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CUSTOMER ORIENTATION MANAGEMENT CONCEPT AS THE INNOVATIVE WAY FOR UKRAINIAN ENTERPRISES

Introduction. Modern business conditions require the continuous development of principles and methods of enterprises. Today the classic marketing cannot satisfy all needs of the post-industrial age in the 21st century. New customers' attraction is becoming more expensive in conditions of information glut and large number of competitors. Therefore, retention of existing customers is more effective. This is the key point in the concept of relationship marketing and client-oriented companies' activities.

The issues of customer-oriented business, the high service level and maximum customer satisfaction are highlighted in the works of many authors (Vandermerwe 1999, Armstrong & Kotler 2000; Gupta & Lehmann 2005; Cook 2011). However, problems of the transition to the new customer-oriented concept of Ukrainian enterprises considering local circumstances are studied insufficiently.

That is why the article aim is to analyze the main features of customer-oriented enterprises, to study problems of transition to the new customer-oriented concept of Ukrainian enterprises and to development the recommendations for them.

One of marketing theory founders Philip Kotler suggested that marketing develops in 4 stages (Fig. 1).

The final stage of marketing development is switching attention from the product to the consumer. That is why the traditional "4Ps" concept expands with another "P" – element which is "people" and this includes the human factor in the process of market-oriented economic activities (staff, customers, partners, etc.).

Thus, in the early 90's of the XX century relationship marketing is being talked about. It is a system that aimed to establish long-term and constructive relationships with consumers, unlike the previous concept that had a short orientation (Armstrong & Kotler 2000; Marketing 2009).

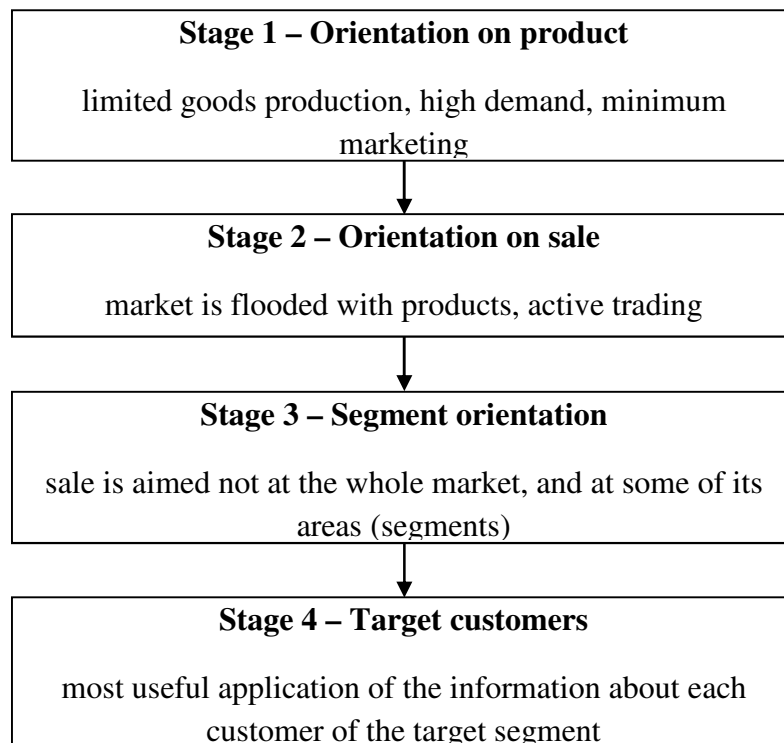


Fig. 1. Stages of marketing by Ph. Kotler (Armstrong & Kotler 2000; Marketing 2009)

In today's world when markets are not developing so rapidly and new consumers are not emerging all the time, companies are forced to fight for every customer. It is believed that keeping existing customers is 5 times cheaper than winning new ones (Armstrong & Kotler 2000).

The regular customer profitability is associated with the concept of “Customer life-time value” (CLV). This term was first used in 1988 (Shaw 1988). Customer life-time value is the current value of all current and future incomes derived from the customer during cooperation period (Gupta & Lehmann 2005). In another approach, CLV – is the net present value of future profit flows that can be obtained during the whole customer cooperation period (Marketing 2009).

Analysis of economic activity shows that new consumer's CLV is much smaller. Because he buys products less frequently than a regular customer. And the cost of new customer attracting is much greater than the cost of existing customer keeping. It includes spending on advertising and marketing, trading personnel salaries and bonuses, the cost of consumer processing etc.

