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Marketing Creating Customer Value and Engagement

CHAPTER PREVIEW

This first chapter introduces you to the basic concepts of marketing. We start with the question: What is marketing? Simply put, marketing is engaging customers and managing profitable customer relationships. The aim of marketing is to create value for customers in order to capture value from customers in return. Next we discuss the five steps in the marketing process—from understanding customer needs, to designing customer value–driven marketing strategies and integrated marketing programs, to building customer relationships and capturing value for the firm. Finally, we discuss the major trends and forces affecting marketing in this new age of

digital, mobile, and social media. Understanding these basic concepts and forming your own ideas about what they really mean to you will provide a solid foundation for all that follows.

Let's start with a good story about marketing in action at Emirates, the largest international airline in the world and one of the best-known brands on the planet. Emirates's success results from much more than just offering a way to connect people from point A to point B. It's based on a customer-focused marketing strategy by which Emirates creates customer value through deep brand–customer engagement and close brand community with and among its customers.

EMIRATES' CUSTOMER VALUE—DRIVEN MARKETING: Engaging Customers and Building a Brand Community

The Emirates Group operates across six continents and 150 cities with a 95,000-strong team comprised of over 160 nationalities. The Emirates airline, headquartered in Dubai, UAE, was founded in 1985. The financial year ending March 31, 2016, saw the Group achieve its 28th consecutive year of profit in a financial year. The company successfully capitalized on its location—a small city-state strategically located to reach three-fourths of the world population in a flight of less than eight hours—to build a fast-growing and profitable hub-based business model, making it the largest international airline in the world.

Emirates set out to be an innovative, modern, and customer-oriented provider of high-quality air travel services. Through the years, Emirates has successfully and continuously created a customer-focused value proposition by offering a combination of products, services, information, and experiences customized for its market demographics for each of its destinations. This approach had led to an array of product offerings such as its on-board Information, Communication, and Entertainment (ICE) system, an all-in-one communications device accommodating

customer needs of surfing the Internet, emailing, or simply calling a land line while in the airplane, as well as exclusive lounges for its clientele. These offerings have allowed Emirates to deliver its value proposition to its customers and support its mission statement of committing to high standards.

The Skywards Program, the airlines' frequent traveler loyalty program, also plays a key role in helping Emirates build strong customer relationships. In an industry-leading innovation, members now earn miles by zone instead of actual miles flown. A "miles accelerator feature" offers bonus miles on specific flights and is designed to boost turnover on flights with less full flights.

Emirates is not just offering a way to connect people from point A to point B but is the catalyst to connect people's dreams, hopes, and aspirations.

Facing increased and fierce competition, Emirates has launched a range of customer service initiatives that support differentiation, including Dubai Connect, an incentive for premium-class passengers offering free luxury hotel accommodation, including meals, ground transportation, and visa costs in Dubai. Another differentiating element of its customer service is Chauffeur-drive, a service offered to customers flying first-class or business-class. Emirates chauffeurs collect customers from their doorstep or will be present to take them to their final destination when they land. This could

be straight to the customer's hotel, their next meeting, their favorite restaurant, or even to the course for a round of golf. This service is available in over 70 cities worldwide.

As competitors continued to discount air fares close to loss levels, Emirates maintained fares while managing healthy yields supported by excellent load factors. The company was capable of doing this because of its customer value-driven marketing approach and its service proposition, for which customers continue to be willing to pay a premium. Whereas competitors emphasized low prices or well-maintained aircraft, Emirates built customer engagement and relationships. Beyond the functional benefit of air travel, Emirates marketed its services as "The Emirates Experience," a genuine passion for comfort and attention to detail. Customers didn't just fly Emirates; they experienced it.

Connecting with customers once required simply outspending competitors on big media ads and celebrity endorsers that talk at customers. In these digital times, however, Emirates is forging a new kind of customer relationship, a deeper, more personal, more engaging one. Emirates still invests in traditional advertising, but the brand now spends an increasing amount of its marketing budget on cutting-edge digital and social media marketing that interacts with customers to build brand engagement and community.

Emirates uses online, mobile, and social media marketing to connect with their customers. Emirates also creates brand "tribes"—large groups of highly engaged users—with the help of social media platforms such as Facebook, Twitter, Instagram, YouTube, and Pinterest. For example, the main Emirates Facebook page has more than 6.5 million likes. The Emirates Twitter page adds another 822,000; the Emirates Instagram page has 1.9 million subscribers, making it the largest in the industry; and the company's LinkedIn page has 667,000 followers, also no. 1 in the airline business. Emirates' social media presence engages customers at a high level, gets them talking with each other about the brand, and weaves the brand into their daily lives through cross-media campaigns that integrate digital media with traditional tools to connect with customers. A compelling example is the company's "Hello Tomorrow" campaign, which was launched in 2012 and positioned the global airline as the enabler of global connectivity and meaningful experiences. Emirates wanted to be perceived as a lifestyle choice and to ensure that more people than ever will fly Emirates. The target audience was "globalistas"—people who live to experience new cultures. Emirates was looking for a big idea that would build virtual bridges between globalistas and different cultures worldwide; inspire conversations on food, fashion, art, and music; and break the mold for a travel brand to engage with its audience and inspire discussions like never before.

Sir Maurice Flanagan, the founding CEO of Emirates and the former executive vice-chairman of The Emirates Group, emphasized that Emirates is not just offering a way to connect people from point A to point B but is the catalyst to connect people's dreams, hopes, and aspirations. He also stated that the



Emirates' success is due in part to its diverse product offerings.

Antony Nettle/Alamy Stock Photo

company is connecting people and cultures, creating relevant and meaningful experiences that are shaping the world.

The campaign launch featured print, TV, and digital advertising, including some iconic billboards in New York's Times Square and Milan's central train station. Launched in over 80 markets across the world, the new brand platform presented Emirates' new mindset through communication and engagement that celebrates global travel, conveying Emirates' commitment to connect with people and help them realize their potential through travel. Reflecting an effort to target a younger audience, the "Hello Tomorrow" campaign debuted with vignettes of the TV spots on Emirates' Facebook channel. Moreover, Emirates collaborated with the BBC to develop a new series called "Collaboration Culture," which followed 14 leading personalities who collaborated across their respective fields in music, food, fashion, and art. With CNN, Emirates created "Fusion Journeys," a concept that took artists to join fellow artists across the world to learn, teach, and even perform with them in their own country. Finally, Emirates' created the "Inspired Culture" channel on Yahoo! Globally, where globalistas can access recommendations, videos, and content, engaging with other people and being inspired by their creations.

The new global culture reached 43 million viewers across 85 countries through the BBC, CNN, and Yahoo! Emirates' consideration jumped from 38 percent to 69 percent among viewers and an impressive 84 percent of viewers exposed to the content reportedly believe Emirates was a brand that sought to connect the world and create a "brighter future."

Emirates has become the world's most valuable airline brand, with an estimated value of \$7.7 billion, according to the 2016 Brand Finance Global 500 report. It came out 47 places above the next closest airline brand. As a result of its customer-centric approach and integrated marketing campaigns (such as the Hello Tomorrow initiative), Emirates has demonstrated commitment, authenticity, relevance, and differentiation outside the travel industry. Emirates has successfully changed the way it reaches out to its customers by moving away from the product and creating a discourse of global customer engagement.¹

OBJECTIVES OUTLINE

OBJECTIVE 1-1	Define marketing and outline the steps in the marketing process. What Is Marketing?
OBJECTIVE 1-2	Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts. Understanding the Marketplace and Customer Needs
OBJECTIVE 1-3	Identify the key elements of a customer value–driven marketing strategy and discuss the marketing management orientations that guide marketing strategy. Designing a Customer Value–Driven Marketing Strategy and Plan
OBJECTIVE 1-4	Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return. Managing Customer Relationships and Capturing Customer Value
OBJECTIVE 1-5	Describe the major trends and forces that are changing the marketing landscape in this age of relationships. The Changing Marketing Landscape



Today's successful companies have one thing in common: Like Emirates, they are strongly customer focused and heavily committed to marketing. These companies share a passion for satisfying customer needs in well-defined target markets. They motivate everyone in the organization to help build lasting customer relationships based on creating value.

Customer relationships and value are especially important today. Facing dramatic technological advances and deep economic, social, and environmental challenges, today's customers are reassessing how they engage with brands. New digital, mobile, and social media developments have revolutionized how consumers shop and interact, in turn calling for new marketing strategies and tactics. It's now more important than ever to build strong customer engagement, relationships, and advocacy based on real and enduring customer value.

We'll discuss the exciting new challenges facing both customers and marketers later in the chapter. But first, let's introduce the basics of marketing.

Author Comment | Pause here and think about how you'd answer this question before studying marketing. Then see how your answer changes as you read the chapter.

What Is Marketing?

Marketing, more than any other business function, deals with customers. Although we will soon explore more-detailed definitions of marketing, perhaps the simplest definition is this one: *Marketing is engaging customers and managing profitable customer relationships.* The two-fold goal of marketing is to attract new customers by promising superior value and to keep and grow current customers by delivering value and satisfaction.

For example, Nike leaves its competitors in the dust by delivering on its promise to inspire and help everyday athletes to "Just do it." Amazon dominates the online marketplace by creating a world-class online buying experience that helps customers to "find and discover anything they might want to buy online." Facebook has attracted more than 1.5 billion active web and mobile users worldwide by helping them to "connect and share with the people in their lives." And Coca-Cola has earned an impressive 49 percent global share of the carbonated beverage market—more than twice Pepsi's share—by fulfilling its

“Taste the Feeling” motto with products that provide “a simple pleasure that makes everyday moments more special.”²

Sound marketing is critical to the success of every organization. Large for-profit firms such as Google, Target, Procter & Gamble, Coca-Cola, and Microsoft use marketing. But so do not-for-profit organizations, such as colleges, hospitals, museums, symphony orchestras, and even churches.



● **Marketing is all around you, in good old traditional forms and in a host of new forms, from websites and mobile phone apps to videos and online social media.**

Westend61/Getty Images

You already know a lot about marketing—it’s all around you. Marketing comes to you in the good old traditional forms: You see it in the abundance of products at your nearby shopping mall and the ads that fill your TV screen, spice up your magazines, or stuff your mailbox. ● But in recent years, marketers have assembled a host of new marketing approaches, everything from imaginative websites and smartphone apps to blogs, online videos, and social media. These new approaches do more than just blast out messages to the masses. They reach you directly, personally, and interactively. Today’s marketers want to become a part of your life and enrich your experiences with their brands. They want to help you *live* their brands.

At home, at school, where you work, and where you play, you see marketing in almost everything you do. Yet there is much more to marketing than meets the consumer’s casual eye. Behind it all is a massive network of people, technologies, and activities competing for your attention and purchases. This book will give you a complete introduction to the basic concepts and practices of today’s marketing. In this chapter, we begin by defining marketing and the marketing process.

Marketing Defined

What *is* marketing? Many people think of marketing as only selling and advertising. We are bombarded every day with TV commercials, catalogs, spiels from salespeople, and online pitches. However, selling and advertising are only the tip of the marketing iceberg.

Today, marketing must be understood not in the old sense of making a sale—“telling and selling”—but in the new sense of *satisfying customer needs*. If the marketer engages consumers effectively, understands their needs, develops products that provide superior customer value, and prices, distributes, and promotes them well, these products will sell easily. In fact, according to management guru Peter Drucker, “The aim of marketing is to make selling unnecessary.”³ Selling and advertising are only part of a larger *marketing mix*—a set of marketing tools that work together to engage customers, satisfy customer needs, and build customer relationships.

Broadly defined, marketing is a social and managerial process by which individuals and organizations obtain what they need and want through creating and exchanging value with others. In a narrower business context, marketing involves building profitable, value-laden exchange relationships with customers. Hence, we define **marketing** as the process by which companies engage customers, build strong customer relationships, and create customer value in order to capture value from customers in return.⁴

Marketing

The process by which companies engage customers, build strong customer relationships, and create customer value in order to capture value from customers in return.

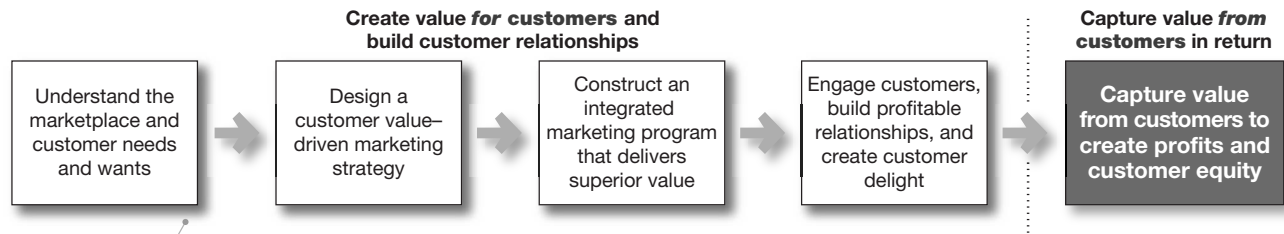
The Marketing Process

● **Figure 1.1** presents a simple, five-step model of the marketing process for creating and capturing customer value. In the first four steps, companies work to understand consumers, create customer value, and build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value. By creating value *for* consumers, they in turn capture value *from* consumers in the form of sales, profits, and long-term customer equity.

In this chapter and the next, we will examine the steps of this simple model of marketing. In this chapter, we review each step but focus more on the customer relationship

● FIGURE | 1.1

The Marketing Process: Creating and Capturing Customer Value



This important figure shows marketing in a nutshell. By creating value *for* customers, marketers capture value *from* customers in return. This five-step process forms the marketing framework for the rest of the chapter and the remainder of the text.

steps—understanding customers, engaging and building relationships with customers, and capturing value from customers. In Chapter 2, we look more deeply into the second and third steps—designing value-creating marketing strategies and constructing marketing programs.

Author Comment Marketing is all about creating value for customers. So, as the first step in the marketing process, the company must fully understand customers and the marketplace.

Understanding the Marketplace and Customer Needs

As a first step, marketers need to understand customer needs and wants and the marketplace in which they operate. We examine five core customer and marketplace concepts: (1) *needs, wants, and demands*; (2) *market offerings (products, services, and experiences)*; (3) *value and satisfaction*; (4) *exchanges and relationships*; and (5) *markets*.

Needs

States of felt deprivation.

Wants

The form human needs take as they are shaped by culture and individual personality.

Demands

Human wants that are backed by buying power.

Customer Needs, Wants, and Demands

The most basic concept underlying marketing is that of human needs. Human **needs** are states of felt deprivation. They include basic *physical* needs for food, clothing, warmth, and safety; *social* needs for belonging and affection; and *individual* needs for knowledge and self-expression. Marketers did not create these needs; they are a basic part of the human makeup.

Wants are the form human needs take as they are shaped by culture and individual personality. An American *needs* food but *wants* a Big Mac, fries, and a soft drink. A person in Papua, New Guinea, *needs* food but *wants* taro, rice, yams, and pork. Wants are shaped by one's society and are described in terms of objects that will satisfy those needs. When backed

by buying power, wants become **demands**. Given their wants and resources, people demand products and services with benefits that add up to the most value and satisfaction.

Companies go to great lengths to learn about and understand customer needs, wants, and demands. They conduct consumer research, analyze mountains of customer data, and observe customers as they shop and interact, offline and online. People at all levels of the company—including top management—stay close to customers:⁵

Target's energetic CEO, Brian Cornell, makes regular unannounced visits to Target stores, accompanied by local moms and loyal Target shoppers. ● Cornell likes nosing around stores and getting a real feel for what's going on. It gives him "great, genuine feedback." He and other Target executives even visit customers in their homes, opening closet doors and poking around in cupboards to understand their product choices and buying habits. Similarly, Boston Market CEO George Michel makes frequent visits to company restaurants, working in the dining room and engaging customers to learn about "the good, the bad, and the ugly." He also stays connected by reading customer messages on the Boston Market website and has even cold-called customers for insights. "Being close to the customer is critically important," says Michel. "I get to learn what they value, what they appreciate."



