- The services product marketing area related to planning issues and the formulation and development of specific offerings, making the necessary decisions relating to the definition of the service product, its placement, its price, and its promotion.
- The market research function comprised the collection of customer satisfaction surveys, customer needs and wants, and competitive market intelligence.
- One of the key challenges to senior management is clearly finding or developing staff to achieve a full complement of professional skills.
- All of the larger service marketing organisations tend to place considerable emphasis on training and education. This encompasses using both internal and external courses.
- In many cases this concern for staff training in marketing skills extends to the appropriate distribution channels.

B. PLANNING

I. OBJECTIVES OF CUSTOMER SERVICE MARKETING

- A wide variety of roles were professed by vendors for customer service marketing. In essence, these could be reduced down to a short list of major objectives identified by such concepts as:
 - Meeting customer needs.

- Concern for quality.
 - Image improvement.
 - Diversification/development of services.
 - Differentiation of services.
 - Customer satisfaction.
- Interestingly, only two of the respondents in this survey considered it the role of customer service marketing to prepare end users for price changes. In contrast, almost all respondents recognised that the setting of the service price was a customer service marketing function.
 - Exhibit IV-1 lists comments made by vendors about their customer service marketing objectives, listed under the above classifications.
 - In addition, some other specific customer service marketing aims emerged. These included:
 - Internal promotion of services.
 - Protection of the user base.

2. MARKETING BUDGET

- Another acid test of an organisation's commitment to the use of marketing methods is the level of expenditure that it is prepared to invest in this function.
- The most appropriate index for this market is the percentage of service revenue as a proportion of total customer service revenue.

EXHIBIT IV-1

COMMENTS BY VENDORS ON
CUSTOMER SERVICE MARKETING OBJECTIVES

Meeting Customer Needs:

'Finding out what the customers want'.

'Identify the customers' needs - develop products to meet these needs - price and promote such products'.

'Identify opportunties'.

'Target customer needs'.

Concern for Quality:

'Develop quality services'.

'Have to be as good as the competition'.

Image Improvement:

'Develop the Image of the company and the benefits of the service'.

'Promote the Image of services both Internally and externally'.

'Promote the perceived value of a service'.

'Promoting a good Image and being competitive'.

'Formal launch of service products'.

**COMMENTS BY VENDORS ON
CUSTOMER SERVICES MARKETING OBJECTIVES**

Diversification/Development of Services:

'To diversify and grow.'

'Moving away from being 95% dependent upon the existing base.'

'Develop services such that we become the single point of contact for all a customer's service requirements.'

'Develop total service offerings.'

'Develop a services portfolio to sell total solutions.'

'Services product development and packaging.'

'Develop service sales programmes for salespeople, OEMs and dealers.'

Differentiation of Services:

'We need to differentiate our offering from that of the competition.'

'Differentiate our services.'

'Target services to address market segments.'

Customer Satisfaction:

'Keeping the customer satisfied.'

'Monitor customer satisfaction.'

'Analyse data and advise management with recommendations for improvement.'

- INPUT found that for product vendors this index extended from as low as 0.2% to about 3.5%.
- In contrast, third-party maintenance vendors were spending as much as 7% of their overall revenues on marketing and, in all cases identified, were planning to increase that percentage.
- It should, of course, be borne in mind that there can exist considerable economies of scale in respect of the size of an organisation and its relative expenditure on marketing.
- Nevertheless, it must also be realised that the level of expenditure does not guarantee marketing effectiveness and that larger companies will also tend to have to overcome greater internal inertia.
- Large organisations are more difficult to manage and tend to have greater difficulty in changing their strategy and management approaches in the short term. Smaller companies can potentially be more flexible and adaptable, although this is, of course, not always the case.
- INPUT's research revealed that increases in marketing expenditures were being planned by nearly all vendors, some examples being:
 - A vendor currently allocating 0.25% of customer service revenue to marketing planned to increase this to 1.25% within one year.
 - Another equipment manufacturer currently allocating 2.5% of total service revenues to marketing expenditures was planning to raise this to about 3.75% within two years.
 - A TPM company spending 7% of its total revenues on marketing anticipated this increasing to the 10-12% range. In this case, no particular timescale was put on the achievement of this level of marketing spend.