These principles have led to the change in the company activity direction: from short-term and disposable to long-term and stable incomes. To do this, companies have to focus on

customer satisfaction, customer retention and improve their service level, i.e. they have to become customer-oriented.

Fig. 2 shows the differences between the product-focused company and customer-oriented company.

Customer-oriented company focuses on long-term cooperation with customers in the future, as traditional businesses – on short-term profits today.

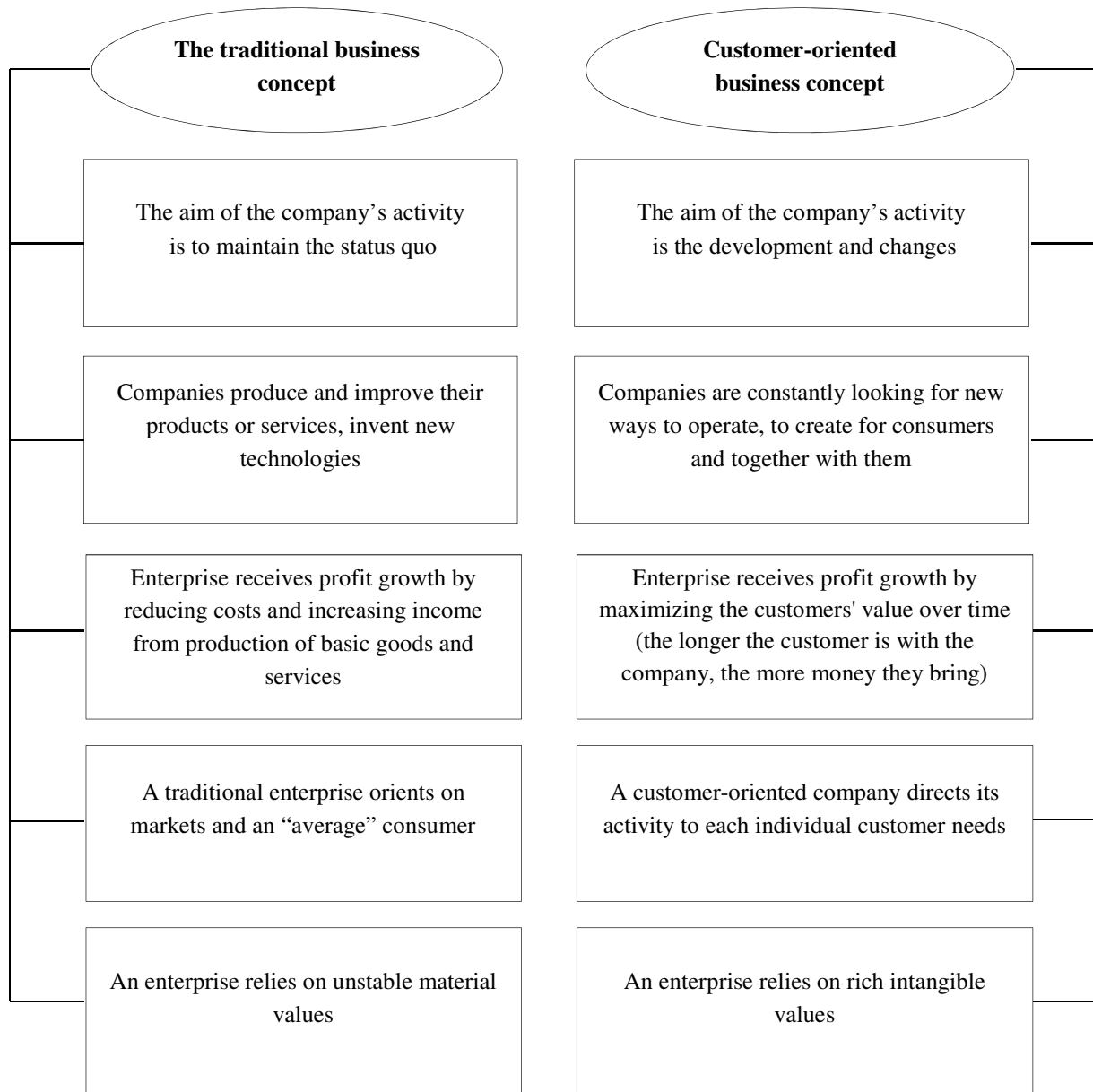


Fig. 2. Differences between the product-focused management and customer-oriented concept (based on (Vandermerwe 1999))

Companies which base their activities on innovation, flexible organization and social responsibility are more effective and more successful than companies which use more traditional strategies. Today companies' tangible assets hold only a small fraction of their market value. Information and knowledge, image and experience are becoming new income sources.