● **Staying close to customers:** Energetic Target CEO Brian Cornell makes regular unannounced visits to Target stores, accompanied by local moms and loyal Target shoppers.

Ackerman + Gruber

Market offerings

Some combination of products, services, information, or experiences offered to a market to satisfy a need or want.

Marketing myopia

The mistake of paying more attention to the specific products a company offers than to the benefits and experiences produced by these products.

Market Offerings—Products, Services, and Experiences

Consumers' needs and wants are fulfilled through **market offerings**—some combination of products, services, information, or experiences offered to a market to satisfy a need or a want. Market offerings are not limited to physical *products*. They also include *services*—activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, airline, hotel, retailing, and home repair services.

More broadly, market offerings also include other entities, such as *persons, places, organizations, information, and ideas*. For example, San Diego runs a “Happiness Is Calling” advertising campaign that invites visitors to come and enjoy the city’s great weather and good times—everything from its bays and beaches to its downtown nightlife and urban scenes. And the Ad Council and the National Highway Traffic Safety Administration created a “Stop the Texts. Stop the Wrecks.” campaign that markets the idea of eliminating texting while driving. The campaign points out that a texting driver is 23 times more likely to get into a crash than a non-texting driver.⁶

Many sellers make the mistake of paying more attention to the specific products they offer than to the benefits and experiences produced by these products. These sellers suffer from **marketing myopia**. They are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs.⁷ They forget that a product is only a tool to solve a consumer problem. A manufacturer of quarter-inch drill bits may think that the customer needs a drill bit. But what the customer *really* needs is a quarter-inch hole. These sellers will have trouble if a new product comes along that serves the customer’s need better or less expensively. The customer will have the same *need* but will *want* the new product.

Smart marketers look beyond the attributes of the products and services they sell. By orchestrating several services and products, they create *brand experiences* for consumers. For example, you don’t just visit Walt Disney World Resort; you immerse yourself and your family in a world of wonder, a world where dreams come true and things still work the way they should. And your local Buffalo Wild Wings restaurant doesn’t just serve up wings and beer; it gives customers the ultimate “Wings. Beer. Sports.” fan experience (see Real Marketing 1.1).

● Similarly, Mattel’s American Girl does much more than just make and sell high-end dolls. It creates special experiences between the dolls and the girls who adore them.⁸

To put more smiles on the faces of the girls who love their American Girl dolls, the company operates huge American Girl experiential stores in 20 major cities around the country. Each store carries an amazing selection of dolls plus every imaginable outfit and accessory. But more than just places to shop, American Girl stores are exciting destinations unto themselves, offering wonderfully engaging experiences for girls, mothers, grandmothers, and even dads or grandpas. There’s an in-store restaurant where girls, their dolls, and grown-ups can sit down together for brunch, lunch, afternoon tea, or dinner. There’s even a doll hair salon where a stylist can give a doll a new hairdo. American Girl also offers “perfect parties” to celebrate a birthday or any day as well as a full slate of special events, from crafts and activities to excursions. Much more than a store that sells dolls, says the company, “it’s the place where imaginations can soar.” A visit to American Girl creates “Fun today. Memories forever.”



● **Marketing experiences: American Girl does more than just make and sell high-end dolls. It creates special experiences between the dolls and the girls who adore them.**

Image courtesy of American Girl, Inc. All rights reserved.

Customer Value and Satisfaction

Consumers usually face a broad array of products and services that might satisfy a given need. How do they choose among these many market offerings? Customers form expectations about the value and satisfaction that various market offerings will deliver and buy accordingly. Satisfied customers buy again and tell others about their good experiences. Dissatisfied customers often switch to competitors and disparage the product to others.

Marketers must be careful to set the right level of expectations. If they set expectations too low, they may satisfy those who buy but fail to attract enough buyers. If they set expectations too high, buyers will be disappointed. Customer value and customer satisfaction are key building blocks for developing and managing customer relationships. We will revisit these core concepts later in the chapter.

1.1 Buffalo Wild Wings: Fueling the Sports Fan Experience

“Wings. Beer. Sports.” That’s the long-standing motto for the fast-growing Buffalo Wild Wings restaurant chain. “B-Dubs”—as it’s known to avid regulars—focuses on food and sports and “everything in between.”

There’s no doubt about it. Buffalo Wild Wings more than lives up to the “wings” and “beer” parts of the equation. It serves up wings in an abundant variety: boned or boneless, with five dry seasonings and 17 signature sauces ranging on the heat scale from Sweet BBQ (traditional BBQ sauce: satisfyingly sweet with no heat) to Desert Heat (smoky, sweet, and chili pepper seasoning) to Reformulated Blazin’ (so good, it’s scary—made with the unrelenting heat of the ghost pepper). To wash it all down, each B-Dubs restaurant pours as many as 30 different draft beers, with a full selection of domestic, import, and craft beer brands. You won’t go hungry or thirsty at B-Dubs.

However, the Buffalo Wild Wings recipe for success goes much deeper than just selling wings and beer for profit. What really packs ‘em in and keeps ‘em coming back is the B-Dubs customer *experience*. Customers do gobble up the wings—more than 11 million wings chain-wide on last Super Bowl Sunday alone. But even more important, they come to B-Dubs to watch sports, trash talk, cheer on their sports teams, and meet old friends and make new ones—that is, a total eating and social experience. “We realize that we’re not just in the business of selling wings,” says the company. “We’re something much bigger. We’re in the business of fueling the sports fan experience. Our mission is to WOW people every day!”

Everything about B-Dubs is designed to deliver the ultimate sports experience, for any fan of any sport. The WOW begins the minute you step into any of Buffalo Wild Wings’s 1,100 restaurants. This is not your average dark-and-dank sports bar. Instead, a B-Dubs is like a miniature stadium, with high ceilings, ample natural light, and brightly colored furnishings and wall coverings. The newest Buffalo Wild Wings “Stadia” restaurants are divided into barrier-free zones—including a bar area and a separate dining area. And every B-Dubs has 60 to 70 really big flat-screen TVs lining the walls, over the bar, and about everywhere else, ensuring that every table has the best seat in the house

no matter what your team or sport, including live streaming of local college and even high school events. B-Dubs creates an exciting environment that makes it the next best thing to being at the game—or something even better. “We consider ourselves to have 1,100 stadiums,” says the chain’s vice president for guest experience and innovation.

There’s an experience for everyone at Buffalo Wild Wings. The chain appeals to a wide range of customers, from pub-loving sports nuts to families looking for an affordable evening out. Singles and couples gravitate to the bar area; families stick to the carpeted areas with booths. In addition to streaming sports events of all kinds on the big screens, B-Dubs supplies tableside tablets upon which customers can play poker or trivia games. A social jukebox feature lets guests control the music that plays on the restaurant’s sound system.

It seems like there’s always something happening in a B-Dubs to engage customers and enhance the experience. Take the chain’s infamous Blazin’ Wing Challenge—which promises a trophy-style T-shirt and a place on the Wall of Fame to any customer who can down a dozen wings with the chain’s hottest signature sauce in no more than six minutes. That’s no easy feat considering that the Blazin’ sauce

is 60 times hotter than typical jalapeño sauce. During the six-minute binge, challengers are not allowed to use napkins or utensils, touch their faces, or eat or drink anything other than the wings (no dipping sauces, please). The menu boasts plenty of warnings, and servers advise most people not to even attempt the challenge. And before taking the plunge, each challenger signs a waiver agreeing that he or she “voluntarily assumes all risk of loss, damage, injury, illness, or death that may be sustained by him or her as a result.” As you can imagine, when a challenge is announced over the PA, it usually draws a crowd.

Buffalo Wild Wings never rushes its guests. Whereas many other casual-dining restaurants have a “turn-and-burn” philosophy—cycling as many paying guests as possible through each table—at B-Dubs it’s just the opposite. Buffalo Wild Wings encourages people to linger longer, enjoy the food, and soak up the ambiance.

To help make that happen, the chain has created a new staff position at each restaurant. In addition to the usual waitstaff, each table has a “Guest Experience Captain.” According to B-Dubs’s chief marketer, the captain is “like a host at any party,” moving from table to table, chatting with guests, personalizing their experiences, and making sure their needs are met. Want a special



Customer-focused mission: The Buffalo Wild Wings mission is to provide a total eating and social environment that “fuels the sports fan experience” through in-store and online engagement.

Reprinted with permission of Buffalo Wild Wings, Inc.

game on one screen with another game on the screen next to it? Your Guest Experience Captain sees to it. Need help with a tablet? Your captain lends a hand. Want to try some new sauces? Your captain will make suggestions and even bring out samples of different sauces with complimentary fries for dipping.

Adding Guest Experience Captains is a major expense, especially when multiplied across shifts in all 1,100 stores. But Buffalo Wild Wings reasons that the captains will more than pay for themselves by enhancing the all-important guest experience, keeping customers around longer, and bringing them back more often. Buffalo Wild Wings restaurants with captains are achieving record levels of customer satisfaction and loyalty compared with those that have not yet brought captains on board. "It's just an opportunity for us to go a little deeper with the community than our competitors," says the B-Dubs marketing chief.

True to its "ultimate sports experience" mission, Buffalo Wild Wings actively engages its customers digitally and socially outside its restaurants as well as inside. In fact, the company brags that it's the number-one

brand in its industry for digital fan engagement. B-Dubs's very active website draws 3 million visitors per month. The brand has more than 12 million Facebook fans, 660,000 Twitter followers, and very active YouTube and Instagram pages. It recently launched GameBreak, an app for fantasy football and other games that can be played inside or outside its restaurants. According to the company's customer experience executive, GameBreak players visit more often, stay longer, and tend to "buy that second or third beer or maybe one more basket of wings." In all, Buffalo Wild Wings creates a host of both in-store and online promotions that inspire camaraderie. "It's about giving [customers]

tools to not just be spectators but advocates of the brand," says the chain.

Catering to the customer experience has paid big dividends for Buffalo Wild Wings. B-Dubs is now the nation's number-one seller of chicken wings and largest pourer of draft beer. Over the past five years, as other casual-dining restaurants have struggled with fierce competition and slow growth, B-Dubs's sales have more than tripled and profits are up 250 percent. The chain's "hottest wing coating available comes with a warning to B-Dubs' customers: 'keep away from eyes, pets, and children.' The sauce is called 'Blazin';" says one analyst. "That term also happens to be a good description of the stock's performance lately."

Sources: Demitrios Kalogeropoulos, "Why Buffalo Wild Wings Is Spending More on Its Employees," *The Motley Fool*, June 24, 2015, www.fool.com/investing/general/2015/06/24/why-buffalo-wild-wings-is-spending-more-on-its-emp.aspx; Demitrios Kalogeropoulos, "3 Reasons Buffalo Wild Wings Can Keep Soaring in 2015," *The Motley Fool*, January 9, 2015, www.fool.com/investing/general/2015/01/09/3-reasons-why-buffalo-wild-wings-can-keep-soaring.aspx; Bryan Gruley, "The Sloppy Empire: How Buffalo Wild Wings Turned the Sports Bar into a \$1.5 Billion Juggernaut," *Bloomberg Businessweek*, April 13–19, 2015, pp. 62–65; Tanya Dua, "The Buffalo Wild Wings Recipe for the 'Ultimate Sports Experience,'" August 4, 2015, <http://digiday.com/brands/buffalo-wild-wings-recipe-ultimate-sports-experience/>; and <http://ir.buffalowildwings.com/financials.cfm> and www.buffalowildwings.com/en/, accessed September 2016.

Exchange

The act of obtaining a desired object from someone by offering something in return.

Exchanges and Relationships

Marketing occurs when people decide to satisfy their needs and wants through exchange relationships. **Exchange** is the act of obtaining a desired object from someone by offering something in return. In the broadest sense, the marketer tries to bring about a response to some market offering. The response may be more than simply buying or trading products and services. A political candidate, for instance, wants votes; a church wants membership and participation; an orchestra wants an audience; and a social action group wants idea acceptance.

Marketing consists of actions taken to create, maintain, and grow desirable exchange relationships with target audiences involving a product, service, idea, or other object. Companies want to build strong relationships by consistently delivering superior customer value. We will expand on the important concept of managing customer relationships later in the chapter.

Markets

Market

The set of all actual and potential buyers of a product or service.

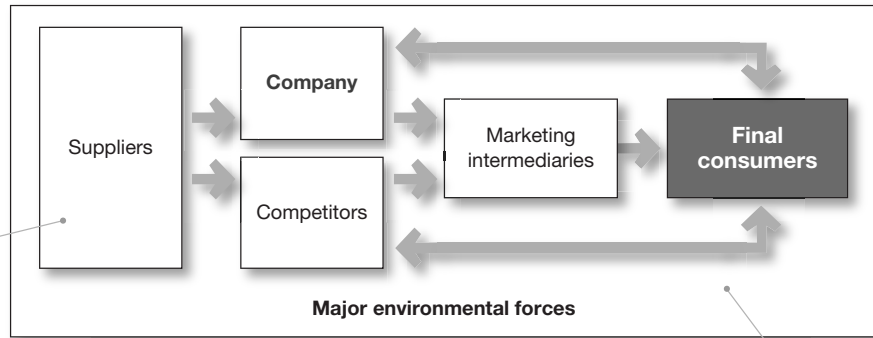
The concepts of exchange and relationships lead to the concept of a market. A **market** is the set of actual and potential buyers of a product or service. These buyers share a particular need or want that can be satisfied through exchange relationships.

Marketing means managing markets to bring about profitable customer relationships. However, creating these relationships takes work. Sellers must search for and engage buyers, identify their needs, design good market offerings, set prices for them, promote them, and store and deliver them. Activities such as consumer research, product development, communication, distribution, pricing, and service are core marketing activities.

Although we normally think of marketing as being carried out by sellers, buyers also carry out marketing. Consumers market when they search for products, interact with companies to obtain information, and make their purchases. In fact, today's digital technologies, from online sites and smartphone apps to the explosion of social media, have empowered consumers and made marketing a truly two-way affair. Thus, in addition to customer relationship management, today's marketers must also deal effectively with *customer-managed relationships*. Marketers are no longer asking only "How can we influence our customers?" but also "How can our customers influence us?" and even "How can our customers influence each other?"

● **FIGURE | 1.2**
A Modern Marketing System

Each party in the system adds value. Walmart cannot fulfill its promise of low prices unless its suppliers provide low costs. Ford cannot deliver a high-quality car-ownership experience unless its dealers provide outstanding service.



Arrows represent relationships that must be developed and managed to create customer value and profitable customer relationships.

● **Figure 1.2** shows the main elements in a marketing system. Marketing involves serving a market of final consumers in the face of competitors. The company and competitors research the market and interact with consumers to understand their needs. Then they create and exchange market offerings, messages, and other marketing content with consumers, either directly or through marketing intermediaries. Each party in the system is affected by major environmental forces (demographic, economic, natural, technological, political, and social/cultural).

Each party in the system adds value for the next level. The arrows represent relationships that must be developed and managed. Thus, a company's success at engaging customers and building profitable relationships depends not only on its own actions but also on how well the entire system serves the needs of final consumers. Walmart cannot fulfill its promise of low prices unless its suppliers provide merchandise at low costs. And Ford cannot deliver a high-quality car-ownership experience unless its dealers provide outstanding sales and service.