C. MARKET INTELLIGENCE

- The key link between management and its market is the marketing intelligence system. It is the means by which management can listen to the changes in service product needs and customer wants that are continuously taking place in the marketplace.
- In general, the customer service vendors interviewed by INPUT indicated a strong commitment to the need for market intelligence.
- However, the general level of market research activity was considered to be low in comparison with other aspects of the business (e.g., computer product sales) and with other industries. Most market research activity was concentrated on the existing customer base.
- Less than half of the respondents analysed the competitors' product reliability, and even this tended to be based on U.S. information. It could be that this is seen as a product-related function and, therefore, a matter for corporate marketing intelligence rather than something to be addressed in the customer service domain.
- However, if customer service management is to influence the future product development within their company, they need to pay more attention to both their own and their competitors' product reliability as this plays a major part in customer satisfaction.
- Nearly all of the service companies interviewed do analyse the competition's customer service activities. In some cases, this tends to be dominated by an interest in what those competitors are charging--the price--rather than the service itself.

- Although all the service companies spoken to have some level of competitive study, very few seem to have formal procedures for this or any manager with a clear responsibility for this activity.
- On the other hand, all the companies conducted some level of customer satisfaction survey. This was frequently well documented and formalised. All the service organisations have recognised the requirement to satisfy their customers' needs.
- In most cases vendors reported a high level of customer response to these customer satisfaction surveys. One vendor quoted a 95% customer response rate to a recent survey.
- Generally, vendors were conducting these surveys on an annual basis, although some vendors were carrying them out every quarter. It is the larger and more established vendors who have in place the most formalised approach to the market intelligence activity.
- One vendor described an approach in which the ten best and ten worst responses to each survey are followed up in great detail.
 - In these cases, management attempts to ascertain causes for good and poor ratings.
 - They then use this information to help them develop service improvement tactics (or even strategies) that will enhance the overall level of customer satisfaction.
 - Stress, in these circumstances, is placed on a 'tender loving care' approach, personal contact with the customer being seen as an essential element in the achievement of a high level of customer satisfaction.

- There exists, in general, a co-relationship between the amount of service marketing effort (measured by the number of dedicated service marketing staff and the marketing budget) and the level of customer feedback.
- The smaller companies tend to rely very heavily on their first line management and service engineers for customer satisfaction feedback.
- Marketing intelligence in a small company is usually fairly informal; the smaller the company the more effective it is likely to be.
- The larger a company grows, the greater is its tendency to get out of step with its market unless some kind of formal marketing intelligence system is instituted.
- In implementing a marketing intelligence activity, three areas should be considered:
 - Market research.
 - Desk research.
 - The internal accounting system.
- Each one of these is potentially of importance in contributing to the overall intelligence picture. Obviously, specific customer satisfaction data must be obtained from primary market research.
- Exhibit IV-2 provides a summary of the major marketing intelligence activities that a customer service vendor could utilise.
- Exhibit IV-3 shows the sources of market intelligence data utilised by ten of the vendors interviewed by INPUT.

LIST OF MARKETING INTELLIGENCE ACTIVITIES

APPROACHES	
<ul style="list-style-type: none"> • Desk Research • Market Research • Internal Accounting System 	
SOURCES	
<u>Field Data</u> Sales Force (Win and Lose) Company Employees New Personnel Professional Meetings Trade Associations Market Research Organisations Etc.	<u>Published Data</u> Articles In Trade Magazines and Newspapers Industry Yearbooks Catalogues Annual Reports (Financial) Advertisements Published Surveys Etc.
ACTIONS	
<ul style="list-style-type: none"> • Collection of Data • Classification • Synthesis • Communication 	

EXHIBIT IV-3

SOURCES OF MARKET INTELLIGENCE

SOURCE	NUMBER OF MENTIONS
Primary Research	10
Direct Feedback from Customers	10
U.S. Market Information	9
Direct Feedback from Customer Engineers	7
Competition	7
Seminars, Press, etc.	7
Direct Feedback from Salesmen	6
Management	4
Manufacturer Product Developments	2

Sample Size: 10

D. MARKET SEGMENTATION

- Market segmentation is the process of dividing the market for customer service into a number of distinct groups (or segments) of users.
- The purpose of dividing the market into these groups is to enable the customer service vendor to optimise its marketing approaches to the customer by concentrating on some segments or by adopting different approaches to different segments.
- Exhibit IV-4 lists some possible criteria that could be used by customer service vendors for market segmentation.
- In general, the awareness of the importance of market segmentation is currently very low in the customer service marketing community, with certain notable exceptions.
- About half of the vendors interviewed for this survey had some vertical segmentation, but less than one-third had any horizontal segmentation. Only one respondent segmented the market by account size.
- Almost all the vendors concentrated on specific ranges of equipment from specific manufacturers. However, due to the growing market requirement for single-sourced service, most are being forced to expand their areas of service coverage. In a number of cases, subcontracting of the maintenance of hardware for which the prime contractor cannot economically justify providing the service using his own staff is being practiced.
- Although less than half consciously segment by geography, in practice there is some geographical segmentation implied in the organisation of most service vendors.