It is necessary to take into account customers' needs and requests (to carry out the customer-oriented activity) for long-term interactions with customers.

Let us consider customer-oriented company's features (Fig. 3). The main customer-oriented company differences are high level of services, knowledge about its customers and their needs as well as the individual approach to every customer.

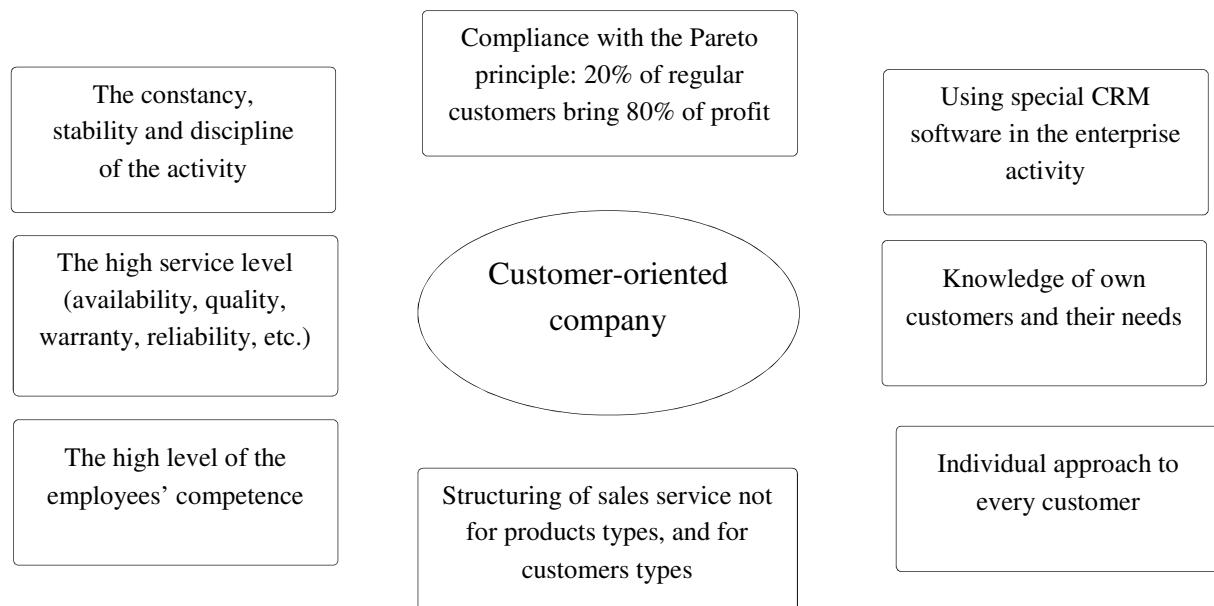


Fig. 3. Customer-oriented company's features (constructed by the authors based on (Vandermerwe 1999; Kendiukhov 2006; Gevko 2011))

Since, as mentioned above, the relationship marketing involves an individual approach to each customer, it is believed that such concept is suitable only for industrial enterprises, which have a limited number of customers and partners. But with the advent of new computer and information technologies individual approach introduction has been possible for mass production and service enterprises (mobile companies and banking institutions have successfully demonstrated this).

It is also considered that the company will receive benefits, if it chooses both the customer-oriented business concept and disadvantages of this concept (Fig. 4).