Author Comment Once a company fully understands its consumers and the marketplace, it must decide which customers it will serve and how it will bring them value.

Designing a Customer Value–Driven Marketing Strategy and Plan

Customer Value–Driven Marketing Strategy

Once it fully understands consumers and the marketplace, marketing management can design a customer value–driven marketing strategy. We define **marketing management** as the art and science of choosing target markets and building profitable relationships with them. The marketing manager's aim is to engage, keep, and grow target customers by creating, delivering, and communicating superior customer value.

To design a winning marketing strategy, the marketing manager must answer two important questions: *What customers will we serve (what's our target market)?* and *How can we serve these customers best (what's our value proposition)?* We will discuss these marketing strategy concepts briefly here and then look at them in more detail in Chapters 2 and 7.

Selecting Customers to Serve

The company must first decide *whom* it will serve. It does this by dividing the market into segments of customers (*market segmentation*) and selecting which segments it will go after (*target marketing*). Some people think of marketing management as finding as many customers as possible and increasing demand. But marketing managers know that they cannot serve all customers in every way. By trying to serve all customers, they may not serve any customers well. Instead, the company wants to select only customers that it can serve well and profitably. For example, Nordstrom profitably targets affluent professionals; Dollar General profitably targets families with more modest means.

Ultimately, marketing managers must decide which customers they want to target and on the level, timing, and nature of their demand. Simply put, marketing management is *customer management* and *demand management*.

Marketing management

The art and science of choosing target markets and building profitable relationships with them.

Choosing a Value Proposition

The company must also decide how it will serve targeted customers—how it will *differentiate and position* itself in the marketplace. A brand's *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs. JetBlue promises to put "You Above All" by bringing "humanity back to travel." By contrast, Spirit Airlines gives you "Bare Fare" pricing: "Less Money. More Go." Homewood Suites by Hilton wants you to "Make yourself at home."

Meanwhile, the Hyatt Regency brand declares that sometimes "It's good not to be home." Its ads highlight the joys of traveling and the fun things that people do when they are traveling on business.

Such value propositions differentiate one brand from another. They answer the customer's question: "Why should I buy your brand rather than a competitor's?" Companies must design strong value propositions that give them the greatest advantage in their target markets.



- **Value propositions:** The Hyatt Regency brand declares that sometimes "It's good not to be home." Its ads highlight the joys of business travel and staying at a Hyatt Regency hotel.

Courtesy Hyatt Corporation. Photograph ©Richard Schultz-2015. Talent: Dean West.

Marketing Management Orientations

Marketing management wants to design strategies that will engage target customers and build profitable relationships with them. But what *philosophy* should guide these marketing strategies? What weight should be given to the interests of customers, the organization, and society? Very often, these interests conflict.

There are five alternative concepts under which organizations design and carry out their marketing strategies: the *production*, *product*, *selling*, *marketing*, and *societal marketing concepts*.

Production concept

The idea that consumers will favor products that are available and highly affordable; therefore, the organization should focus on improving production and distribution efficiency.

The Production Concept. The **production concept** holds that consumers will favor products that are available and highly affordable. Therefore, management should focus on improving production and distribution efficiency. This concept is one of the oldest orientations that guides sellers.

The production concept is still a useful philosophy in some situations. For example, both personal computer maker Lenovo and home appliance maker Haier dominate the highly competitive, price-sensitive Chinese market through low labor costs, high production efficiency, and mass distribution. However, although useful in some situations, the production concept can lead to marketing myopia. Companies adopting this orientation run a major risk of focusing too narrowly on their own operations and losing sight of the real objective—satisfying customer needs and building customer relationships.

Product concept

The idea that consumers will favor products that offer the most quality, performance, and features; therefore, the organization should devote its energy to making continuous product improvements.

The Product Concept. The **product concept** holds that consumers will favor products that offer the most in quality, performance, and innovative features. Under this concept, marketing strategy focuses on making continuous product improvements.

Product quality and improvement are important parts of most marketing strategies. However, focusing *only* on the company's products can also lead to marketing myopia. For example, some manufacturers believe that if they can "build a better mousetrap, the world will beat a path to their doors." But they are often rudely shocked. Buyers may be looking for a better solution to a mouse problem but not necessarily for a better mousetrap. The better solution might be a chemical spray, an exterminating service, a house cat, or something else that suits their needs even better than a mousetrap. Furthermore, a better mousetrap will not sell unless the manufacturer designs, packages, and prices it attractively; places it in convenient distribution channels; brings it to the attention of people who need it; and convinces buyers that it is a better product.

Selling concept

The idea that consumers will not buy enough of the firm's products unless the firm undertakes a large-scale selling and promotion effort.

Marketing concept

A philosophy in which achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do.

The Selling Concept. Many companies follow the **selling concept**, which holds that consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort. The selling concept is typically practiced with unsought goods—those that buyers do not normally think of buying, such as life insurance or blood donations. These industries must be good at tracking down prospects and selling them on a product's benefits.

Such aggressive selling, however, carries high risks. It focuses on creating sales transactions rather than on building long-term, profitable customer relationships. The aim often is to sell what the company makes rather than to make what the market wants. It assumes that customers who are coaxed into buying the product will like it. Or, if they don't like it, they will possibly forget their disappointment and buy it again later. These are usually poor assumptions.

The Marketing Concept. The **marketing concept** holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do. Under the marketing concept, customer focus and value are the *paths* to sales and profits. Instead of a product-centered *make-and-sell* philosophy, the marketing concept is a customer-centered *sense-and-respond* philosophy. The job is not to find the right customers for your product but to find the right products for your customers.

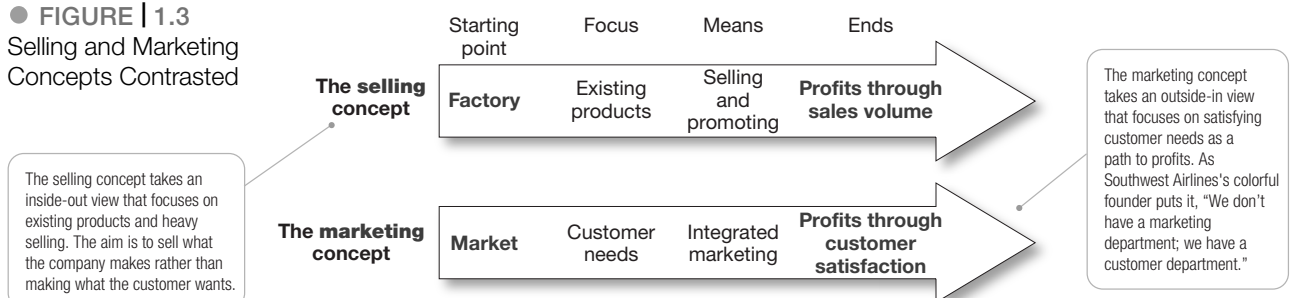
● **Figure 1.3** contrasts the selling concept and the marketing concept. The selling concept takes an *inside-out* perspective. It starts with the factory, focuses on the company's existing products, and calls for heavy selling and promotion to obtain profitable sales. It focuses primarily on customer conquest—getting short-term sales with little concern about who buys or why.

In contrast, the marketing concept takes an *outside-in* perspective. As Herb Kelleher, the colorful founder of Southwest Airlines, once put it, "We don't have a marketing department; we have a customer department." The marketing concept starts with a well-defined market, focuses on customer needs, and integrates all the marketing activities that affect customers. In turn, it yields profits by creating relationships with the right customers based on customer value and satisfaction.

Implementing the marketing concept often means more than simply responding to customers' stated desires and obvious needs. *Customer-driven* companies research customers deeply to learn about their desires, gather new product ideas, and test product improvements. Such customer-driven marketing usually works well when a clear need exists and when customers know what they want.

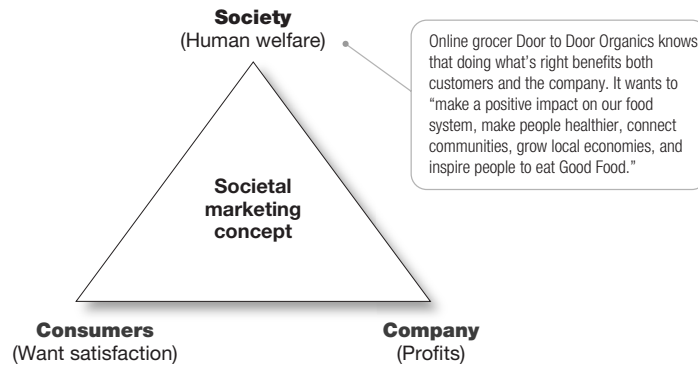
In many cases, however, customers *don't* know what they want or even what is possible. As Henry Ford once remarked, "If I'd asked people what they wanted, they would have said faster horses."⁹ For example, even 20 years ago, how many consumers would have thought to ask for now-commonplace products such as tablet computers, smartphones, digital cameras, 24-hour online buying, digital video and music streaming, and GPS systems in their cars and phones? Such situations call for *customer-driving* marketing—understanding customer needs even better than customers themselves do and creating products and services that meet both existing and latent needs, now and in the future. As an executive at 3M put it, "Our goal is to lead customers where they want to go before *they* know where they want to go."

● **FIGURE | 1.3**
Selling and Marketing
Concepts Contrasted



● FIGURE | 1.4

Three Considerations Underlying the Societal Marketing Concept



Societal marketing concept

The idea that a company's marketing decisions should consider consumers' wants, the company's requirements, consumers' long-run interests, and society's long-run interests.

The Societal Marketing Concept. The **societal marketing concept** questions whether the pure marketing concept overlooks possible conflicts between consumer *short-run wants* and consumer *long-run welfare*. Is a firm that satisfies the immediate needs and wants of target markets always doing what's best for its consumers in the long run? The societal marketing concept holds that marketing strategy should deliver value to customers in a way that maintains or improves both the consumer's *and society's* well-being. It calls for *sustainable marketing*, socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.

Even more broadly, many leading business and marketing thinkers are now preaching the concept of *shared value*, which recognizes that societal needs, not just economic needs, define markets.¹⁰ The concept of shared value focuses on creating economic value in a way that also creates value for society. A growing number of companies known for their hard-nosed approaches to business—such as GE, Dow, Google, IBM, Intel, Johnson & Johnson, Nestlé, Unilever, and Walmart—are rethinking the interactions between society and corporate performance. They are concerned not just with short-term economic gains but with the well-being of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers, and the economic well-being of the communities in which they operate.

One prominent marketer calls this *Marketing 3.0*. “Marketing 3.0 organizations are values-driven,” he says. “I’m not talking about being value-driven. I’m talking about ‘values’ plural, where values amount to caring about the state of the world.” Another marketer calls it *purpose-driven marketing*. “The future of profit is purpose,” he says.¹¹

As ● **Figure 1.4** shows, companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, *and* society's interests. Online grocer Door to Door Organics operates this way:¹²

● Door to Door Organics delivers fresh, high-quality, organic, natural, and local meat, dairy, produce, and groceries directly to homes, offices, and schools in 16 states across the country. Customers order online and receive weekly deliveries to their doorsteps year-round. But Door to Door Organics does much more than just sell groceries online for profit. It also dedicates itself to a deeply felt mission “to bring more Good Food—food that positively impacts health, communities, and the environment—to more people in a sustainable way.” It wants to “make a positive impact on our food system, make people healthier, connect communities, grow local economies, and inspire people to eat Good Food.”

To meet its ambitious Good Food mission, Door to Door sources most of what it sells from local family farms and businesses who are “dedicated stewards of the land and use USDA-certified organic practices that are healthier for both animals and people, better for the soil, and reduce carbon emissions.” Door to Door delivers to specified areas on specific days of the week, maintaining a tight delivery radius



● **The societal marketing concept: Door to Door Organics does more than just sell natural and organic groceries online for profit. Its deep-felt mission is “to bring more Good Food—food that positively impacts health, communities, and the environment—to more people in a sustainable way.”**

Door to Door Organics

that reduces both costs and carbon emissions. And through careful food management, the company puts 44 percent less wasted food in landfills than the average grocery store. Door to Door Organics also treats customers responsibly. All deliveries carry a #JoyDelivered guarantee—if a customer isn't “absolutely delighted,” the company will make it right. Thanks to its societal mission, Door to Door Organics is thriving, suggesting that doing good can benefit both the planet and the company.

Preparing an Integrated Marketing Plan and Program

The company's marketing strategy outlines which customers it will serve and how it will create value for these customers. Next, the marketer develops an integrated marketing program that will actually deliver the intended value to target customers. The marketing program builds customer relationships by transforming the marketing strategy into action. It consists of the firm's *marketing mix*, the set of marketing tools the firm uses to implement its marketing strategy.

The major marketing mix tools are classified into four broad groups, called the *four Ps* of marketing: product, price, place, and promotion. To deliver on its value proposition, the firm must first create a need-satisfying market offering (product). It must then decide how much it will charge for the offering (price) and how it will make the offering available to target consumers (place). Finally, it must engage target consumers, communicate about the offering, and persuade consumers of the offer's merits (promotion). The firm must blend each marketing mix tool into a comprehensive integrated marketing program that communicates and delivers the intended value to chosen customers. We will explore marketing programs and the marketing mix in much more detail in later chapters.

Author Comment Doing a good job with the first three steps in the marketing process sets the stage for step four, building and managing customer relationships.

Managing Customer Relationships and Capturing Customer Value

Engaging Customers and Managing Customer Relationships

The first three steps in the marketing process—understanding the marketplace and customer needs, designing a customer value-driven marketing strategy, and constructing a marketing program—all lead up to the fourth and most important step: engaging customers and managing profitable customer relationships. We first discuss the basics of customer relationship management. Then we examine how companies go about engaging customers on a deeper level in this age of digital and social marketing.

Customer Relationship Management

Customer relationship management is perhaps the most important concept of modern marketing. In the broadest sense, **customer relationship management** is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. It deals with all aspects of acquiring, engaging, and growing customers.

Relationship Building Blocks: Customer Value and Satisfaction. The key to building lasting customer relationships is to create superior customer value and satisfaction. Satisfied customers are more likely to be loyal customers and give the company a larger share of their business.

Attracting and retaining customers can be a difficult task. Customers often face a bewildering array of products and services from which to choose. A customer buys from the firm that offers the highest **customer-perceived value**—the customer's evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers. Importantly, customers often do not judge values and costs “accurately” or “objectively.” They act on *perceived* value.

To some consumers, value might mean sensible products at affordable prices. To other consumers, however, value might mean paying more to get more. For example, a Steinway piano—any Steinway piano—costs a lot. But to those who own one, a Steinway is a great value:¹³

A Steinway grand piano typically runs anywhere from \$61,000 to as high as several hundred thousand dollars. The most popular model sells for about \$87,000. But ask anyone who owns a Steinway grand piano, and they'll tell you that, when it comes to Steinway, price is nothing; the Steinway experience is everything. Steinway makes very high-quality pianos—handcrafting

Customer relationship management

The overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction.

Customer-perceived value

The customer's evaluation of the difference between all the benefits and all the costs of a marketing offer relative to those of competing offers.



● **Perceived value:** A Steinway piano—any Steinway piano—costs a lot. But a to Steinway customer, it's a small price to pay for the value of owning one.

© Westend61 GmbH/Alamy Stock Photo

Customer satisfaction

The extent to which a product's perceived performance matches a buyer's expectations.

matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted.

Outstanding marketing companies go out of their way to keep important customers satisfied. Most studies show that higher levels of customer satisfaction lead to greater customer loyalty, which in turn results in better company performance. Companies aim to delight customers by promising only what they can deliver and then delivering more than they promise. Delighted customers not only make repeat purchases but also become willing marketing partners and "customer evangelists" who spread the word about their good experiences to others.