EXHIBIT IV-4

MARKET SEGMENTATION CRITERIA

SEGMENTATION CRITERIA
<u>VERTICAL MARKETS</u> Finance/Banking Manufacturing Distribution Engineering Government Travel/Tourism Medical Legal Real Estate Accounting Professions
GEOGRAPHIC
<u>COMPANY</u> Revenue Size Number of Employees Asset Size Profit Multinational
<u>INSTALLED COMPUTER</u> IBM Digital ICL Honeywell-Bull Olivetti UNIX Operating System

- Although industry segmentation does not appear to be universally practiced, some limited segmentation occurs by the very nature of the service options offered by the vendor, e.g., a Monday to Saturday service with evening extensions, clearly aimed at the retail market.
- One TPM company employed different service salesmen to sell its services to different industry segments (government/retail/distribution). Another vendor segmented the CS organisation into industry segments, with CS staff allocated to various target vertical markets. However, these seem to be the exceptions rather than the rule.
- It is worth noting that the range of possible market segmentation factors is enormous and that clearly not all of them are going to be equally useful. It is important that management select those that are significant and relevant to their particular service product.
- The characteristics of a market segment that will indicate its degree of usefulness for market targeting are:
 - Measureability: Can the identified characteristics be measured readily? For example, company size, the number of employees, and annual revenue are usually easily identified and, in consequence, are probably very good market segmentation criteria.
 - Accessibility: Are the data needed to conduct the segmentation analysis readily available? The degree to which this is the case will affect the data's usefulness as a criterion. Company size data is usually very readily available.
 - Substantiality: Will the criteria result in a segment that is sufficiently large to justify the analysis? In other words, is the product applicable to a significant (and profitable) number of customers? It is pointless to artificially fragment the market into segments that are not going to represent economic markets.

- Actionability: Does the analysis result in the definition of market segments that can be actioned? Can practical use be made of those segments in order to formulate marketing plans?
- If these criteria are applied to the possible segmentation factors, then useful and realistic market segments can be defined. These will aid the marketing-oriented company in strengthening existing market positions and developing more effective marketing plans for new service products.
- A market segmentation exercise can focus on such problems as marketing to too wide a potential base with too few resources. It can put emphasis on selling to the potentially most profitable segments.
- Marketing segmentation can sometimes lead to the identification of potential markets that might otherwise have been overlooked.
- Companies lacking a marketing orientation quite often fail to learn enough about their existing customers.
 - For example, there could be a lack of awareness of a subsegment where the company's services could be sold more effectively and more profitably.
 - It could be that an existing service product appeals to a new group of potential customers that has not yet been recognised.
- It can help to focus management attention on customer groups within which the appeal of the service is fading. These groups can thus form the target for corrective action to increase sales and profits in the declining areas.
- A segmentation analysis could reveal customer wants or needs that are not obvious to the competition. In this situation a company can adjust its marketing programmes to exploit this advantage.

- Market segmentation should not be thought of as a one-off exercise. Markets are continually changing. Customer needs, preferences, and buying behaviour can change quite rapidly, particularly in the information services industry.
- Segmentation exercises are especially important in situations such as declining sales for a particular service or the arrival of a new competitor and/or service on the market.
- Segmentation exercises are of particular importance whenever the company plans major product enhancements or new product decisions.

E. SERVICE PRODUCT DIFFERENTIATION

- One of the most important tasks for customer service marketing management is to create a difference in the customer's perception of the service offering; in other words, to differentiate the service product from the competition.
- The concept of positioning relates to this in that it is the conscious presentation of a service to the customer as having some set of qualities, e.g., low price, high quality, quicker response time, that differentiate it from competitive offerings.
- The current levels of differentiation of service products appears low except in respect of response times and periods of cover. This is probably a reflection of the lack of attention that has been given to segmentation by the service marketers.
- The potential value of bundling services to address specific market segments has only been recognised by a minority of service vendors and, generally, those companies with a strong product marketing parent, i.e., the larger manufacturers.

- Almost without exception the contract period is for one year with only minor variations such as the notice period being included. All the contracts are ongoing (automatically renewed). There is a considerable difference with the U.S. market where service marketers place a lot of stress on contract renewal, whereas in the European market both customers and vendors appear to accept automatic renewal.
- Attitudes towards discounts amongst vendors are fairly evenly split with over half of the service vendors offering discounts in certain specific situations, e.g., volume. One TPM vendor, however, sees the business as fundamentally discounting on the manufacturers' service prices.
- Maintenance charges are annual, quarterly, or monthly, usually in advance and mainly selected in accordance with their value, e.g., smaller systems charged annually.
- There are currently no formal procedures in place amongst vendors to review the bundling of customer services, except amongst the service organisations with strong marketing teams who view this as a continuous activity.
- Some of the hardware services are sometimes bundled, e.g., installation, but the mixing of the full range of services--hardware maintenance, software support, training--still appears to be fairly uncommon. However, the offering of a system support service, i.e., hardware maintenance plus operating software maintenance and support, appears to be growing.
- One of the major areas of customer needs identified by INPUT--applications support--does not yet seem to be generally addressed, and there are undoubtedly opportunities for the service vendor who can offer service packages to address this essential need.
- In summary, differentiation criteria that could be used for customer service products are listed in Exhibit IV-5.