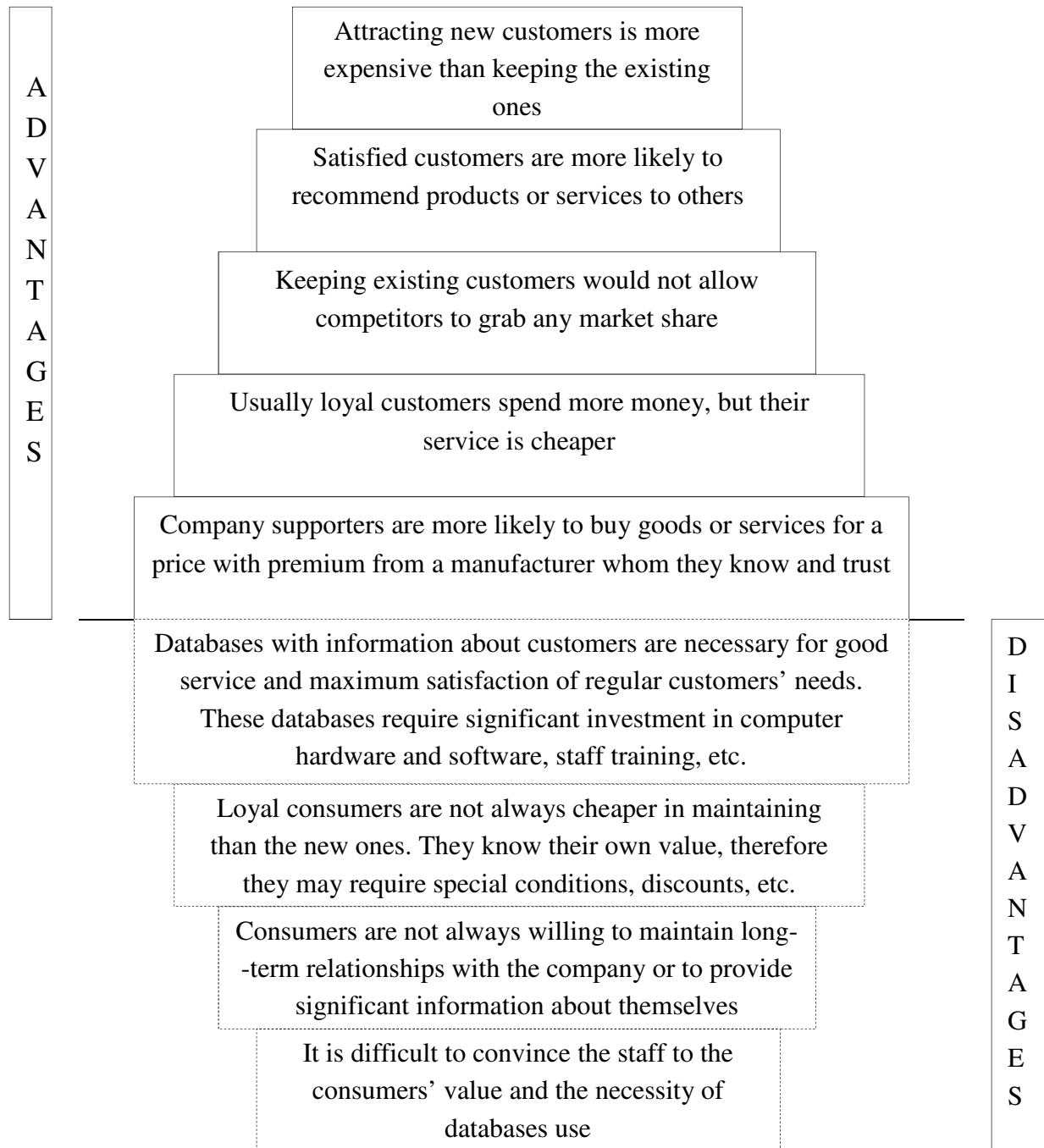


Fig. 4. Advantages and disadvantages of customer-oriented business concept
(based on (Marketing 2009; Cook 2011))

As a conclusion of fig. 4, an enterprise that chooses the activity focused on consumers, faces certain difficulties, but receives saving cost, increasing profits, retaining existing market position and increasing the number of customers by developing positive image.

In scientific circles today there is no single approach to determine the relationship within marketing area. Scientists consider this concept as a system of the enterprise

interaction with the environment. But for most experts only buyers and distributors are included as external subjects.

In our opinion, it is necessary to expand this range in all environment subjects that are or may become its economic partners in the future. Thus, we propose to define the concept of relationship in marketing as marketing, which directs the activities on establishing long-term and strong relationships with external players (customers, suppliers, partners, financial institutions, distributors, government, etc.).

However, the Ukrainian companies that have decided to change their management principle to the customer-oriented concept may confront with problems and barriers. Therefore, the authors analyzed the main obstacles, grouped in categories such as personnel, processes and technology (fig. 5).