For companies interested in delighting customers, exceptional value and service become part of the overall company culture. For example, L.L.Bean—the iconic American outdoor apparel and equipment retailer—was founded on the principle that keeping customers satisfied is the key to building lasting relationships.¹⁴

Year after year, L.L.Bean lands in the top 10 of virtually every list of top service companies, including J.D. Power's most recent list of "customer service champions." The customer-service culture runs deep at L.L.Bean. ● More than 100 years ago, Leon Leonwood Bean founded

the company on a philosophy of complete customer satisfaction, expressed in the following guarantee: "I do not consider a sale complete until [the] goods are worn out and the customer [is] still satisfied." To this day, customers can return any item, no questions asked, even decades after purchase.

The company's customer-service philosophy is perhaps best summed up in founder L.L.'s answer to the question "What is a customer?" His answer still forms the backbone of the company's values: "A customer is the most important person ever in this company—in person or by mail. A customer is not dependent on us, we are dependent on him. A customer is not an interruption of our work, he is the purpose of it. We are not doing a favor by serving him, he is doing us a favor by giving us the opportunity to do so. A customer is not someone to argue or match wits with. Nobody ever won an argument with a customer. A customer is a person who brings us his wants. It is our job to handle them profitably to him and to ourselves." Adds former L.L.Bean CEO Leon Gorman: "A lot of people have fancy things to say about customer service, but it's just a day-in, day-out, ongoing, never-ending, persevering, compassionate kind of activity."

NOTICE

I do not consider a sale complete until goods are worn out and customer still satisfied.

We will thank anyone to return goods that are not perfectly satisfactory.

Should the person reading this notice know of anyone who is not satisfied with our goods, I will consider it a favor to be notified.

Above all things we wish to avoid having a dissatisfied customer.

L.L.Bean

● **Customer satisfaction:** Customer service champion L.L.Bean was founded on a philosophy of complete customer satisfaction. As founder Leon Leonwood Bean put it, "I do not consider a sale complete until [the] goods are worn out and the customer [is] still satisfied."

L.L.Bean

Other companies that have become legendary for customer delight and their service heroics include Zappos.com, Amazon.com, Chick-fil-A, Nordstrom department stores, and JetBlue Airways. However, a company doesn't need to have over-the-top service to create customer delight. For example, no-frills grocery chain ALDI has highly satisfied customers, even though they have to bag their own groceries and can't use credit cards. ALDI's everyday very low pricing on good-quality products delights customers and keeps them coming back. Thus, customer satisfaction comes not just from service heroics but from how well a company delivers on its basic value proposition and helps customers solve their buying problems. "Most customers don't want to be 'wowed,'" says one marketing consultant. "They [just] want an effortless experience."¹⁵

Although a customer-centered firm seeks to deliver high customer satisfaction relative to competitors, it does not attempt to *maximize* customer satisfaction. A company can always increase customer satisfaction by lowering its prices or increasing its services. But this may result in lower profits. Thus, the purpose of marketing is to generate customer value profitably. This requires a very delicate balance: The marketer must continue to generate more customer value and satisfaction but not "give away the house."

Customer Relationship Levels and Tools. Companies can build customer relationships at many levels, depending on the nature of the target market. At one extreme, a company with many low-margin customers may seek to develop *basic relationships* with them. For example, P&G's Tide detergent does not phone or call on all of its consumers to get to know them personally. Instead, Tide creates engagement and relationships through product experiences, brand-building advertising, websites, and social media. At the other extreme, in markets with few customers and high margins, sellers want to create *full partnerships* with key customers. For example, P&G sales representatives work closely with Walmart, Kroger, and other large retailers that sell Tide. In between these two extremes, other levels of customer relationships are appropriate.

Beyond offering consistently high value and satisfaction, marketers can use specific marketing tools to develop stronger bonds with customers. For example, many companies offer *frequency marketing programs* that reward customers who buy frequently or in large amounts. Airlines offer frequent-flier programs, hotels give room upgrades to frequent guests, and supermarkets give patronage discounts to "very important customers."

These days almost every brand has a loyalty rewards program. Such programs can enhance and strengthen a customer's brand experience. For example, Hilton's HHonors loyalty program offers the usual ability to earn points redeemable for free stays or upgrades (anywhere, anytime, with no blackout dates) but also for flights (e.g., points can be converted into miles for flight bookings).

● More importantly, the member-exclusive HHonors smartphone app allows travelers to personalize their stay. It offers functionalities like an eCheck-in or the selection of on-property benefits (such as pillows or snacks) prior to arrival. Travelers can pick their room of choice before their stay, either from a digital floor plan or by choosing their room's view with Google maps. The app also serves as



● Relationship marketing tools: Hilton's HHonors loyalty program personalizes and strengthens the customer's brand experience.

Stephen Barnes/Alamy Stock Photo

a digital key, meaning that travelers do not even need to visit the front desk. Additional features include personalized content reflecting the user's forthcoming travels, the option to request Uber rides, as well as restaurant recommendations. For future stays, the app offers the option of marking favorite hotels or hotel rooms.¹⁶

Significant changes are occurring in the nature of customer-brand relationships. Today's digital technologies—the internet and the surge in online, mobile, and social media—have profoundly changed the ways that people on the planet relate to one another. In turn, these events have had a huge impact on how companies and brands connect with customers and how customers connect with and influence each other's brand behaviors.

Customer Engagement and Today's Digital and Social Media

The digital age has spawned a dazzling set of new customer relationship-building tools, from websites, online ads and videos, mobile ads and apps, and blogs to online communities and the major social media, such as Twitter, Facebook, YouTube, Snapchat, and Instagram.

Yesterday's companies focused mostly on mass marketing to broad segments of customers at arm's length. By contrast, today's companies are using online, mobile, and social media to refine their targeting and to engage customers more deeply and interactively. The *old marketing* involved marketing brands *to* consumers. The *new marketing* is **customer-engagement marketing**—fostering direct and continuous customer involvement in shaping brand conversations, brand experiences, and brand community. Customer-engagement marketing goes beyond just selling a brand to consumers. Its goal is to make the brand a meaningful part of consumers' conversations and lives.

The burgeoning internet and social media have given a huge boost to customer-engagement marketing. Today's consumers are better informed, more connected, and more empowered than ever before. Newly empowered consumers have more information about brands, and they have a wealth of digital platforms for airing and sharing their brand views with others. Thus, marketers are now embracing not only customer relationship management but also *customer-managed relationships*, in which customers connect with companies and with each other to help forge and share their own brand experiences.

Greater consumer empowerment means that companies can no longer rely on marketing by *intrusion*. Instead, they must practice marketing by *attraction*—creating market offerings and messages that engage consumers rather than interrupt them. Hence, most marketers now combine their mass-media marketing efforts with a rich mix of online, mobile,

and social media marketing that promotes brand-consumer engagement, brand conversations, and brand advocacy among customers.

- For example, companies post their latest ads and videos on social media sites, hoping they'll go viral. They maintain an extensive presence on Twitter, YouTube, Facebook, Google+, Pinterest, Instagram, Snapchat, Vine, and other social media to create brand buzz. They launch their own blogs, mobile apps, online microsites, and consumer-generated review systems, all with the aim of engaging customers on a more personal, interactive level.

Take Twitter, for example. Organizations ranging from Dell, JetBlue, and Dunkin' Donuts to the Chicago Bulls, NASCAR, and the Los Angeles Fire Department have created Twitter pages and promotions. They use tweets to start conversations with and between Twitter's more than 307 million active users, address customer service issues, research customer reactions, and drive traffic to relevant articles, web and mobile marketing sites, contests, videos, and other brand activities.

Customer-engagement marketing

Making the brand a meaningful part of consumers' conversations and lives by fostering direct and continuous customer involvement in shaping brand conversations, experiences, and community.



- **Engaging customers:** Life is good starts with a deeply felt, engagement-worthy sense of purpose: spreading the power of optimism. Then it creates online and social media tools that let people engage and help co-author the brand's story.

© WWPhotography/Alamy Stock Photo

Similarly, almost every company has something going on Facebook these days. Starbucks has more than 36 million Facebook “fans”; Coca-Cola has more than 96 million. And every major marketer has a YouTube channel where the brand and its fans post current ads and other entertaining or informative videos. Instagram, LinkedIn, Pinterest, Snapchat, Vine—all have exploded onto the marketing scene, giving brands more ways to engage and interact with customers. Skilled use of social media can get consumers involved with a brand, talking about it, and advocating it to others.

The key to engagement marketing is to find ways to enter targeted consumers’ conversations with engaging and relevant brand messages. Simply posting a humorous video, creating a social media page, or hosting a blog isn’t enough. And not all customers want to engage deeply or regularly with every brand. Successful engagement marketing means making relevant and genuine contributions to targeted consumers’ lives and interactions. Consider T-shirt and apparel maker Life is good:¹⁷

For starters, Life is good has an authentic, engagement-worthy sense of purpose: spreading the power of optimism. The brand is about helping people to open up, create relationships, and connect with other people. The company’s infectious philosophy is best represented by the “Life is good” slogan itself and by Jake—the familiar beret-wearing, happy-go-lucky stick figure who quickly became a pop-culture icon. Life is good backs its optimism philosophy with good deeds, donating 10 percent of its net profits each year to help kids in need.

Online and social media have become a perfect fit for sharing the Life is good message. Today, the brand fosters a thriving community of Optimists, with more than 2.6 million Facebook fans, 304,000 Twitter followers, 33,000 followers on Instagram, and an active YouTube channel. But the strongest engagement platform is the brand’s own website, Lifeisgood.com, one of the most active customer-engagement sites found anywhere online. The site’s “Live It” section gives brand fans a breath of “fresh share.” It’s a place where they share photos, videos, and stories showing the brand’s role in their trials, triumphs, and optimism. To Life is good, true engagement is about deep meaningful relationships that go beyond the products it is selling. Says Life is good CEO Bert Jacobs: “You can’t build a brand on your own; we have entered a world where customers co-author your story.”

Consumer-Generated Marketing

Consumer-generated marketing

Brand exchanges created by consumers themselves—both invited and uninvited—by which consumers are playing an increasing role in shaping their own brand experiences and those of other consumers.

One form of customer-engagement marketing is **consumer-generated marketing**, by which consumers themselves play role in shaping their own brand experiences and those of others. This might happen through uninvited consumer-to-consumer exchanges in blogs, video-sharing sites, social media, and other digital forums. But increasingly, companies themselves are inviting consumers to play a more active role in shaping products and brand content.

Some companies go directly to their customers for new product ideas and designs. For example, Airbus claims that the interior of its new A330neo aircraft, which is set to launch in 2017, is mainly designed based on comments gathered from disgruntled passengers on social media. The aerospace company then proposed an 18-inch (45.72 cm) seat width as the standard for future long-haul economy air travel. It commissioned new scientific research and revealed its findings on social media with the hashtag #AirbusComfort. The research demonstrated that a minimum seat width of 18 inches improves passenger sleep quality by 53 percent when compared to the 1950s 17-inch standard. For over a day, the campaign’s message was run in six languages, including live responses and monitoring. The campaign secured more than 70 million impressions and there was notable uplift in community size. Airbus is taking this to the next level in 2017 with the “Fly Your Ideas” campaign, which is an online competition for international students from all disciplines to develop new ideas.¹⁸

Other companies invite customers to play an active role in shaping ads and brand content. For example, for 10 full years, PepsiCo’s Doritos brand held a “Crash the Super Bowl” contest that invited 30-second ads from consumers and ran the best ones during the game. The contest attracted thousands of entries from around the world, and the hugely popular consumer-generated ads routinely finished in the top five of the *USA Today’s* AdMeter rankings. Based on the success of the “Crash the Super Bowl” contest, Doritos now runs new campaigns that create fun fan-made ads and other content throughout the year.¹⁹

Many brands incorporate user-generated social media content into their own traditional marketing and social media campaigns. For example, Mountain Dew stirred up and employed user-generated content to create buzz around a limited-time reintroduction of its iconic Baja Blast flavor. ● It began with a discreet Rogue Wave social media campaign in which it posted tantalizing hints on Facebook, Snapchat, Instagram, and Twitter about bringing Baja Blast back. For example, on Snapchat, the brand showed quick clips of



● **Consumer-generated marketing: Mountain Dew stirred up user-generated content to create buzz around a limited-time reintroduction of its iconic Baja Blast drink, boosting online chatter by 170 percent.**

PepsiCo

bottles. Mountain Dew fans responded with a flood of tweets and other social media chatter. “We started with discreet posts, but it didn’t take long for Dew Nation to call us out and beg for the rumors to be true,” says Mountain Dew’s digital brand manager. “Some of our fans even created collages of all the images featuring Baja over the last few days to confirm to other members of Dew Nation that Baja was coming back.” Mountain Dew then created ads on social media and men’s lifestyle websites incorporating consumers’ tweets. The result: Online chatter about Baja Blast shot up 170 percent.²⁰

Despite the successes, however, harnessing consumer-generated content can be a time-consuming and costly process, and companies may find it difficult to mine even a little gold from all the content submitted. Moreover, because consumers have so much control over social media content, inviting their input can sometimes backfire. For example, McDonald’s famously launched a Twitter campaign using the hashtag #McDStories, hoping that it would inspire heartwarming stories about Happy Meals. Instead, the effort was hijacked by Twitter users, who turned the hashtag into a “bashtag” by posting less-than-appetizing messages about their bad experiences with the fast-food chain. McDonald’s pulled the campaign within only two hours, but the hashtag was still churning weeks, even months later.²¹

As consumers become more connected and empowered, and as the boom in digital and social media technologies continues, consumer brand engagement—whether invited by marketers or not—will be an increasingly important marketing force. Through a profusion of consumer-generated videos, shared reviews, blogs, mobile apps, and websites, consumers are playing a growing role in shaping their own and other consumers’ brand experiences. Engaged consumers are now having a say in everything from product design, usage, and packaging to brand messaging, pricing, and distribution. Brands must embrace this new consumer empowerment and master the new digital and social media relationship tools or risk being left behind.

Partner Relationship Management

When it comes to creating customer value and building strong customer relationships, today’s marketers know that they can’t go it alone. They must work closely with a variety of marketing partners. In addition to being good at *customer relationship management*, marketers must also be good at **partner relationship management**—working closely with others inside and outside the company to jointly engage and bring more value to customers.

Traditionally, marketers have been charged with understanding customers and representing customer needs to different company departments. However, in today’s more connected world, every functional area in the organization can interact with customers. The new thinking is that—no matter what your job is in a company—you must understand marketing and be customer focused. Rather than letting each department go its own way, firms must link all departments in the cause of creating customer value.

Marketers must also partner with suppliers, channel partners, and others outside the company. Marketing channels consist of distributors, retailers, and others who connect the company to its buyers. The *supply chain* describes a longer channel, stretching from raw materials to components to final products that are carried to final buyers. Through *supply chain management*, companies today are strengthening their connections with partners all along the supply chain. They know that their fortunes rest on more than just how well they perform. Success at delivering customer value rests on how well their entire supply chain performs against competitors’ supply chains.

Partner relationship management

Working closely with partners in other company departments and outside the company to jointly bring greater value to customers.

Author Look back at Figure 1.1.
Comment In the first four steps of the marketing process, the company creates value *for* target customers and builds strong relationships with them. If it does that well, it can capture value *from* customers in return, in the form of loyal customers who buy and continue to buy the company's brands.