EXHIBIT IV-5

SOME POSITIONING CRITERIA FOR CUSTOMER SERVICE PRODUCTS

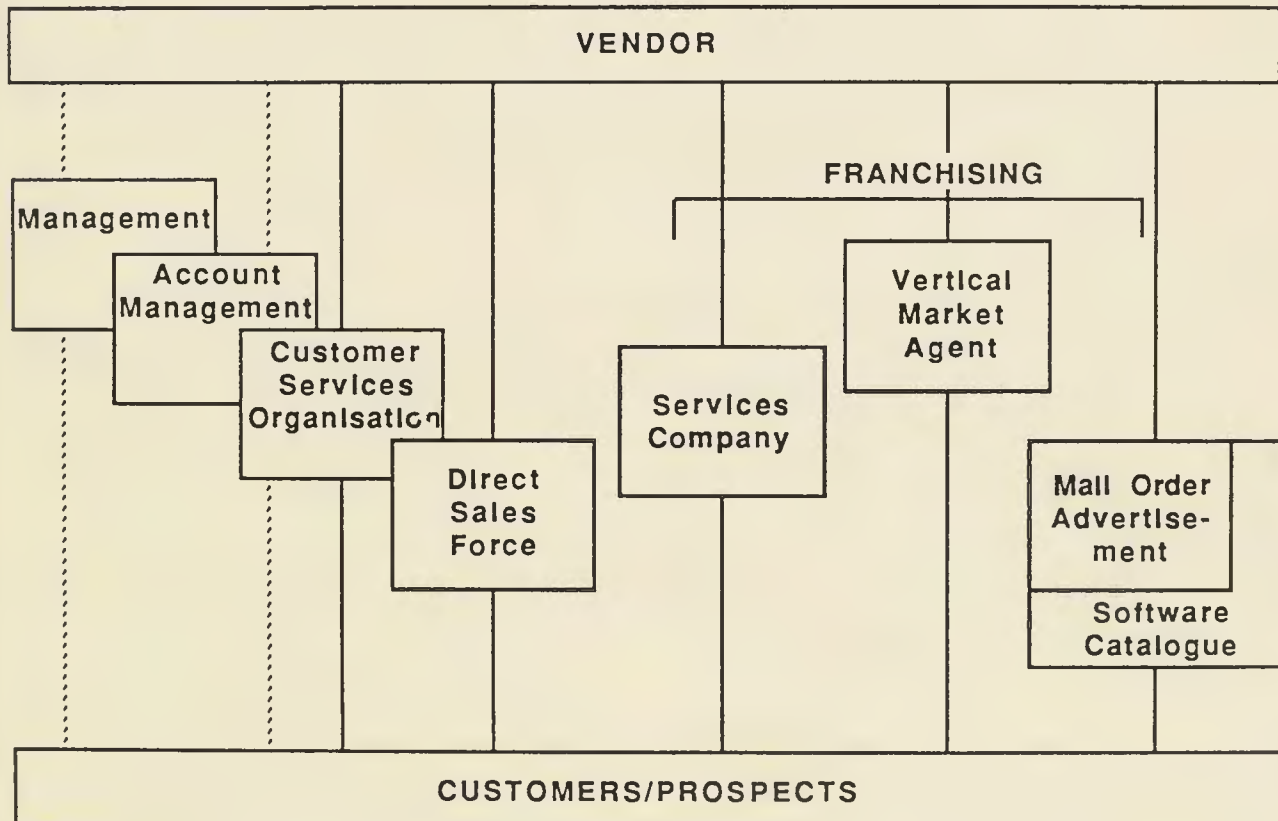
- Reliability
- Response Time
- Ease of Use
- Overall Quality
- Level of Facilities/Comprehensiveness
- Suitability to Specialised Market
- Speed of Implementation
- Hardware Maintenance Services
- Support Capabilities
- Price Complexity
- Software Compatibility
- Host System
- Application System Support