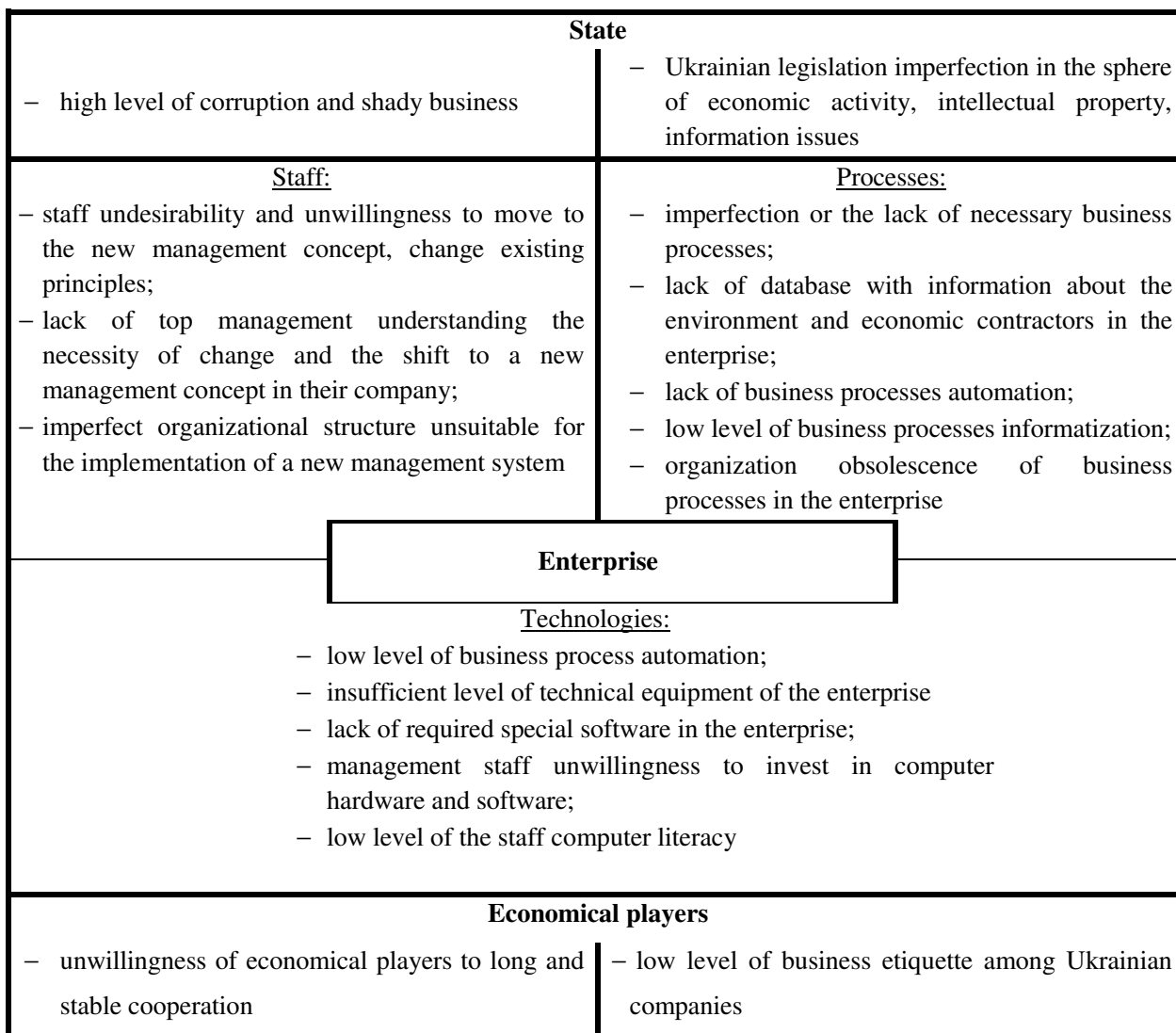


Fig. 5 – Authors’ systematization of implementing the concept of customer-oriented management problems in Ukrainian enterprises

Effective customer relationship management should be based on the three key elements:

- staff,
- process,
- technology.

That staff interacts directly with customers and enterprise economic partners. Therefore, every employee from the top manager to an office worker must believe in the main customer-oriented enterprise mission. The company management must convince its staff that they, as well as the client, will receive benefits with the introduction of relationship management system.

Customer relationship management has a lot of technical aspects, but all of them are based on business processes. This way of doing business focuses on meeting customer needs and takes into account the interests of clients, partners and the public. It is based on technology, integrates and distributes logically necessary information about the economic partners, sales, marketing effectiveness and market trends, etc. Therefore, the company needs to analyze their production and business processes before selecting a technology platform. All or some of them will be needed to re-engineer for the better customer service and interaction with economic partners. In addition, decision makers must determine what information about customers is needed and how to use it more efficiently.

Finally, the company must carefully choose the technologies to control these improvements. During the technology evaluation, key factors are coordinating business strategies with the company goals, the possibility of providing the right information to the right person, easy use of communication. Software platform selection can be managed by a group of company top managers who understand the business processes of the enterprise as a whole and by those who are needed to automate, together with specialists from the software supplier companies who know all the characteristics.

Only the combination of these three elements will provide effective customer relationship management.