Capturing Value from Customers

The first four steps in the marketing process outlined in Figure 1.1 involve engaging customers and building customer relationships by creating and delivering superior customer value. The final step involves capturing value in return in the form of sales, market share, and profits. By creating superior customer value, the firm creates satisfied customers who stay loyal and buy more. This, in turn, means greater long-run returns for the firm. Here, we discuss the outcomes of creating customer value: customer loyalty and retention, share of market and share of customer, and customer equity.

Creating Customer Loyalty and Retention

Good customer relationship management creates customer satisfaction. In turn, satisfied customers remain loyal and talk favorably to others about the company and its products. Studies show big differences in the loyalty between satisfied and dissatisfied customers. Even slight dissatisfaction can create an enormous drop in loyalty. Thus, the aim of customer relationship management is to create not only customer satisfaction but also customer delight.

Keeping customers loyal makes good economic sense. Loyal customers spend more and stay around longer. Research also shows that it's five times cheaper to keep an old customer than acquire a new one. Conversely, customer defections can be costly. Losing a customer means losing more than a single sale. It means losing the entire stream of purchases that the customer would make over a lifetime of patronage. For example, here is a classic illustration of **customer lifetime value**.²²

Customer lifetime value

The value of the entire stream of purchases a customer makes over a lifetime of patronage.



● **Customer lifetime value:** To keep customers coming back, Stew Leonard's has created the "Disneyland of dairy stores." Rule #1—The customer is always right. Rule #2—If the customer is ever wrong, reread Rule #1.

Courtesy of Stew Leonard's

Stew Leonard, who operates a highly profitable four-store supermarket in Connecticut and New York, once said that he saw \$50,000 flying out of his store every time he saw a sulking customer. Why? Because his average customer spent about \$100 a week, shopped 50 weeks a year, and remained in the area for about 10 years. If this customer had an unhappy experience and switched to another supermarket, Stew Leonard's lost \$50,000 in lifetime revenue. The loss could be much greater if the disappointed customer shared the bad experience with other customers and caused them to defect.

To keep customers coming back, Stew Leonard's has created what has been called the "Disneyland of Dairy Stores," complete with costumed characters, scheduled entertainment, a petting zoo, and animatronics throughout the store. From its humble beginnings as a small dairy store in 1969, Stew Leonard's has grown at an amazing pace. It's built 30 additions onto the original store, which now serves more than 300,000 customers each week. ● This legion of loyal shoppers is largely a result of the store's passionate approach to customer service. "Rule #1: The customer is always right. Rule #2: If the customer is ever wrong, reread rule #1."

Stew Leonard is not alone in assessing customer lifetime value. Lexus, for example, estimates that a single satisfied and loyal customer is worth more than \$600,000 in lifetime sales, and the estimated lifetime value of a Starbucks customer is more than \$14,000.²³ In fact, a company can lose money on a specific transaction but still benefit greatly from a long-term relationship. This means that companies must aim high in building customer relationships. Customer delight creates an emotional relationship with a brand, not just a rational preference. And that relationship keeps customers coming back.

Growing Share of Customer

Beyond simply retaining good customers to capture customer lifetime value, good customer relationship management can help marketers increase their **share of customer**—the share they get of the customer's purchasing in their product categories. Thus, banks want to increase "share of wallet." Supermarkets and restaurants want to get more "share

Share of customer

The portion of the customer's purchasing that a company gets in its product categories.

of stomach.” Car companies want to increase “share of garage,” and airlines want greater “share of travel.”

To increase share of customer, firms can offer greater variety to current customers. Or they can create programs to cross-sell and up-sell to market more products and services to existing customers. For example, Amazon is highly skilled at leveraging relationships with its 304 million customers worldwide to increase its share of each customer’s spending budget:²⁴

Once they log onto Amazon.com, customers often buy more than they intend, and Amazon does all it can to help make that happen. The online giant continues to broaden its merchandise assortment, creating an ideal spot for one-stop shopping. And based on each customer’s purchase and search history, the company recommends related products that might be of interest. This recommendation system influences perhaps a third of all sales. Amazon’s ingenious Amazon Prime two-day shipping program has also helped boost its share of customers’ wallets. For an annual fee of \$99, Prime members receive delivery of all their purchases within two days, whether it’s a single paperback book or a 60-inch HDTV. According to one analyst, the ingenious Amazon Prime program “converts casual shoppers, who gorge on the gratification of having purchases reliably appear two days after the order, into Amazon addicts.” As a result, Amazon’s 54 million U.S. Prime customers now account for more than half of its U.S. sales. On average, a Prime customer spends 1.8 times more than a non-Prime customer.

Building Customer Equity

We can now see the importance of not only acquiring customers but also keeping and growing them. The value of a company comes from the value of its current and future customers. Customer relationship management takes a long-term view. Companies want to not only create profitable customers but also “own” them for life, earn a greater share of their purchases, and capture their customer lifetime value.

Customer equity

The total combined customer lifetime values of all of the company’s customers.

What Is Customer Equity? The ultimate aim of customer relationship management is to produce high *customer equity*.²⁵ **Customer equity** is the total combined customer lifetime values of all of the company’s current and potential customers. As such, it’s a measure of the future value of the company’s customer base. Clearly, the more loyal the firm’s profitable customers, the higher its customer equity. Customer equity may be a better measure of a firm’s performance than current sales or market share. Whereas sales and market share reflect the past, customer equity suggests the future. ● Consider Cadillac:²⁶

In the 1970s and 1980s, Cadillac had some of the most loyal customers in the industry. To an entire generation of car buyers, the name *Cadillac* defined “The Standard of the World.” Cadillac’s share of the luxury car market reached a whopping 51 percent in 1976, and based on market share and sales, the brand’s future looked rosy. However, measures of customer equity would have painted a bleaker picture. Cadillac customers were getting older (average age 60), and average customer lifetime value was falling. Many Cadillac buyers were on their last cars. Thus, although Cadillac’s market share was good, its customer equity was not.

Compare this with BMW. Its more youthful and vigorous image didn’t win BMW the early market share war. However, it did win BMW younger customers (average age about 40) with higher customer lifetime values. The result: In the years that followed, BMW’s market share and profits soared while Cadillac’s fortunes eroded badly. BMW overtook Cadillac in the 1980s. In recent years, Cadillac has struggled to make the Caddy cool again with edgier, high-performance designs that target a younger generation of consumers. More recently, the brand has billed itself as “The New Standard of the World” with marketing pitches based on “power, performance, and design,” attributes that position it more effectively against the likes of BMW and Audi. Recent ads feature young achievers and invite consumers to “Dare Greatly” and “Drive the world forward.” However, for the past decade, Cadillac’s share of the luxury car market has stagnated.

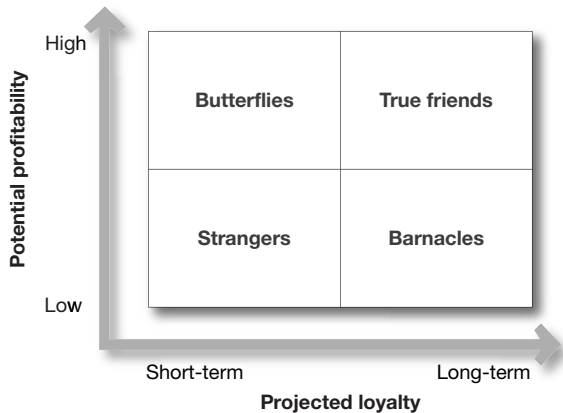


● **Managing customer equity:** To increase customer equity, Cadillac is making the classic car cool again among younger buyers, encouraging consumers to “Dare Greatly.”

General Motors

The moral: Marketers should care not just about current sales and market share. Customer life-time value and customer equity are the name of the game.

Building the Right Relationships with the Right Customers. Companies should manage customer equity carefully. They should view customers as assets that need to be managed and maximized. But not all customers, not even all loyal customers, are good investments. Surprisingly, some loyal customers can be unprofitable, and some disloyal customers can be profitable. Which customers should the company acquire and retain?



● **FIGURE | 1.5**
Customer Relationship Groups

The company can classify customers according to their potential profitability and manage its relationships with them accordingly.

● **Figure 1.5** classifies customers into one of four relationship groups, according to their profitability and projected loyalty.²⁷ Each group requires a different relationship management strategy. *Strangers* show low potential profitability and little projected loyalty. There is little fit between the company's offerings and their needs. The relationship management strategy for these customers is simple: Don't invest anything in them; make money on every transaction.

Butterflies are potentially profitable but not loyal. There is a good fit between the company's offerings and their needs. However, like real butterflies, we can enjoy them for only a short while and then they're gone. An example is stock market investors who trade shares often and in large amounts but who enjoy hunting out the best deals without building a regular relationship with any single brokerage company. Efforts to convert butterflies into loyal customers are rarely successful. Instead, the company should enjoy the butterflies for the moment. It should create satisfying and profitable transactions with them, capturing as much of their business as possible in the short time during

which they buy from the company. Then it should move on and cease investing in them until the next time around.

True friends are both profitable and loyal. There is a strong fit between their needs and the company's offerings. The firm wants to make continuous relationship investments to delight these customers and engage, nurture, retain, and grow them. It wants to turn true friends into *true believers*, who come back regularly and tell others about their good experiences with the company.

Barnacles are highly loyal but not very profitable. There is a limited fit between their needs and the company's offerings. An example is smaller bank customers who bank regularly but do not generate enough returns to cover the costs of maintaining their accounts. Like barnacles on the hull of a ship, they create drag. Barnacles are perhaps the most problematic customers. The company might be able to improve their profitability by selling them more, raising their fees, or reducing service to them. However, if they cannot be made profitable, they should be "fired."

The point here is an important one: Different types of customers require different engagement and relationship management strategies. The goal is to build the *right relationships* with the *right customers*.

Author Comment | Marketing doesn't take place in a vacuum. Now that we've discussed the five steps in the marketing process, let's look at how the ever-changing marketplace affects both consumers and the marketers who serve them. We'll look more deeply into these and other marketing environment factors in Chapter 3.

The Changing Marketing Landscape

Every day, dramatic changes are occurring in the marketplace. Richard Love of HP observed, "The pace of change is so rapid that the ability to change has now become a competitive advantage." Yogi Berra, the legendary New York Yankees catcher and manager, summed it up more simply when he said, "The future ain't what it used to be." As the marketplace changes, so must those who serve it.

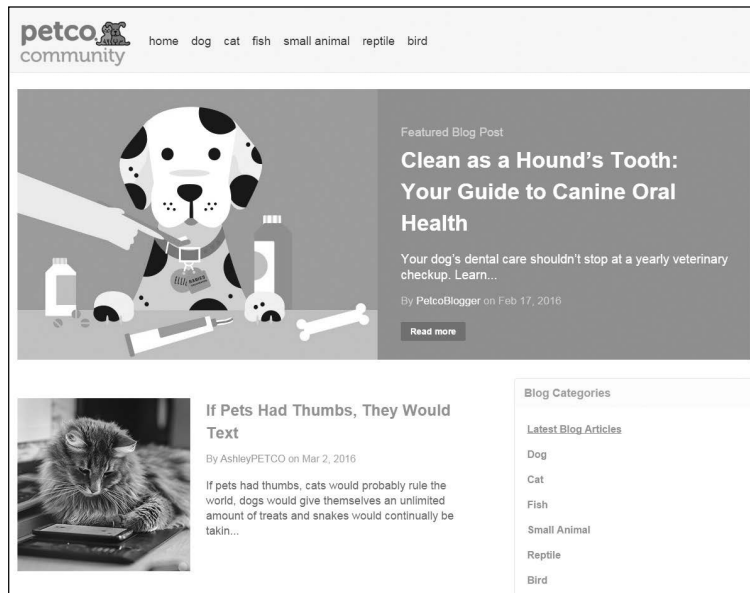
In this section, we examine the major trends and forces that are changing the marketing landscape and challenging marketing strategy. We look at five major developments: the digital age, the changing economic environment, the growth of not-for-profit marketing, rapid globalization, and the call for sustainable marketing practices.

The Digital Age: Online, Mobile, and Social Media Marketing

The explosive growth in digital technology has fundamentally changed the way we live—how we communicate, share information, access entertainment, and shop. Welcome to the

Digital and social media marketing

Using digital marketing tools such as websites, social media, mobile apps and ads, online video, email, and blogs to engage consumers anywhere, at any time, via their digital devices.



● **Branded online communities: Petco's Community site is a place where pet lovers can connect, share, and learn via a blog and discussion boards dedicated to pets of all types, from dogs and cats to birds, fish, and reptiles.**

Petco

age of the *Internet of Things* (IoT), a global environment where everything and everyone is digitally connected to everything and everyone else. More than 3.3 billion people—46 percent of the world's population—are now online; 64 percent of all American adults own smartphones. These numbers will only grow as digital technology rockets into the future.²⁸

Most consumers are totally smitten with all things digital. For example, according to one study, 71 percent of Americans keep their mobile phone next to them when they sleep; 3 percent sleep with phone in hand. In just the past few years, people in the United States averaged more time per day with digital media (5.25 hours) than viewing traditional TV (4.5 hours).²⁹

The consumer love affair with digital and mobile technology makes it fertile ground for marketers trying to engage customers. So it's no surprise that the internet and rapid advances in digital and social media have taken the marketing world by storm. **Digital and social media marketing** involves using digital marketing tools such as websites, social media, mobile ads and apps, online video, email, blogs, and other digital platforms to engage consumers anywhere, anytime via their computers, smartphones, tablets, internet-ready TVs, and other digital devices. These days, it seems that every company is reaching

out to customers with multiple websites, newsy tweets and Facebook pages, viral ads and videos posted on YouTube, rich-media emails, and mobile apps that solve consumer problems and help them shop.

● At the most basic level, marketers set up company and brand websites that provide information and promote the company's products. Many companies also set up branded community sites, where customers can congregate and exchange brand-related interests and information. For example, Petco's Community site is a place "where pet lovers can connect, share, and learn" via a blog and discussion boards dedicated to dogs ("the bark"), cats ("the purr"), fish ("the splash"), birds ("the chirp"), reptiles ("the hiss"), and other types of pets. And Sony's PlayStation Forums site serves as a social hub for PlayStation PS4 game enthusiasts. It's a place where fans can follow social media posts about PS4, watch the latest PS4 videos, discover which PS4 games are trending on social networks, share content, and interact with other fans—all in real time.³⁰

Beyond brand websites, most companies are also integrating social and mobile media into their marketing mixes.

Social Media Marketing

It's hard to find a brand website, or even a traditional media ad, that doesn't feature links to the brand's Facebook, Instagram, Twitter, Google+, YouTube, Snapchat, Pinterest, LinkedIn, or other social media sites. Social media provide exciting opportunities to extend customer engagement and get people talking about a brand.

Some social media are huge—Facebook has more than 1.59 billion active monthly members. Instagram has more than 400 million active monthly users, Twitter has more than 315 million monthly users, Google+ racks up 300 million active monthly visitors, and Pinterest draws in more than 100 million users. Reddit, the online social news community, has 234 million unique visitors each month from 185 countries. But smaller, more focused social media sites are also thriving, such as CafeMom, an online community of 20 million moms who exchange advice, entertainment, and commiseration at the community's online, Facebook, Twitter, Pinterest, YouTube, Google+, and mobile sites. Even tiny sites can attract active audiences, such as Birdpost.com for avid birdwatchers or Ravelry.com for knitters and crocheters.

Online social media provide a digital home where people can connect and share important information and moments in their lives. As a result, they offer an ideal platform for *real-time marketing*, by which marketers can engage consumers in the moment by linking brands to important trending topics, real-world events, causes, personal occasions, or other important happenings in consumers' lives (see Real Marketing 1.2).