F. BUYER/SELLER RELATIONSHIPS

- Buyer/seller relationships describe all the contacts and complex interconnections that can exist between a services company and its customers and prospects.
- Buyer/seller relationships are in effect the 'place' in which the customer service product can be sold and delivered to the customer.
- Exhibit IV-6 is a schematic representation of the main relationships that can exist between a vendor and the customer.
- As the need for services marketing increases, so will the pressure increase for more specialisation in the marketing and for selling of customer service. Since independent maintenance companies employ direct sales forces, this places pressure on competing hardware vendors.
- One of the most prevalent trends observed by INPUT was the development of specific marketing strategies aimed at 'top' or important accounts. Formalised account planning for the top accounts was practiced in all cases, but not all vendors had dedicated account managers or project coordinators.
- The marketing strategies incorporated coordinated sales campaigns for each product line in these important accounts. About half of the vendors spoke of specific revenue goals being set on a site basis in order to achieve the desired growth in customer service revenue.
- Personal contact with top account clients (often by senior management) was stressed by vendors, particularly the smaller ones.
- Despite this emphasis on the top account relationship, little attention appeared to be given to analysing likely competitor strategies; this is an area which would benefit from further research by vendors.

EXHIBIT IV-6

**CUSTOMER SERVICE MARKET:
BUYER/SELLER RELATIONSHIPS**



- One of the vendors interviewed placed particular emphasis on customer service efficiency in its major accounts; a regular monthly review took place with each of its major customers.
- This emphasis on major account relationships, evident amongst all vendors, confirms the customer service emphasis on protecting the existing revenue base.
- Another important development in the marketing of services is positive use of the customer service engineer to generate new opportunities. To date, the use of the customer service representative for the promotion of the service product is not generally given a high priority.
- The major role for customer service representatives is still largely seen as the repair of equipment. However, increasing emphasis is being placed on the service engineer/customer relationship to enhance satisfaction and develop warm and comfortable feelings amongst the customer base in respect of service.
- This latter aspect is being developed through proactive account management and customer feedback.
- However, a number of the vendors interviewed by INPUT operate some form of motivation for customer service representatives. These ranged from commission for the sale of supplies and facility planning contracts through to simple awards for customer satisfaction achievement. TPM companies pay commissions on service contracts to salesmen.
- The customer service representatives are in general seen as an increasingly important factor in customer relationships and in creating a good image of the vendor. Consequently, increasing attention is being paid to training them in human relations skills.

G. MARKETING PROMOTION METHODS

- Promotion is the term used to categorise all those methods and techniques used by marketeers to communicate with the customer (or prospective customer).
- The promotion of a vendor's customer services will serve to fulfill three key communication needs:
 - Firstly, to inform customers about a firm's set of capabilities and qualities.
 - Secondly, to persuade either existing customers or more likely prospective customers of the benefits and, consequently, the desirability of using the vendor's services.
 - Thirdly, to remind users of the company's service offerings.
- The major methods that can be used to promote services are fundamentally:
 - The direct sales force.
 - Sales promotion.
 - Advertising.

I. THE DIRECT SALES FORCE

- Use of a direct sales force is, of course, a fundamental sales channel which is becoming increasingly significant to customer services, principally in respect of independent maintenance.

- Naturally, major hardware vendors have always placed the utmost emphasis on their product sales force. Now the industry is witnessing the creation of sales forces with the sole franchise of customer service marketing.

2. SALES PROMOTION

- Of the many possible sales promotion techniques available, the three most widely used by customer services organisations are:
 - Promotional material (principally brochures).
 - Mailshots.
 - Telemarketing.
- Mailshots generally (but not exclusively) require the use of promotional material to accompany sales letters.
- Telemarketing is primarily a method employed in the supplies business.
- The respondents to this survey also identified a number of other methods which tended to be used much less frequently than the methods listed above; these are all listed in Exhibit IV-7.
- It is interesting to note the use of user groups as a potential channel for getting a promotional message across to the customer base. These are frequently attended by senior management representatives of the vendor who can present a high level image of customer service.
- Not surprisingly, nearly all the vendors interviewed used presentations and seminars to promote their services. Product salesmen are expected to sell customer service. Brochures and other supportive material support this activity.

SALES PROMOTION METHODS

- **Promotional Material**
 - **Brochures**
 - **Customer Information Packs**
 - **Videos**
 - **Gifts**
- **Mailshots**
- **Telemarketing**
- **Seminars**
- **Attendance at Exhibitions/Trade Shows**
- **Attendance at User Groups**
- **Press Articles**
- **Reference Sites**
- **Training Courses**
- **Sales Presentations**
- **Company Hospitality**

- One vendor reported the use of training courses as a channel through which the marketing message concerning customer service could be promoted.
- Another important area is the inclusion of articles in the trade and general interest press. These can be very important and effective ways of selling services. TPM's seem particularly active in this area, needing to spread the 'missionary marketing' message about TPM as well as selling their firm's particular qualities.
- Nearly all the hardware manufacturers seem to concentrate their external promotional efforts on their existing installed customer base.
- The development of reference site testimonials is considered an important feature by some companies. Again, this has been particularly important for TPMs who have in a number of cases grown their businesses almost entirely on the basis of recommendations. Naturally, this technique is more effective for smaller rather than larger companies.
- More exotic methods, such as sponsorship of events (sporting or otherwise), seem to be inapplicable to customer service promotion in general. There is, of course, always some spinoff from the promotion of system products in this way.
- Nevertheless, the use of trade show appearances was reported as being useful by some vendors. They were considered to be very expensive for a very small promotional return for a minority of vendors.
- A particular feature of promotional schemes is their duality of purpose:
 - The promotion of the service product to the customer base and new prospects.