Considering this combination, it is recommended to form the transition system to the customer-oriented management concept (Fig. 6).

The transition process involves diagnosis of the current situation in the company to identify the problem areas and the necessary changes. The next step is the formation of a new concept of doing business at the three levels: people, processes and technology. After the

transition to the customer-oriented model it is needed to constantly analyze the effectiveness and components adjustment.

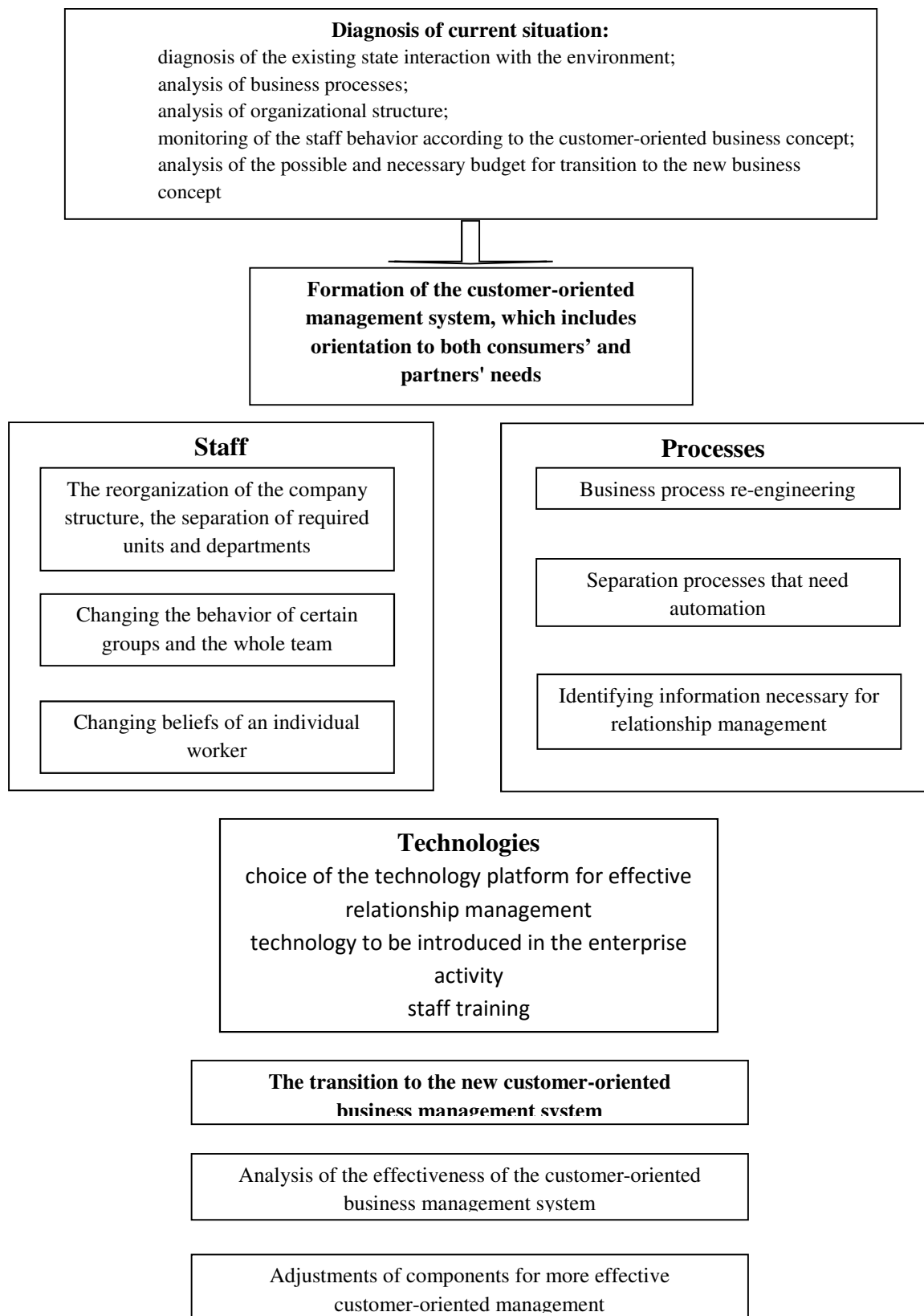


Fig. 6. Scheme of formation of customer-oriented management concept system

The first step is to analyze the enterprise current situation in the following aspects:

- how is the interaction with the environment carried out at the analysis point; are there loyal customers and partners of the company; what percentages of total income do constant customers give; are there any prospects for establishing interaction; are there any obstacles etc.;
- analysis of internal environment: what business processes are responsible for interaction with the environment; what business processes are automated or can be automated to improve their functioning;
- is the company organizational structure effective; is there the function duplication; are all functions run appropriately in the company;
- how do company employees interact with each other; what is the service level and customers and business partners satisfaction level from interacting with the staff of the company;
- analysis resources that the company can and is ready to identify to form a new management concept; what are the funds needed.

