



MARKETING AN INTRODUCTION

**GARY ARMSTRONG
PHILIP KOTLER
MICHAEL HARKER
ROSS BRENNAN**

*'A HIGHLY READABLE TEXT WHICH I ENJOYED AND STUDENTS WILL ENJOY TOO...'
CAROLINE MILLER, KEELE UNIVERSITY*

*'A GREAT INTRODUCTION TO THE FASCINATING YET CHALLENGING WORLD OF
MARKETING.'
JAYA S AKUNURI, UNIVERSITY OF EAST LONDON*

MARKETING AT WORK 2.2

Implementing customer relationship strategy at Danfoss

Professor Adam Lindgreen, Department of Marketing and Business Strategy, Hull University Business School, UK, **Dr Martin Hingley**, Harper Adams University College, UK, **Professor Michael Beverland**, RMIT University, Melbourne, Australia, **Jesper Krogh Jørgensen**, Stig Jørgensen & Partners, Denmark and **John D. Nicholson**, Department of Marketing and Business Strategy, Hull University Business School, UK

A lot of business-to-business companies talk about the need to develop closer relationships with their customers. In many cases this remains an unfulfilled wish, because they fail to invest in the basic tools to understand exactly what their customers want and exactly how their customers feel about what they are getting. Danish company Danfoss invested some serious time and money so that the desire of the management to get closer to their customers was matched by the information and the systems to enable them to really make it happen.

With 22,600 employees and net sales of DKK 22.2 billion in 2007, Danfoss ranks among the largest industrial companies in Denmark. The company's broad vision reflects its desire to become a global leader within its core businesses, as well as a highly respected company that improves quality of life through advanced customer application technologies that also create value for stakeholders. The company consists

of 110 sales subsidiaries across the world, classified into 13 business units within three divisions: refrigeration and air conditioning, heating, and motion controls. The global group produces products in 70 factories spread across 25 different countries and leads several industries in terms of research and development, production, and the sales and service of mechanical and electronic components.

Danfoss has for many years measured its customers' satisfaction using customer perception studies. At the beginning of 2003, however, the executive board of the Heating Division initiated a process with the goal of improving and coordinating its local customer surveys. In 2005, some of the elements from the solution developed by the Heating Division were absorbed, adopted and further developed to prepare for a company-wide and global roll out. The following sections describe this two-step process.

The first step: The process within the Heating Division

In 2003, the Danfoss Heating Division initiated a project to improve its customer surveys. The management team had a very clear idea of what they wanted to achieve: the objective was to develop a unified approach for the entire division to improve its ability to benchmark results, make the survey results more operational, and thereby improve their relevance and value for the frontline staff.

In this process, the Heating Division of Danfoss turned to Stig Jørgensen & Partners, a management consulting company that has specialised in the field of developing and implementing global solutions for measuring and managing customer loyalty. Together with the team at Danfoss, Stig Jørgensen & Partners developed and implemented a new solution that meets the requirements of the divisional management.

Danfoss is a Danish company with global reach, which has recently implemented a comprehensive new strategy to gather better customer information and develop improved customer relationships.

Source: <http://www.danfoss.com/NewsAndEvents/PressCenter/PhotoGallery/PhotoGallery.htm>.



In short, the solution would create a knowledge base that could summarise the drivers of customer loyalty, the overall loyalty toward Danfoss Heating, and the division's 'share of wallet' among its existing customers. With such knowledge, Danfoss Heating could involve all its sales managers and employees in improving its customer relationships. Furthermore, the project aimed eventually to improve sales and marketing activities by measuring their effects on customer loyalty, and increase sales growth through greater share of customers' spending. Finally, Stig Jørgensen & Partners hoped to help Danfoss identify, select and implement some cost-effective loyalty and sales growth improvement projects and provide customers with more relevant services, more effective customer-facing processes and better customer experiences.

From May 2003 to the end of 2005, the '4C programme' was created: Customer loyalty, Competence development, Cultural change and Customer relationship management. This program was designed to increase the effectiveness of the sales, service, and marketing processes within the Heating Division by analysing, developing and capitalising on customer loyalty. As a 'health check' for the division, the project attempted to help the company prioritise and improve its relationships with various direct and indirect customers so as to ensure future profitable growth.

The second step: The process within the Danfoss Sales Programme (DSP)

In 2005, Danfoss established the global, group-wide DSP that forms part of the Danfoss Business System (DBS). This was a change initiative

designed to achieve global operational excellence throughout the group's value chain.

One of the working principles of DSP is to use the division's best existing methods and tools within the fields of sales and marketing. At the end of 2005, it was decided that DSP should use the customer loyalty measurement concept developed by the Heating Division. Because DSP already had the necessary support processes and tools in place, it only needed to integrate and further develop the core measurement methods and tools used by the Heating Division.