- The promotion of the company's service capability to the sales force and other internal groups.
- All customer service managers interviewed placed considerable emphasis on this latter function. They deliberately allocated a considerable proportion of their promotion efforts to the product distribution channels, especially their direct sales force.
- Making these groups more aware of their service offerings was a significant objective.
- Brochures are designed with the dual purpose of educating the sales force as well as presenting the service product to the end user.
- Naturally, a motivated salesman is going to use any sales aid (i.e., brochure about customer service) if it helps him to get the sale.

3. ADVERTISING

- Advertising in the press is a relatively new phenomenon for customer service. Not surprisingly, just under half of all vendors interviewed by INPUT did not advertise for the promotion of customer services.
- The remaining group used advertising agencies, and at corporate level there was clearly considerable in-house support for these activities. One TPM vendor reported using the world famous Saatchi and Saatchi agency.
- The press media used seemed to be a mixture of both the specialist trade press and national newspapers; for example, placing an advertisement in the Sunday Times' 'technological' page.
- It was clear that advertising is a much stronger requirement for TPMs than for the equipment vendors.

CHAPTER V -
CONCLUSIONS AND RECOMMENDATIONS

V CONCLUSIONS AND RECOMMENDATIONS

- The theme of this report has been that the adoption of a marketing approach represents a key challenge for customer service management. It is key because it implies a way of looking at the business which:
 - Assists successful adjustment to today's more rapidly changing market conditions.
 - Leads to increased sales and profits.

A. CONCLUSIONS

- In this research INPUT has found strong evidence that most customer service operations are beginning to adopt marketing approaches and that some, particularly TPMs (not surprisingly), have a very strong marketing orientation.
- All customer service vendors interviewed by INPUT are becoming aware of the need to market their service products and appreciate the need to use professional marketing techniques to achieve this.
- Nevertheless, the development of marketing approaches for customer service is still fairly new. The oldest established customer service marketing department identified by INPUT had been set up only five years ago.

- Not surprisingly, there are still many significant gaps in the marketing organisations and amongst the techniques being used.
- Customer services marketing may still lack some top management commitments, measured in budgets and resources allocated to this activity. General evidence of a lack of commitment to marketing could include:
 - Low marketing budgets.
 - Little interest in advertising.
 - Ineffective direct mail operations.
 - Minimal product planning.
 - Service products emphasised over service markets.
- Currently, the two areas that are receiving the least attention are research and segmentation. However, quite a few of the service vendors are aware of this deficiency and are making plans to correct this situation.
- A major part of the services marketing effort needs to be, and is, directed internally within the companies to persuade their corporate management and product salesmen of the importance of services and their value-added potential.
- There is, in general, a clear need for increased training in services marketing and a requirement to 'seed' service organisations with professional marketers.

B. RECOMMENDATIONS

- The principal and overall recommendation of this report is that customer service organisations should fully and whole-heartedly adopt the marketing approach as a management philosophy.
- INPUT believes that marketing is an integrated, not discrete, activity for an organisation. It is not a separate activity with the responsibility lying only within a separate marketing department. Marketing thinking should permeate the whole organisation.
- Emphasis must be placed on the use of marketing ideas, techniques, and methods, not just on marketing positions and marketing budgets.
- Fundamentally, marketing is about meeting the needs of customers more effectively and, through that, achieving increased sales and profits.
- Marketing is thus about achieving results. For example, just increasing advertising expenditure is not necessarily good marketing. Increasing expenditures with a clear objective and measuring the resulting performance is good marketing.
- Some specific recommendations that INPUT proposes for the customer service community are summarised in Exhibit V-I.
- Customer service management must carefully evaluate whether they are committing sufficient professional marketing personnel skills to this activity; INPUT believes that in most cases this is not being done.
- In particular, marketing personnel are specifically required to:
 - Ensure effective planning and control of the marketing activity.