Real Marketing

1.2 Real-Time Marketing: Engaging Consumers in the Moment

A funny thing happened during Super Bowl XLVII in New Orleans. Early in the third quarter, the lights in the Mercedes-Benz Superdome suddenly went out. As 71,000 attendees and 106 million viewers restlessly bided their time and scratched their heads, engineers worked feverishly for a full 34 minutes to repair the power outage and bring the lights back on. But whereas the blackout was a disaster for Superdome management and CBS Sports and an annoyance for players and fans, at least one marketer saw it as an opportunity. Shortly after the blackout began, Nabisco's Oreo brand tweeted out a simple message: "Power out? No problem. You can still dunk in the dark."

That now-famous single tweet, conceived and approved within just minutes, grabbed more attention for Oreo than the brand's extravagant first-quarter advertisement. Within an hour, the "dunk in the dark" message was retweeted nearly 16,000 times and racked up more than 20,000 Facebook likes, resulting in tens of millions of favorable exposures. In the following days, Oreo received tons of media coverage and was hailed as "The Brand That Won the Blackout Bowl." Those were pretty impressive results for a one-off joke by a cookie maker.

Oreo's successful Super Bowl one-liner triggered a surge in real-time marketing. Brands of all kinds have since tried to create their own "Oreo moments" by aligning marketing content with real-world events and trending topics through timely tweets, videos, blog entries, and social media posts.

Today, many real-time marketing efforts center on major media events, such as the Super Bowl, the Grammys, and the Academy Awards. These events let marketers engage huge, ready-made audiences. For example, when its blockbuster feature *The LEGO Movie* failed to win a nomination in the Best Animated Movie category at a recent Oscars, LEGO turned the snub into an opportunity to engage viewers in real time during the Academy Awards TV spectacular. During a performance of the movie's Oscar-nominated song—"Everything Is Awesome"—performers handed out Oscars made of golden LEGO bricks to celebrities in the audience. Simultaneously, the brand tweeted coordinated real-time images and the message "#EverythingIsAwesome at

the #Oscars!" With pictures of stars such as Meryl Streep, Clint Eastwood, Oprah Winfrey, and Bradley Cooper posing with their LEGO Oscars, #LegoOscar became the number-one trending topic on Twitter.

Other companies use real-time efforts to connect their brands to current events important to customers. Starbucks has long used real-time marketing in this way. For example, after Winter Storm Nemo hit the northeastern United States with heavy snowfall and hurricane-force winds in early 2013, Starbucks Twitter and Facebook promotions offered free "Snow Day" coffee to customers in affected areas. "We wanted to make a grand [and timely] gesture," said a Starbucks digital marketer. As another example, Red Roof Inn regularly links airline flight data from flight tracking service FlightAware with Google's on-line search-ad system to beam real-time ads to stranded travelers facing flight cancellations. For example, when Chicago's O'Hare Airport recently experienced a major bout of flight cancellations, Red Roof managed to secure the top ad spot in three-quarters of the Google search results for "hotels near O'Hare," resulting in a 60 percent jump in bookings from those searches.

Companies sometimes set up temporary real-time command centers, or "war rooms," to created rapid responses during major events or even to counter competitor's moves. For example, with each new Apple iPhone model, at the very same time that Apple executives are on stage unveiling the features of the new phone, Samsung marketers are flooding social media with clever real-time "The next best thing is already here" responses. The strategy lets Samsung capitalize on the buzz surrounding the Apple introductions to promote its own wares.

Done right, real-time marketing can engage consumers

in the moment and make a brand more relevant. Done poorly, however, real-time engagements can come off as little more than awkward or inappropriate intrusions. Too often, brands simply toss standalone, last-minute ads or messages into social channels, hoping to "catch lightning in a bottle." But hastily prepared real-time content can fall flat or miss the mark. Worse, self-serving real-time messages can easily backfire, painting the brand as opportunistic or out of touch.

Minute-by-minute marketing strikes rarely succeed. Instead, to be consistently successful, real-time marketing must be part of a broader, carefully conceived strategy that makes the brand itself an engaging and relevant part of



Real-time marketing: Oreo's spectacularly successful "You can still dunk in the dark" tweet triggered a surge in real-time marketing, as brands of all kinds are now trying to create their own "Oreo moments" by aligning marketing content with real-world events and trending topics.

© Isabella Cassini/Alamy

consumers' lives. More than just trying to catch lightning in a bottle with one-off "Oreo moments" during showcase events, says one strategist, "keeping pace with the speed of digital culture actually requires marketers to plan ahead." Says another, "The war room has given way to a campsite—real-time marketing needs to be a built-in strategy all year round." Smart brands build agile, ongoing real-time marketing programs that listen in on the social space and respond with relevant marketing content that blends smoothly with the dynamics of consumers' real-time social sharing.

For example, although the Oreo "dunk in the dark" tweet might have seemed off the cuff, it was only the latest in a long series of real-time marketing efforts designed to make Oreo a part of consumers' daily discourse. In the months preceding the Super Bowl, Oreo had successfully carried out its "Daily Twist" campaign. Each day for 100 days, the brand posted consumer-inspired Oreo cookie art tied to a relevant event. There was a Mars Rover Landing Oreo (an open-face cookie with tire tracks through its red crème filling), an Elvis Week Oreo (with an Oreo profile of the King of Rock 'n' Roll), and a Shark Week Oreo (with a jagged bite taken out of it, of course). The groundbreaking

Daily Twist campaign gave Oreo a fourfold increase in Facebook shares and boosted its Instagram following from 2,200 to more than 85,000.

Oreo wages an ongoing social media and mobile campaign to engage consumers in the moment, skillfully injecting the brand into consumers' lives and conversations. For example, there was the wildly popular "Twist, Lick, Dunk" mobile game app that had 4 million users dunking 4 billion virtual Oreo cookies. Then there was the catchy 90-second "Oreo Cookie Balls" rap video, tweeted and posted on YouTube and other social media, showing clever ideas for eating and serving cookie balls during the end-of-year holiday season—it quickly went viral with more than 1.6 million views on YouTube alone. And leading up to a one Halloween season, Oreo Laboratorium, a series of brief stop-motion

videos, showed different Oreo creatures and asked fans to "Name the Nomster." Such gems illustrate how Oreo keeps itself smack dab in the middle of the consumer consciousness by making real-time marketing an everyday event.

Whether connected to a social cause, a trending topic or event, a consumer's personal situation, or something else, the essential concept behind successful real-time marketing is pretty simple: Find or create ongoing connections between the brand and what's happening and important in consumers' lives, then engage consumers genuinely in the moment. One marketing executive suggests that real-time marketers should equate the practice to "meeting somebody in a social gathering—you don't accost them, instead you try to find a commonality of interest."

Sources: "Marketing in the Moments, to Reach Customers Online," *New York Times*, January 18, 2016, p. B5; Danielle Sacks, "The Story of Oreo: How an Old Cookie Became a Modern Marketing Personality," *Fast Company*, October 23, 2014, www.fastcocreate.com/3037068; Christopher Heine, "Ads in Real Time, All the Time," *Adweek*, February 18, 2013, p. 9; Christopher Palmeri, "'Lego Movie' Picks Up Tweets Not Trophies at Academy Awards," *Businessweek*, February 23, 2015, www.bloomberg.com/news/articles/2015-02-23/lego-movie-picks-up-tweets-not-trophies-at-academy-awards-show; Tanya Dua, "You Can Still Dunk in the Dark, but You Don't Need a War Room," *Digiday*, February 4, 2016, <http://digiday.com/agencies/super-bowl-war-room-rip/>; and www.360i.com/work/oreo-daily-twist/ and <https://twitter.com/oreo/status/298246571718483968>, accessed September 2016.



The graphic features the NASA logo at the top left. Below it, the text "Follow NASA" is displayed. The main section is titled "Social Media at NASA" and includes the subtitle "Follow, share, and be a part of the conversation on popular social media sites with NASA. Join us on our flagship accounts:". Below this subtitle is a grid of social media icons: Twitter, Facebook, Instagram, Google+, YouTube, and Vimeo in the first row; LinkedIn, SoundCloud, Ustream, and two other icons in the second row. At the bottom, it says "Or join us on one of our many other accounts:".

● **NASA uses an extensive array of social media to engage and educate the next generation of space explorers. The agency invites you to "follow, share, and be a part of the conversation on popular social media sites with NASA."**

NASA

Using social media might involve something as simple as a contest or promotion to garner Facebook Likes, tweets, or YouTube postings. But more often these days, large organizations of all kinds use a wide range of carefully integrated social media. For example, space agency NASA uses a broad mix of social media to educate the next generation of space explorers on its mission to "boldly go where no man has gone before." ● In all, NASA has more than 480 social media accounts spanning various topics and digital platforms. The agency has more than 14 million Facebook fans, 14.5 million Twitter followers, 8.8 million Instagram followers, and 76,000 YouTube subscribers. One of NASA's largest-ever social media campaigns supported the recent test launch of the Orion spacecraft, which will eventually carry humans to deep space destinations, such as Mars or an asteroid.³¹

The extensive campaign included a dozen or more YouTube "I'm On Board" videos starring actors from classic science-fiction TV shows, such as *Star Trek* and *The Incredible Hulk*. Even *Sesame Street*'s Elmo added his support, proudly displaying his "I'm On Board" boarding pass, chatting up astronauts, and relaying facts and launch information on the *Sesame Street* Twitter feed and other digital platforms. The campaign offered social media users a chance to put their names on a microchip aboard the space vehicle—more than a million people signed on. During the flight, NASA's social media team briefed the public through Twitter, Facebook, and Instagram posts. In all, it's a new NASA. People once followed NASA events from afar by gathering around their TV sets. Not anymore. Now,

the space agency engages fans directly through interactive social media. “You can ask an astronaut a question,” says NASA’s social media manager. “You can...really be part of the experience in a much different way than ever before. It’s not your father and grandfather’s space agency anymore.”

Mobile Marketing

Mobile marketing is perhaps the fastest-growing digital marketing platform. Smartphones are ever present, always on, finely targeted, and highly personal. This makes them ideal for engaging customers anytime, anywhere as they move through the buying process. For example, Starbucks customers can use their mobile devices for everything from finding the nearest Starbucks and learning about new products to placing and paying for orders.

Four out of five smartphone users use their phones to shop—browsing product information through apps or the mobile web, making in-store price comparisons, reading online product reviews, finding and redeeming coupons, and more. Almost 30 percent of all online purchases are now made from mobile devices, and mobile online sales are growing 2.6 times faster than total online sales. During this past holiday season, mobile shoppers made up more than 70 percent of traffic to Walmart.com, accounting for almost half the site’s orders over the Black Friday weekend.³²

Marketers use mobile channels to stimulate immediate buying, make shopping easier, enrich the brand experience, or all of these. ● Consider Redbox:³³

Redbox DVD rental kiosks are unmanned, so the company has to find innovative ways to engage customers and personalize its service—most of which it does through its website and mobile app, text messaging, and email. Customers can use the Redbox mobile app to locate Redbox kiosks, check availability of movies and games, and reserve rentals for quick pickup. Mobile customers can also join the Redbox Text Club to receive texts about the latest Redbox news, releases, and members-only deals.

Text Club members are Redbox’s most valuable customers, so the company launched a 10-day-long mobile marketing campaign to increase membership. Using large call-to-action stickers on kiosks, a blast of email, and posts on its Facebook and other social media pages, Redbox offered discounts of between 10 cents and \$1.50 on the next DVD rental to customers who texted the word “DEALS” to 727272. The campaign—called “The 10 Days of Deals”—generated nearly 1.5 million text messages from some 400,000 customers, resulting in more than 200,000 new Text Club members. “Mobile is like having a kiosk in your hand,” explains Redbox’s chief marketer. “It’s an incredibly important part of our [marketing] strategy.”

Although online, social media, and mobile marketing offer huge potential, most marketers are still learning how to use them effectively. The key is to blend the new digital approaches with traditional marketing to create a smoothly integrated marketing strategy and mix. We will examine digital, mobile, and social media marketing throughout the text—they touch almost every area of marketing strategy and tactics. Then, after we’ve covered the marketing basics, we’ll look more deeply into digital and direct marketing in Chapter 17.

The Changing Economic Environment

The Great Recession of 2008 to 2009 and its aftermath hit American consumers hard. After two decades of overspending, new economic realities forced consumers to bring their consumption back in line with their incomes and rethink their buying priorities.

In today’s post-recession era, consumer incomes and spending are again on the rise. However, even as the economy has strengthened, rather than reverting to their old free-spending ways, Americans are now showing a new enthusiasm for frugality. Sensible consumption has made a comeback, and it appears to be here to stay. The new consumer spending values emphasize simpler living and more value for the



● **Mobile marketing:** Redbox uses mobile marketing to engage its customers, personalize its service, and promote DVD rentals. Its “The 10 Days of Deals” mobile campaign generated nearly 1.5 million text messages, resulting in more than 200,000 new Redbox Text Club members.

AP Images for Redbox

dollar. Despite their rebounding means, consumers continue to buy less, clip more coupons, swipe their credit cards less, and put more in the bank.

Many consumers are reconsidering their very definition of the good life. “People are finding happiness in old-fashioned virtues—thrift, savings, do-it-yourself projects, self-improvement, hard work, faith, and community,” says one consumer behavior expert. “We are moving from mindless to mindful consumption.”³⁴ The new, more frugal spending values don’t mean that people have resigned themselves to lives of deprivation. As the economy has improved, consumers are again indulging in luxuries and bigger-ticket purchases, just more sensibly.

In response, companies in all industries—from discounters such as Target to luxury brands such as Lexus—have realigned their marketing strategies with the new economic realities. More than ever, marketers are emphasizing the *value* in their value propositions. They are focusing on value for the money, practicality, and durability in their product offerings and marketing pitches.

For example, for years discount retailer Target focused increasingly on the “Expect More” side of its “Expect More. Pay Less.” value proposition. Its carefully cultivated “upscale-discounter” image successfully differentiated it from Walmart’s more hard-nosed “lowest-price” position. But when the economy soured, many consumers worried that Target’s trendier assortments and hip marketing also meant higher prices. So Target has shifted its balance more toward the “Pay Less” half of the slogan, making certain that its prices are in line with Walmart’s and that customers know it. Although still trendy, Target’s marketing now emphasizes more practical price and savings appeals. Offering “more for your money” holds a prominent place in the Target mission. “We think a lot about your budget and how to give you the best value every time you shop with us,” says the company.³⁵

In adjusting to the new economy, companies may be tempted to cut their marketing budgets and slash prices in an effort to coax customers into opening their wallets. However, although cutting costs and offering selected discounts can be important marketing tactics, smart marketers understand that making cuts in the wrong places can damage long-term brand images and customer relationships. The challenge is to balance the brand’s value proposition with the current times while also enhancing its long-term equity. Thus, rather than slashing prices in uncertain economic times, many marketers hold the line on prices and instead explain why their brands are worth it.

The Growth of Not-for-Profit Marketing

In recent years, marketing has also become a major part of the strategies of many not-for-profit organizations, such as colleges, hospitals, museums, zoos, symphony orchestras, foundations, and even churches. The nation’s not-for-profits face stiff competition for support and membership. Sound marketing can help them attract membership, funds, and support.