On the analysis basis a new customer-oriented management system is formed. It includes orientation to consumer needs and taking into account partners interests.

First it is necessary to make changes in the personnel management, to reorganize the company structure to cover all necessary functions of interaction with the environment and to avoid duplications. It is also necessary to bring to the whole team and to every employee the importance of interaction established with the environment and maintenance of enterprise customers. Employees must adhere to a high service level.

The company must also make re-engineering of business processes for better interaction with the environment, isolate and automate processes to increase efficiency, identify the information necessary to interact with the environment. Special software is implemented to the company activity for better automation and accumulation of databases. It is necessary to develop programs or to purchase ready ones, to hold staff training.

Business process automation is not a prerequisite for the customer-oriented concept, but it facilitates the personnel performance and the increase in the enterprise efficiency.

There are numerous kinds of software to facilitate the customer relationship management. Computer programs help to consolidate and organize information about customers, facilitate the development of an individual approach.

However, the organizations often face the problems with business process automation, which are not reflected in the standard software solutions. Examples of such processes can serve as obstacles in dealer network managing, working with individuals and organizations in the state structures, relationship management with suppliers or partners, etc.

In this situation, some organizations decide to develop their own software, by its own IT-specialists. Comparison of the advantages and disadvantages of own design, and purchase of the complete program is given in Table 1.

A method of software acquisition		
	Ready software technology buying	Own software applications development
Advantages	<ul style="list-style-type: none"> – no solutions at the development phase, saving time before the start; – technology implementation process takes place in a shorter time; – introduction of the effectiveness is noticeable faster; – flexible cost system; – sales service, training, updates and support from the company's developer, more experienced technology manufacturer 	<ul style="list-style-type: none"> – creation in accordance with the business requirements; – control over the development and implementation processes; – lack of dependence on other companies (a developer)
Disadvantages	<ul style="list-style-type: none"> – it has to adjust business processes to the system, it is not always possible or necessary, and in the end it still cannot give expected results; – dependence on outside support, and updates. And it does not guarantee the timeliness and quality of service (due to a large number of developer's customers, a change of priorities to other software products or liquidation of the company) 	<ul style="list-style-type: none"> – own technological solutions development will be considerably more expensive; – functions are limited with principle of demand; – high cost of maintenance and development; – update and making adjustments requires more time

Table 1 – Advantages and disadvantages of different ways of software acquisition

According to the table 1, the main advantages of the own software creation are the opportunity to consider and implement all specific requirements to support business processes, the lack of the dependence on the outside technology system developer, who can

stop its support and development. Also, the in-house development will be carried out on the basis of existing IT-resources and will not be required to replace the operating system, servers and workstations. On the other hand, the development of solutions “from scratch” is more expensive than purchasing ready-made solutions. Own systems are difficult to maintain and develop, as the company specializes in another area and has no significant experience in implementing of similar programs.

A method of buying ready-made IT-technology is attractive, because it does not contain any phase of development solutions. This reduces the introductory period, and therefore the impact of automation can be accessed faster. Since the support and development of these solutions are provided by the manufacturer, the project of system implementation and further support does not require a large specialist team. The disadvantage of this approach is that the software systems are not flexible enough, require restructuring of business processes during the implementation and additional resources, etc.

If the company considers it is inexpedient to connect their own IT-specialist team or does not have this among the staff, the way out of this situation may be to purchase software applications with a choice of features in a package or open source, when the manufacturer allows other experts to refine the application and adjust them to the needs of a particular firm.

Network Readiness Index (NRI) of the World Economic Forum has been introduced for evaluation of Ukrainian enterprises readiness to use special IT-tools in their activities.

NRI measures the ability of countries to use the opportunities offered by information and communication technologies. NRI has three components: the environment for ICT offered by a country or community, the readiness of key stakeholders (people, companies and governments) to use ICT and the use of ICT among these stakeholders. Ukraine on the list of 2015 was ranked on 71th place, behind Mexico (69th place) and Trinidad and Tobago (70th place). Poland occupies the 50th place, the Russian Federation 41th.