RECOMMENDATIONS FOR MARKETING ACTION

- Increase Dedicated Marketing Personnel
- Increase Marketing Budget
- Develop Market Segmentation
- Differentiate Service Products
- Implement Marketing Audits

- Maintain a market intelligence activity. This area can ensure the collection of the essential data upon which marketing decisions can and should be made.
- Implement the necessary service product promotions that communicate the marketing aims both internally and externally.
- Management must ensure that adequate budgets are committed to the customer service marketing activity. INPUT recommends that a minimum budget of around 2-3% of total service revenue be considered. At least 7% is probably necessary for a TPM operation.
- INPUT strongly emphasises the need for the application of formal techniques to customer service marketing.
- Vendors should place greater emphasis on market segmentation and market targeting. General-purpose solutions are becoming increasingly unacceptable in today's market environment.
- For example, not only is the marketplace different between the various European countries but also between the various industry sectors. Consequently, customers' needs have to be studied and solutions proposed on a country-by-country basis.
- Vendors should adopt a more vigorous assessment of new service opportunities through emphasising market needs over service product requirements.
- Thus, it is essential that sufficient resources be devoted to gathering market intelligence data from users (and this can easily absorb about 25% of the total marketing budget). Management needs to know:
 - What do customers really want?

- What are their needs?
- What are they going to buy?
- In meeting and adjusting to the market, differentiation strategies will enable a customer service vendor to position himself in the most profitable and highest growth market segments.
- Vendors must be prepared to be adaptive to market signals and reposition service products or introduce service product variants.
- The packaging or bundling of services is an effective way to differentiate the service offerings, particularly where they address the needs of specifically identified market segments.
- Software support, training, and other associated services are in a growth stage of development. There are a large number of other possible services; for example, managing networks and office automation systems that are in the introductory stage of development.
 - These can potentially be combined with basic hardware maintenance (which has achieved a much more mature stage of development) in order to differentiate the service from competitive offerings.
- INPUT recommends that customer service vendors implement a marketing audit procedure. A marketing audit is the examination of a company's marketing environment and an assessment of its objectives, strategies, and business activities.
- A marketing audit should be characterised by its:
 - Comprehensiveness.

- Systematic nature.
 - Independence.
 - Regular nature.
- In order to assist INPUT's clients in conducting a marketing audit, generic checklists that provide a schematic format are included as Appendix B. These can be used as a blueprint for setting up this procedure within the organisation.
 - Finally, INPUT emphasises that customer service marketing is not to be viewed as a defensive strategy for protecting the existing base, important though that objective is, but as a means of increasing market share and, generating new sources of revenue and profit.

APPENDIX A - THE EVOLUTION OF MARKETING

APPENDIX A: THE EVOLUTION OF MARKETING

- If we study any industry and the particular companies within it we can generally observe a similar pattern of progression towards a marketing orientation.
- Naturally there will be considerable differences in the length of time over which this process occurs. However, the same basic stages can be identified:
 - Product orientation stage.
 - Sales orientation stage.
 - Marketing orientation stage.
- The product orientation stage tends to occur when companies are at the beginning of their life or are very small. They have little need for formal marketing organisations or marketing approaches. The entrepreneur and the senior management team are usually in direct contact with their customers and prospects, selling the company and its products.
 - At this stage of development the product strategy serves the company well. The product tends to define the market, which will, at this stage of its development, be fairly small and have clear limits. Because the business is based on a very precise bit of a particular market segment, there is not likely to be much competition.

- There is no need for a formal system because functions are effectively carried out informally; there is an immediacy of relationships. The changes in customers' wants and needs can be accommodated because of the sensitivity of this relationship.
- The sales orientation stage follows as the small company starts to meet active competition. This tends to happen because other companies (often larger companies) affect a me-too approach to the chosen market segment. Additionally, the small company may extend its coverage into other segments of the market where other companies are already active. Once there is a choice of suppliers, buyers can become more discriminating.
 - At this stage selling becomes more difficult, and typically a full-time sales force has to be employed to handle this situation.
 - The company will concentrate on increasing the resources that it spends on sales activities in order to achieve its desired goals. It may well engage in advertising, sales promotions, and other sales support activities that will loosely be described as marketing.
 - Management will tend to concentrate on what they need to do to sell their product. They will tend not to evaluate the needs and requirements of their customers.
 - The increased size of the company will preclude the direct and informal relationships that existed at the earlier product stage.
- The marketing orientation stage is reached when a company realizes the inadequacy of the pure sales approach in achieving its commercial goals. The market is competitive; buyers are very discriminating and only those companies that most effectively meet their needs can expect to prosper.

- The company will set up a formal marketing system that will keep the company in touch with its customers and their changing needs and preferences. The market will be the dominating influence.
- The company will consider every aspect of its business activities from the perspective of the market. Satisfying customer needs becomes the paramount concern.