One of the key elements is the Customer Insight tool, with which Danfoss can follow developments in its market and obtain an objective evaluation of how well it is doing. The overview analysis from the Customer Insight tool includes details not only of the marketplace but also of customer satisfaction, customer loyalty, average share of wallet per customer, and loyalty drivers for each specific customer segment, which then can be combined with existing internal data about customers and their purchase patterns.

A key building block of the Customer Insight tool is the use of structured customer surveys (with telephone-based and online data captures); a unique Loyalty Simulator[®] analysis tool uses customer feedback to identify the key drivers of customer loyalty among existing customers. Danfoss can upload the data and receive an automatic report in return. These easily understood summary reports go to frontline staff and form the basis of the information that sales managers and sales engineers use when they communicate with customers. With more customer information than ever before, including individual

customer reports, Danfoss's sales engineers are in a far better position to understand what makes customers tick, and have a strong, objective basis for effective cross-selling (that is, selling additional products and services to existing customers).

It also has become possible to give existing target customers better information about new products and services based on their specific business needs and their perceptions of Danfoss's performance and ability to fulfil those needs. Last but not least, the customer surveys function as a fact-based 'voice of customer' that the different sales companies can use as input for selecting and utilising the various other sales and marketing improvement modules provided by DSP.

Results

In general terms the new system enables Danfoss to understand the specific needs of individual business customers, and to conduct market segment analysis using concrete, customer-based information. More specifically, the Customer Insight tool helps to increase sales to individual customers, makes it clearer which are the most important customers, reduces the risk of customers defecting to competitors, and increases the efficiency of the sales engineers. Certainly, the pioneers of the system, the Heating Division, have seen excellent financial performance recently. In Sweden, the Heating Division doubled its sales growth. It was estimated that the investment in the new customer survey system was repaid within seven months. The management team were very happy with the return on this investment. Danfoss has gained market share as a result of improved customer insight. If nothing else, it

has more detailed information about its customers, including their preferred product ranges and sales, service, and marketing activities. Sales engineers can now approach customers armed with much more

information, and offer new business opportunities. Danfoss uses the information generated through the project as the basis of its marketing activities; it considers the project an ongoing process. Its marketing

strategy is now based on concrete customer information combined with excellent analytical tools. The key question for Danfoss now? How can it be made even better!

In an increasingly connected world, people at all levels of the marketing system must work together to implement marketing strategies and plans. At Bosch, for example, marketing implementation for the company's power tools, outdoor equipment and other products requires day-to-day decisions and actions by thousands of people both inside and outside the organisation. Marketing managers make decisions about target segments, branding, packaging, pricing, promotion and distribution. They talk with engineering about product design, with manufacturing about production and inventory levels, and with finance about funding and cash flows. They also connect with outside people, such as advertising agencies to plan ad campaigns and the news media to obtain publicity support. The sales force urges Homebase, Argos, B&Q and other retailers to advertise Bosch products, provide ample shelf space and use company displays.

Successful marketing implementation depends on how well the company blends its people, organisational structure, decision and reward systems, and company culture into a cohesive action programme that supports its strategies. At all levels, the company must be staffed by people who have the needed skills, motivation and personal characteristics. The company's formal organisation structure plays an important role in implementing marketing strategy; so do its decision and reward systems. For example, if a company's compensation system rewards managers for short-term profit results, they will have little incentive to work toward long-term market-building objectives.

Finally, to be successfully implemented, the firm's marketing strategies must fit with its company culture, the system of values and beliefs shared by people in the organisation. The most successful companies have almost cult-like cultures built around strong, market-oriented missions. At companies such as Ryanair, Innocent and BMW employees share such a powerful vision that they have a very strong sense of what's right for their company.

Marketing department organisation

The company must design a marketing organisation that can carry out marketing strategies and plans. If the company is very small, one person might do all of the research, selling, advertising, customer service and other marketing work. As the company expands, a marketing department emerges to plan and carry out marketing activities. In large companies, this department contains many specialists. Thus, PSA Peugeot Citroën and Nestlé have product and market managers, sales managers and salespeople, market researchers, advertising experts, and many other specialists. To head up such large marketing organisations, many companies have now created a *chief marketing officer* (or CMO) position.

Modern marketing departments can be arranged in several ways. The most common form of marketing organisation is the *functional organisation*. Under this organisation, different marketing activities are headed by a functional specialist – a sales manager, advertising manager, marketing research manager, customer service manager, or new-product manager. A company that sells across the country or internationally often uses a *geographic organisation*. Its sales and marketing people are assigned to specific countries,