● For example, not-for-profit St. Jude Children’s Research Hospital has a special mission: “Finding cures. Saving children.” It directly serves some 7,800 patients each year

plus countless thousands more through its affiliations and clinical trials in places across the country and around the world. Families never receive a bill from St. Jude, for treatment, travel, housing, or food. To accomplish this mission, St. Jude raises the funds for its \$2.4 million daily operating budget through powerhouse marketing.³⁶ Fundraising efforts include everything from public service announcements, celebrity endorsements, corporate partnerships, and an extensive online presence to events such as Trike-a-thons, Math-a-thons, an Up ‘Til Dawn student challenge, and the St. Jude Dream Home Giveaway. St. Jude’s works with more than 70 corporate partners such as Target, Domino’s, Williams-Sonoma,



● **Not-for-profit marketing: St. Jude Children’s Research Hospital aggressively markets its powerful mission: “Finding cures. Saving children.”**

ALSAC | St. Jude

Regal Cinemas, and Expedia that participate in its annual Thanks and Giving campaign, which asks consumers to “give thanks for the healthy kids in your life, and give to those who are not.” The result is a pervasive brand that brings in more than \$1 billion each year from private donors—from preschoolers and professionals to eighth-graders and 80-year-olds.

Another example is the World Wildlife Fund (WWF), a global not-for-profit conservation organization whose mission is to conserve nature and protect the world’s wildlife. WWF operates in 100 countries under funding from government grants, foundations, corporations, and individuals—1.2 million members in the United States and nearly 5 million members worldwide. WWF uses sophisticated marketing to raise the considerable resources it needs to accomplish its sweeping mission. Just one example is the WWF’s recent cost-efficient but effective #LastSelfie Snapchat campaign:

The idea behind the WWF #Last Selfie campaign is that the world’s endangered wildlife species are disappearing from the earth as quickly as a Snapchat. To make the point, WWF sent nine-second Snapchat pictures of endangered animals to WWF followers worldwide with the message “Don’t let this be my #LastSelfie,” urging recipients to take a screenshot. Within only eight hours, the campaign generated 5,000 tweets viewed on 6 million timelines. Within only a week, there were 40,000 tweets reaching 120 million users. In all, the #LastSelfie campaign reached more than half of all Twitter users. It also helped WWF to meet its monthly donation target in just three days and led to a record number of animal adoptions through WWF’s website. More broadly, thanks to such marketing efforts and despite its limited marketing budget, WWF raised nearly \$290 million in funds last year, more than a third of it from individual donors.

Government agencies have also shown an increased interest in marketing. For example, the U.S. military has a marketing plan to attract recruits to its different services, and various government agencies are now designing social marketing campaigns to encourage energy conservation and concern for the environment or discourage smoking, illegal drug use, and obesity. Even the once-stodgy U.S. Postal Service has developed innovative marketing to sell commemorative stamps, promote its Priority Mail services, and lift its image as a contemporary and competitive organization. In all, the U.S. government is the nation’s 39th largest advertiser, with an annual advertising budget of more than \$980 million.³⁷

Rapid Globalization

As they are redefining their customer relationships, marketers are also taking a fresh look at the ways in which they relate with the broader world around them. Today, almost every company, large or small, is touched in some way by global competition. A neighborhood florist buys its flowers from Mexican nurseries, and a large U.S. electronics manufacturer competes in its home markets with giant Korean rivals. A fledgling internet retailer finds itself receiving orders from all over the world at the same time that an American consumer goods producer introduces new products into emerging markets abroad.

American firms have been challenged at home by the skillful marketing of European and Asian multinationals. Companies such as Toyota, Nestlé, and Samsung have often outperformed their U.S. competitors in American markets. Similarly, U.S. companies in a wide range of industries have developed truly global operations, making and selling their products worldwide. Quintessentially American McDonald’s now serves 70 million customers daily in more than 36,000 local restaurants in more than 100 countries worldwide—68 percent of its corporate revenues come from outside the United States. Similarly, Nike markets in 190 countries, with non-U.S. sales accounting for 52 percent of its worldwide sales.³⁸ Today, companies are not just selling more of their locally produced goods in international markets; they are also sourcing more supplies and components abroad and developing new products for specific markets around the world.

Thus, managers in countries around the world are increasingly taking a global, not just local, view of the company’s industry, competitors, and opportunities. They are asking: What is global marketing? How does it differ from domestic marketing? How do global competitors and forces affect our business? To what extent should we “go global”? We will discuss the global marketplace in more detail in Chapter 19.

Sustainable Marketing—The Call for More Environmental and Social Responsibility

Marketers are reexamining their relationships with social values and responsibilities and with the very earth that sustains us. As the worldwide consumerism and environmentalism movements mature, today's marketers are being called on to develop *sustainable marketing* practices. Corporate ethics and social responsibility have become hot topics for almost every business. And few companies can ignore the renewed and very demanding environmental movement. Every company action can affect customer relationships. Today's customers expect companies to deliver value in a socially and environmentally responsible way.

The social responsibility and environmental movements will place even stricter demands on companies in the future. Some companies resist these movements, budging only when forced by legislation or organized consumer outcries. Forward-looking companies, however, readily accept their responsibilities to the world around them. They view sustainable marketing as an opportunity to do well by doing good. They seek ways to profit by serving immediate needs and the best long-run interests of their customers and communities.



● **Sustainable marketing: Ben & Jerry's three-part "linked prosperity" mission drives it to make fantastic ice cream (product mission), manage the company for sustainable financial growth (economic mission), and use the company "in innovative ways to make the world a better place" (social mission). Both Ben & Jerry's and its products are "Made of Something Better."**

Clark Brennan / Alamy Stock Photo

Some companies, such as Patagonia, Timberland, Method, Ben & Jerry's, and others, practice *caring capitalism*, setting themselves apart by being civic minded and responsible. They build social and environmental responsibility into their company value and mission statements. ● For example, Ben & Jerry's, a division of Unilever, has long prided itself on being a "values-led business," one that creates "linked prosperity" for everyone connected to the brand—from suppliers to employees to customers and communities:³⁹

Under its three-part mission, Ben & Jerry's wants to make fantastic ice cream (product mission), manage the company for sustainable financial growth (economic mission), and use the company "in innovative ways to make the world a better place" (social mission). Ben & Jerry's backs its mission with actions. For example, the company is committed to using wholesome, natural, non-GMO, fair-trade-certified ingredients and buys from local farms. It employs business practices "that respect the earth and the environment," investing in wind energy, solar usage, travel offsets, and carbon neutrality. Its Caring Dairy program helps farmers develop more sustainable practices on the farm ("Caring Dairy means happy cows, happy farmers, and a happy

planet"). The Ben & Jerry's Foundation awards nearly \$2 million annually in grassroots grants to community service organizations and projects in communities across the nation. Ben & Jerry's also operates 14 PartnerShops, scoop shops that are independently owned and operated by community-based not-for-profit organizations. The company waives standard franchise fees for these shops.

Sustainable marketing presents both opportunities and challenges for marketers. We will revisit the topic of sustainable marketing in greater detail in Chapter 20.

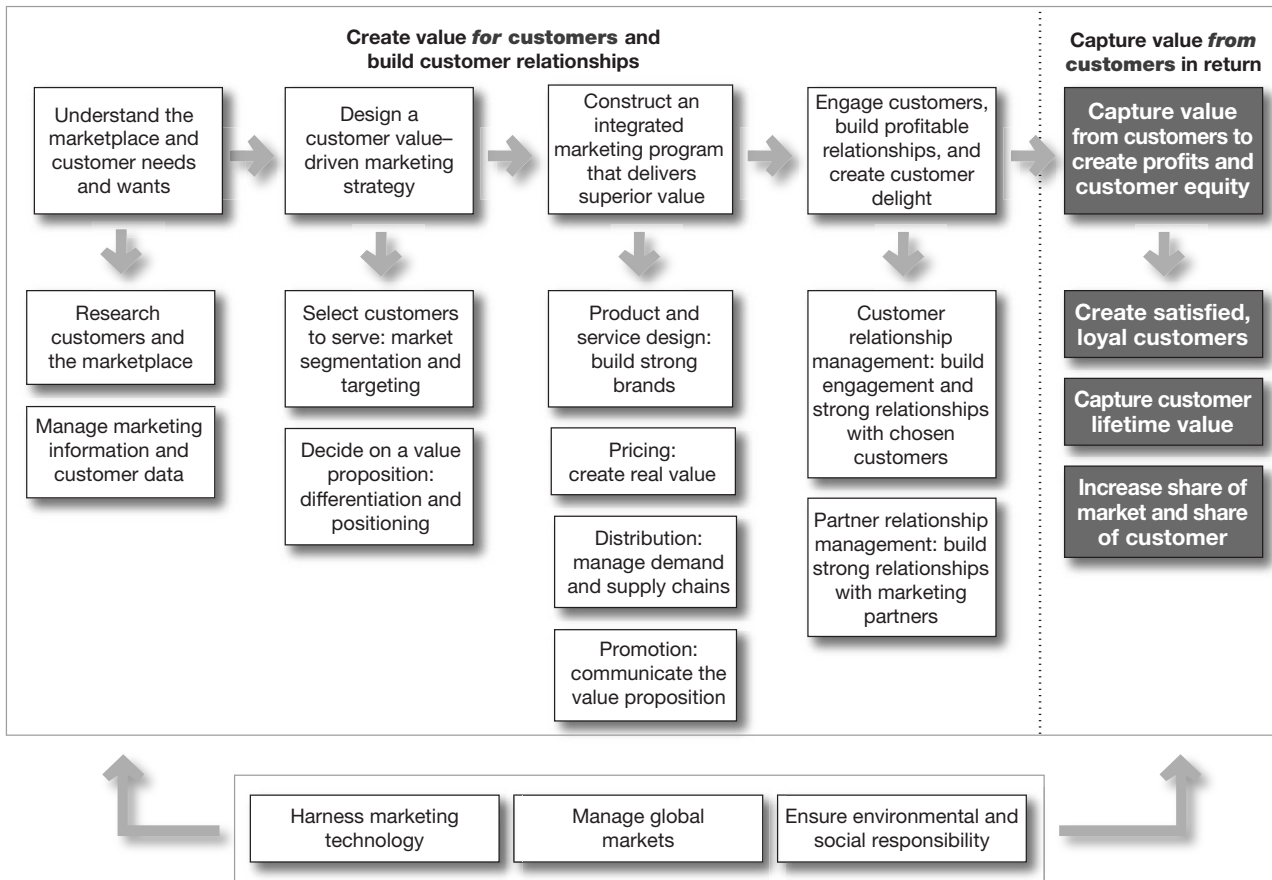
Author | Remember Figure 1.1
Comment | outlining the marketing process? Now, based on everything we've discussed in this chapter, we'll expand that figure to provide a road map for learning marketing throughout the remainder of the text.

So, What Is Marketing? Pulling It All Together

At the start of this chapter, Figure 1.1 presented a simple model of the marketing process. Now that we've discussed all the steps in the process, ● **Figure 1.6** presents an expanded model that will help you pull it all together. What is marketing? Simply put, marketing is the process of engaging customers and building profitable customer relationships by creating value for customers and capturing value in return.

● FIGURE | 1.6

An Expanded Model of the Marketing Process



This expanded version of Figure 1.1 at the beginning of the chapter provides a good road map for the rest of the text. The underlying concept of the entire text is that marketing creates value for customers in order to capture value from customers in return.

The first four steps of the marketing process focus on creating value for customers. The company first gains a full understanding of the marketplace by researching customer needs and managing marketing information. It then designs a customer-driven marketing strategy based on the answers to two simple questions. The first question is “What consumers will we serve?” (market segmentation and targeting). Good marketing companies know that they cannot serve all customers in every way. Instead, they need to focus their resources on the customers they can serve best and most profitably. The second marketing strategy question is “How can we best serve targeted customers?” (differentiation and positioning). Here, the marketer outlines a value proposition that spells out what values the company will deliver to win target customers.

With its marketing strategy chosen, the company now constructs an integrated marketing program—consisting of a blend of the four marketing mix elements, the four Ps—that transforms the marketing strategy into real value for customers. The company develops product offers and creates strong brand identities for them. It prices these offers to create real customer value and distributes the offers to make them available to target consumers. Finally, the company designs promotion programs that engage target customers, communicate the value proposition, and persuade customers to act on the market offering.

Perhaps the most important step in the marketing process involves building value-laden, profitable relationships with target customers. Throughout the process, marketers practice customer relationship management to create customer satisfaction and delight. They engage customers in the process of creating brand conversations, experiences, and community. In creating customer value and relationships, however, the company cannot go it alone. It must work closely with marketing partners both inside the company and throughout its marketing system. Thus, beyond practicing good customer relationship

management and customer-engagement marketing, firms must also practice good partner relationship management.

The first four steps in the marketing process create value *for* customers. In the final step, the company reaps the rewards of its strong customer relationships by capturing value *from* customers. Delivering superior customer value creates highly satisfied customers who will buy more and buy again. This helps the company capture customer lifetime value and greater share of customer. The result is increased long-term customer equity for the firm.

Finally, in the face of today's changing marketing landscape, companies must take into account three additional factors. In building customer and partner relationships, they must harness marketing technologies in the new digital age, take advantage of global opportunities, and ensure that they act sustainably in an environmentally and socially responsible way.

Figure 1.6 provides a good road map to future chapters of this text. Chapters 1 and 2 introduce the marketing process, with a focus on building customer relationships and capturing value from customers. Chapters 3 through 6 address the first step of the marketing process—understanding the marketing environment, managing marketing information, and understanding consumer and business buyer behavior. In Chapter 7, we look more deeply into the two major marketing strategy decisions: selecting which customers to serve (segmentation and targeting) and determining a value proposition (differentiation and positioning). Chapters 8 through 17 discuss the marketing mix variables one by one. Chapter 18 sums up customer-driven marketing strategy and creating competitive advantage in the marketplace. The final two chapters examine special marketing considerations: global marketing and sustainable marketing.

1

Reviewing and Extending the Concepts

OBJECTIVES REVIEW AND KEY TERMS

Objectives Review

Today's successful companies—whether large or small, for-profit or not-for-profit, domestic or global—share a strong customer focus and a heavy commitment to marketing. The goal of marketing is to engage customers and manage profitable customer relationships.

OBJECTIVE 1-1 Define marketing and outline the steps in the marketing process.

Marketing is the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return. The marketing process involves five steps. The first four steps create value *for* customers. First, marketers need to understand the marketplace and customer needs and wants. Next, marketers design a customer-driven marketing strategy with the goal of getting, engaging, and growing target customers. In the third step, marketers construct a marketing program that actually delivers superior value. All of these steps form the basis for the fourth step: engaging customers, building profitable customer relationships, and creating customer delight. In the final step, the company reaps the rewards of strong customer relationships by capturing value *from* customers.

OBJECTIVE 1-2 Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.

Outstanding marketing companies go to great lengths to learn about and understand their customers' *needs, wants, and demands*. This understanding helps them to design want-satisfying market offerings and build value-laden customer relationships by which they can capture *customer lifetime value* and greater *share of customer*. The result is increased long-term *customer equity* for the firm.

The core marketplace concepts are needs, wants, and demands; market offerings (products, services, and experiences); value and satisfaction; exchange and relationships; and markets. Companies address needs, wants, and demands by putting forth a value proposition, a set of benefits that they promise to consumers to satisfy their needs. The value proposition is fulfilled through a market offering, which delivers customer value and satisfaction, resulting in long-term exchange relationships with customers.

OBJECTIVE 1-3 Identify the key elements of a customer value-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.

To design a winning marketing strategy, the company must first decide whom it will serve. It does this by dividing the market into segments of customers (*market segmentation*) and selecting which segments it will cultivate (*target marketing*). Next, the company must decide *how* it will serve targeted

customers (how it will *differentiate and position* itself in the marketplace).

Marketing management can adopt one of five competing market orientations. The *production concept* holds that management's task is to improve production efficiency and bring down prices. The *product concept* holds that consumers favor products that offer the most in quality, performance, and innovative features; thus, little promotional effort is required. The *selling concept* holds that consumers will not buy enough of an organization's products unless it undertakes a large-scale selling and promotion effort. The *marketing concept* holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do. The *societal marketing concept* holds that generating customer satisfaction and long-run societal well-being through sustainable marketing strategies is key to both achieving the company's goals and fulfilling its responsibilities.