APPENDIX B - MARKETING AUDIT FRAMEWORK

THE CUSTOMER SERVICES MACRO ENVIRONMENT

- Technological Background

- What new developments or major technological changes are taking place?
- Are these creating new opportunities for information services products or leading to the obsolescence of existing ones?
- How is the company affected by these changes? What is its level of skill and knowledge?
- Are new technology developments leading to product substitution - e.g., PCs for Remote Computing Services?

- Economic Background

- Is the economy expanding or undergoing recessing?
- Is inflation an important factor?
- What is the economic situation for any particular served industries?
- What effects are economic trends having on the company as a whole?

- Social/Political Background

- Are there any political or social trends that are affecting or likely to affect the organisation?
- Is there any legislation (e.g., data privacy laws or telecommunication deregulation) that could affect the company's operations in any way?

THE CUSTOMER SERVICES MARKET ENVIRONMENT

- **Markets**

- What trends or changes are apparent within served markets?
- What is the market size and growth?
- How profitable are those markets?
- Are there any other market constraints or opportunities - e.g., geographical distribution?
- How are the markets segmented? Are particular markets targeted?

- **Customers**

- What is the assessment of the company and its competitors by customers and prospects? Criteria to be considered would include:
 - Commercial reputation.
 - Product quality.
 - Service.
 - Price.
 - Sales force, dealers.
 - How do customers in the served markets make buying decisions?

- **Competitors**

- What competition is present in the market? How strong are they? What is known about their strategies and tactics?
- Is competition likely to appear from outside the computer industry (e.g., from PTTs, publishing companies, etc.)?

Continued

THE CUSTOMER SERVICE MARKET ENVIRONMENT

- Channels of Distribution
 - What is the current status of the company's buyer/seller relationships? Could they be improved?
 - What other types of distribution channels could be employed (e.g., franchising through dealers and distributors, mail order, etc.)?
- Product Promotions
 - Is advertising effective and what is done to measure it? What are the aims of advertising?
 - What exhibitions are attended? Are they effective? How could results be improved?
 - Are direct mail and telemarketing methods used? How effective are they? What future actions are to be taken?
 - Is the seminar programme achieving results? Could they be improved?
 - What is the status of publicity actions? Can additional initiatives be developed?

THE MARKETING ORGANISATION

- Organisation Structure
 - Is the marketing/sales organisation adequately structured? Does it support company goals? Is it effective?
 - How do marketing and sales staff communicate? Are there any difficulties? Are product managers used?
 - Are resources sufficient to meet planned goals?
- Planning and Control
 - Do marketing and sales staff have clear objectives and specific goals?
 - Are formal marketing plans developed? Are the procedures for developing them adequate?
 - Are performance measurement systems adequate? How frequently are they carried out?
 - Are sales goals realistic? Are marketing costs evaluated frequently?
- Marketing Intelligence Systems
 - Are adequate systems in place for gathering market intelligence?
 - Does the internal accounting system provide accurate and useful data for marketing and sales purposes?
 - Is market research being used to provide sound information and data upon which to base marketing decisions?

MARKETING OPPORTUNITY ANALYSIS

- **Markets**
 - What procedures exist for the generation of new market opportunities? Are they adequate?
 - How are existing markets studied? Has their potential been fully exploited?
- **Products**
 - Are procedures in place to gather new service product ideas from customers, the sales force, etc.?
 - Should partners be sought as possible sources of new products?
 - Is joint development of new products with customers being fully exploited?
 - Is in-house development of products adequate?
- **Segmentation and Targeting**
 - What current approach is taken to the segmentation and targeting of markets?
 - Are market segments assessed against the criteria of measurability, accessibility, substantiality and actionability.
 - Are all service product, market and company criteria fully evaluated in this process?

SERVICE PRODUCT MARKETING ANALYSIS

- **Service Products**
 - Are current products meeting objectives? Are they maximising their product potential?
 - Are products optimally positioned in the market in respect of price, quality, and other product characteristics?
 - Are product variants required?
- **Quality and Additional Services**
 - Can service product quality be improved?
 - Have customer service possibilities been enumerated? Have importance/performance analyses been conducted?
- **Price**
 - What are the aims and objectives of pricing policy? Are these valid?
 - How are prices set? What mechanisms are used?
 - What are the pricing techniques?
 - Can customer value be estimated as an aid to the establishment of prices?

PRODUCTIVITY ASSESSMENT

- **Profitability**
 - Are profit contributions from individual service products known?
 - Are profit measures available for different markets, sales methods, and other relevant criteria?

- **Marketing Productivity**
 - Are marketing costs strictly controlled? Are they reasonable?
 - Can cost/effectiveness measures be applied to marketing expenditure?
 - Will greater sales result from increased marketing expenditure?
Are there methods for measuring this?