Indicators for each component of the rating NRI 2015 for Ukraine is shown in Table 2.

Subindex and pillars	Rank	Value
Environment subindex	104	3,6
- Political and regulatory environment	122	3,0
- Business and innovation environment	77	4,2
Readiness subindex	28	5,6
- Infrastructure	46	4,7
- Affordability	10	6,6
- Skills	36	5,6
Usage subindex	94	3,4
- Individual usage	78	3,7
- Business usage	78	3,5
- Government usage	124	2,9
NRI	71	4,0

Table 2 – Subindex and pillars of Networked Readiness rating 2015 of Ukraine

According to Table 2, Ukraine has high affordability and skill levels, well-developed ICT infrastructure, but political and regulatory environment are insufficient. This is caused by the unstable political situation in the country and imperfect legislation. Ukraine has also a very low value of government activities.

However, we can see the rising trend of the NRI, which indicates positive prospects for the introduction of information technologies in the Ukrainian enterprises (Fig. 7).

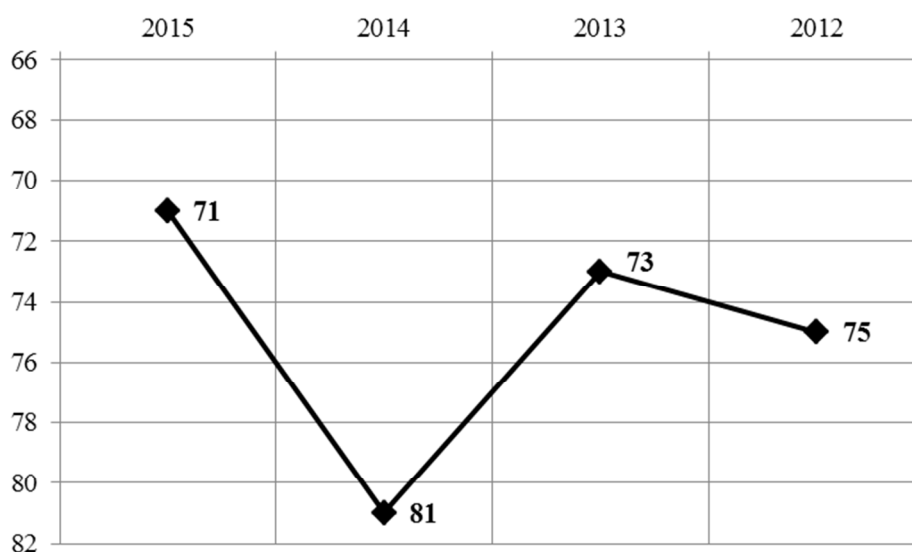


Fig. 7. Ukrainian rank of NRI in 2012-2015

But in other countries the introduction of CRM technologies is made more actively. Thus, according to Forrester Wave half of technology decision-makers at midsize organizations USA indicated that they have implemented a subset of CRM capabilities. Specifically, 34% have already implemented a customer service and support (CSS) solution; 29% have implemented sales force automation (SFA) application; and 20% have implemented marketing automation and many are planning to upgrade their tool sets. An additional 27%, 23%, and 26% have plans to adopt a CSS, SFA, and marketing automation solution.

Consequently, the transition to a new customer-oriented system management is carried out. After some functioning period of the new system the company has to analyze the effectiveness of its implementation and adjust some ingredients for a successful business if it is necessary.

Thus, it should be noted that the ability to introduce innovative solutions in the enterprise activity helps use its strengths maximally, identify weaknesses and neutralize them effectively, develop resistance against external threats and confront crises.

Customer-oriented companies appeared basing on the relationship marketing concept. They chose innovations and development; focus their activities on meeting consumer needs, high-quality service and maintenance unlike traditional ones. The customer-oriented activity gives benefits to the enterprise such as saving cost, increasing profits, retaining existing market position and increasing the number of customers by developing positive image. Relationship, attracting and retaining customers, experience of customer-oriented enterprises form the basis for the successful enterprise activity and efficient business.

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Abstract. *In the article the emergence of the customer-oriented business concept has been analyzed, also differences between a product-oriented enterprise and a customer-oriented company have been discussed. The advantages and disadvantages of the customer-oriented business have been defined. Problems of transition to the customer-oriented concept are grouped according to the following aspects: the state, economic players and an enterprise. As a result the model of the transition from a product-oriented enterprise to a customer-oriented enterprise is developed.*

Keywords: *customer, customer-oriented concept, product, transition model, customer-oriented company*