OBJECTIVE 1-4 Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return.

Broadly defined, *customer relationship management* is the process of engaging customers and building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. *Customer-engagement marketing* aims to make a brand a meaningful part of consumers' conversations and lives through direct and continuous customer involvement in shaping brand conversations, experiences, and community. The aim of customer relationship management and customer engagement is to produce high *customer equity*, the total combined customer lifetime values of all of the company's customers. The key to building lasting relationships is the creation of superior *customer value* and *satisfaction*. In return for creating value for targeted customers, the company captures value from customers in the form of profits and customer equity.

OBJECTIVE 1-5 Describe the major trends and forces that are changing the marketing landscape in this age of relationships.

Dramatic changes are occurring in the marketing arena. The digital age has created exciting new ways to learn about and relate to individual customers. As a result, advances in digital and social media have taken the marketing world by storm. Online, mobile, and social media marketing offer exciting new opportunities to target customers more selectively and engage them more deeply. The key is to blend the new digital approaches with traditional marketing to create a smoothly integrated marketing strategy and mix.

The Great Recession caused consumers to rethink their buying priorities and bring their consumption back in line with their incomes. Even as the post-recession economy has strengthened, Americans are now showing an enthusiasm for frugality not seen in decades. The challenge is to balance a brand's value proposition with current times while also enhancing its long-term equity.

In recent years, marketing has become a major part of the strategies for many not-for-profit organizations, such as colleges, hospitals, museums, zoos, symphony orchestras, foundations, and even churches. Also, in an increasingly smaller world, many marketers are now connected *globally* with their customers, marketing partners, and competitors. Finally, today's marketers are also reexamining their ethical and societal responsibilities. Marketers are being called on to take greater responsibility for the social and environmental impacts of their actions.

Pulling it all together, as discussed throughout the chapter, the major new developments in marketing can be summed up in a single concept: *engaging customers and creating and capturing customer value*. Today, marketers of all kinds are taking advantage of new opportunities for building value-laden relationships with their customers, their marketing partners, and the world around them.

Key Terms

OBJECTIVE 1-1

Marketing

OBJECTIVE 1-2

Needs

Wants

Demands

Market offerings

Marketing myopia

Exchange

Market

OBJECTIVE 1-3

Marketing management

Production concept

Product concept

Selling concept

Marketing concept

Societal marketing concept

OBJECTIVE 1-4

Customer relationship management

Customer-perceived value

Customer satisfaction

Customer-engagement marketing

Consumer-generated marketing

Partner relationship management

Customer lifetime value

Share of customer

Customer equity

OBJECTIVE 1-5

Digital and social media marketing

DISCUSSION AND CRITICAL THINKING



Discussion Questions

- ★ **1-1** Define *marketing* and outline the steps in the marketing process. (AACSB: Communication)
- 1-2** What is marketing myopia? What are the short- and long-term implications for business in this situation? (AACSB: Communication; Reflective Thinking)
- ★ **1-3** Describe the five different competing marketing orientations that a business organization can adopt to drive its marketing strategy. (AACSB: Communication; Reflective Thinking)
- 1-4** Discuss the concept of customer relationship management. Why is it essential that a business incorporates this in its operations? (AACSB: Communication; Reflective Thinking)
- ★ **1-5** Why is marketing as important for not-for-profit organizations as profit-driven ones? (AACSB: Communication; Reflective Thinking)

Critical Thinking Exercises

- 1-6** Select an FTSE 100 company. How much did the company spend on marketing activities in the most recent year for which data are available? What percentage of sales does marketing expenditure represent for the company? Have these expenditures increased or decreased over the past five years? Write a brief report of your findings. (AACSB: Communication; Analytic Reasoning)
- ★ **1-7** Some believe that social marketing is primarily effective only for bigger companies with the time and capacity to manage and update their media content. Choose a local business and evaluate its effectiveness in creating customer engagement. Is the content up-to-date and relevant? How does it manage its content? (AACSB: Communication; Use of IT; Reflective Thinking)
- 1-8** Use the internet to search for salary information regarding jobs in marketing in your region. What is the national average salary for five different jobs in marketing? How do the averages compare in different areas of the region? Write a brief report on your findings. (AACSB: Communication; Use of IT; Reflective Thinking)

APPLICATIONS AND CASES

Online, Mobile, and Social Media Marketing The ALS Ice Bucket Challenge

In the summer of 2014, people with connections to ALS (Lou Gehrig's disease) raised awareness of the condition by urging people to post videos of themselves dumping buckets of ice water over their heads and challenge others to do the same. The efforts raised millions of dollars in online donations to the ALS Association for enhanced research and patient services. This real-time marketing campaign generated 17 million videos uploaded to social media platforms from 159 countries. Celebrities posting videos included Will Smith, Bill Gates, Oprah Winfrey, and Mark Zuckerberg. The Ice Bucket Challenge generated 70 billion video views while raising \$220 million. The best part? Zero dollars were spent to promote the Ice Bucket Challenge, yet 440 million people saw it. The ALS Association has now turned the wildly successful challenge into an annual social media campaign, bringing back the original Ice Bucket Challenge #EveryAugustUntilACure.

For more information, visit www.alsa.org/fight-als/ice-bucket-challenge.

- 1-9** Real-time marketing is a shift for traditional marketers who can now digitally link brands to important moments in customers' lives. Explain how real-time marketing was used in the Ice Bucket Challenge. Why was this campaign successful? (AACSB: Communication; Reflective Thinking)
- 1-10** Create a real-time marketing campaign for a product or service of your choice to create customer engagement using online, mobile, and social media. How would you measure the success of your campaign? (AACSB: Communication; Reflective Thinking)

Marketing Ethics Exaggeration and High Pressure

It is a great temptation for manufacturers to exaggerate the benefits of their products on the packaging. Sometimes, the claims are overstated. Businesses want to make bold claims to help them sell more products. Some of the claims are morally wrong, other times they are just “advertising puff.” A business might resort to high-pressurized sales techniques. In other cases they might focus on vulnerable customer groups. Businesses need to make a profit, but is it wrong to try any means to achieve this? Legally, yes it is.

- 1-11** How would a business begin to frame an ethical marketing process as a template for their activities now and in the future? (AACSB: Communication; Ethical Reasoning)
- 1-12** What is likely to motivate a business to adopt ethical marketing? (AACSB: Communication; Ethical Reasoning)

Marketing by the Numbers Be on the First Page

The internet has become a vital marketing medium, and pay-per-click (PPC) is one of the many ways for a business to attract traffic. It is risky, and a business can spend a lot of money, get a lot of visits, but end up with very few actual sales. Search engines allow businesses to buy listings in their search results; they appear next to the non paid organic search results. These spots are sold by auction. If the business bids the most, they get a chance, but only the chance to be ranked first.

- 1-13** If you bid \$1.25 on a key word related to your product and 14,000 people click on your PPC, how much will the search engine charge you? (AACSB: Communication; Analytical Reasoning)
- 1-14** PPC can be expensive, so why is it popular as a marketing method? (AACSB: Communication; Reflective Thinking)

Video Case Eskimo Joe's

Since 1975, Eskimo Joe's has been a popular watering hole in Stillwater, Oklahoma. Through word of mouth and a popular logo spread via T-shirts, it rapidly became a favorite place to grab a beer for students at Oklahoma State. But what started as a basic beer joint has grown into something much more.

When the drinking age changed from 18 to 21 in the 1980s, Eskimo Joe's had to decide how it would move forward. That challenge helped the company to recognize that its product is much more than just a cold mug of beer. Instead, people flocked to Eskimo Joe's for the fun atmosphere and customer-friendly service. This realization led to an expansion into different

businesses that have now spread the Eskimo Joe's logo all over the planet.

After viewing the video featuring Eskimo Joe's, answer the following questions:

- 1-15** Describe Eskimo Joe's market offering.
- 1-16** What is Eskimo Joe's value proposition? How does its value proposition relate to its market offering?
- 1-17** How does Eskimo Joe's build long-term customer relationships?

Company Case Argos: Creating Customer Value amid Change and Turbulence

One of the biggest news items in the UK retail sector recently was the £1.4 billion acquisition in September 2016, of Home Retail Group, the parent company of Argos, by Sainsbury's, one of the leading British supermarkets. Unsurprisingly, the highlights of this business decision are the huge sum involved and the associated risk in the complex marketing environment. So why was this considered a good decision, especially after the British referendum in favor of leaving the European Union (EU) and the uncertainty in the business environment that follows?

The key answers to these questions are not hard to find. The deal makers can see the gold in the track record of the organization. Argos, the leading UK digital retailer, was established in July 1973 as the United Kingdom's first catalog retailer with only 17 stores; it now has over 750 stores throughout the United Kingdom and the Republic of Ireland, serving over 130 million customers annually. Approximately one-third of the UK population shops in an Argos store annually, buying one thing or another. Even before the agreement on the takeover deal, 10 Argos outlets that opened in Sainsbury's stores already had a record 30 percent sales increase, and the takeover is expected to result in annual savings of £160 million.

As part of its attempts to create value for its customers, Argos has undergone remarkable changes in the 21st century. The design makeover has turned the tatty faux-wooden floorboards and display cabinets into tiled floors and LED display boards for easy shopping. It is thus not surprising that Argos was valued so highly by Sainsbury's. Ultimately, the plan is to have an Argos center at every Sainsbury's branch to ensure convenience in shopping for customers. While the in-stores catalogs are still in use at Argos stores, the centers have been radically transformed into hi-tech outlets and "digital" stores. The idea behind all these changes is that the customers of today are more informed and deserve the best. Argos's approach is to ensure that value creation for customers permeates every phase of the organization's activities.

Catalog Retailing

Although Argos is noted for a number of things in the British retail sector, its core hallmark is its consistent focus on the satisfaction of the needs and wants of its target customers. This is not only ensured through the thousands of products that it offers its customers both online and across its various stores in the country, but also in all the phases that encapsulate the customers' experience in their transactions, from placing the order to receiving the items. Argos's focus on catalog retailing is based on its quest to satisfy customers through convenience. The idea is to make it easier for customers to meet their needs, especially as the company deals in a variety of products. The shopper checks the catalog, places the order, and receives it shortly afterwards. So, its twice-yearly catalog and internet site aid the way the establishment creates value for its customers.

Market Offerings

The assortment of products offered by Argos to its various customers across the country illustrates the core value that it offers its target market. The organization is noted for offering a wide range of products that are categorized on its websites to make shopping easy for its online visitors. For example, customers who are interested in products such as TVs, telephones, or computers would simply need to click on the "Technology" link to be ushered into the world of these gadgets. Similarly, there are categories

for "Home and Garden," "Sports and Leisure," "Clothing," "Health and Beauty," "Toys," and many more.

One critic noted that Argos's focus is on being a "working class" brand, implying that their customers are mainly less well-off. However, former CEO John Walden disagrees with this customer stereotype and insists that while this may have been true five years earlier, things have now changed at Argos; the company now targets all demographics. Beyond the rhetoric of who their customers actually are is the issue of keeping those customers satisfied with seasoned products and excellent customer service. This has been strategically identified by John Rogers, the new CEO of Argos, as the cornerstone of his approach in marketing after taking over the job. The core objective is to ensure not only that the customers are encouraged to shop at Argos but that they are motivated to stay loyal even when the competition tries to entice them. For example, Tesco has a strong plan in place to price-match best-selling toys by the end of this year. This is clearly in direct competition with Argos. The retailer's mainstay is the continuous effort to clearly outperform competitors like Tesco and Amazon in meeting customers' needs and addressing their concerns.

Same-Day Delivery

As the retail environment in the United Kingdom becomes more competitive, Argos also continues to explore various means of maintaining and improving its market share. To this end, the management has set a long-term goal of having 250 Argos collection points that will be located within Sainsbury's to ensure that customers get their ordered items more quickly than before the acquisition of the firm—which, according to Mike Coupe, the CEO of Sainsbury's, was meant to give customers more choice in their purchasing decisions and make life easier for them.

In 2015, Argos introduced a striking and daring policy—its "Same-Day Delivery" service. As the name suggests, a customer could now order the desired products and get them immediately in the store or delivered at home on the same day through a "fast tracked" option. This quickly became a very popular strategy and was considered a good gesture among the customers. It not only reinforced loyalty among the organization's current clientele but also wooed others keen on efficiency in the marketplace. As the company experienced increase in demand, it also realized that this would require a commensurate increase in resources, hence the recent increase in its delivery vans to about 800 and the 30,000 people employed in different areas of the organization, including customer service, packaging, and order delivery, across its 845 stores. In the run up to Christmas sales in 2016, Argos reportedly hired several additional seasonal staff, adding to the current number.

Digital Retailing

Developments in the world of technology are transforming businesses in various sectors, and retailing is no exception. Based on data from the food and grocery research charity IGD, 5 percent of grocery sales in the United Kingdom are done online. This small figure is due to a variety of challenges associated with this transaction mode, but this is very likely to improve over time. As a key organization in the retail sector in the digital age, Argos is also working toward transforming itself into a "click and collect" business. Toward the end of 2012, Argos announced its mission to rediscover itself as a digital retail leader. John Coombe, the chairman of Home Retail, Argos's parent organization, remarked that Argos is not only an icon of the British high street but also a leading player in the digital transformation

of UK retailing business. In June 2016, a report indicated that Argos's Internet sales had gone up by 16 percent, the strongest record in three years. Around the time Argos was being sold to Sainsbury's, John Walden debunked the view that being digital would be like operating a traditional retailing outfit with just one store. According to him, it would still involve hiring people, bringing stock in, expanding, and upgrading. Around 60 percent of Argos's sales are now done as online transactions, which is also closely linked to the fact that the organization is the first retailer in the United Kingdom to make over £1 billion through mobile payments. Its hefty catalogs are being replaced by iPad-style terminals to facilitate order processing. All of this has helped Argos make a seamless entry into the digital world in retail business.

Special Offers

Argos' commitment to delighting its customers is not only evident in the increasing range of products it offers its customers and the sleek distribution system, but also in the various promotional programs it offers. Some of these are offered to existing loyal customers through the Argos loyalty card scheme while others are to attract new customers. Periodically, it sends its customers various promotional offers, money-off vouchers, and other financing offers. When Black Friday hit the UK high street and its public awareness grew, Argos was quick to explore the opportunity through various special price-cut offers that also attracted a response from many new and existing customers. About 12 million customers reportedly visited the company's website on the 2015 Black Friday, resulting in 18 purchases in a second. The expectation for 2016 is that around 38 percent more sales than what was recorded for the previous year will have been made. John Rogers also estimates that at least 70 percent of its orders will be taken online on Black Friday while normal trading will account for 50 percent. The Argos gift voucher promotions, which are managed by the company's affiliates, offer its customers something to fall back on during their various subsequent purchases. The periodic product-specific special offers on certain products like furniture, computers, and TVs also constitute part of the package that keeps Argos' stores busy over the years, and with this, it generates customer value profitably.

Argos and Society

It is tempting to conclude that Argos's focus on maximizing customer value is predominantly driven by profit. However, evidence suggests that the company does believe in taking responsibility for the environment, improving the local communities, and pursuing a number of initiatives that revolve around long-run benefits for customers and society. Argos is focused on reducing the amount of resources used in its operations and the CO₂ (carbon dioxide) emissions it produces. It clearly communicates its green credentials on its web pages. Apart from its catalog, which is 100 percent recyclable, it sources the paper it uses from sustainably managed forests and encourages customers to recycle old catalogs in their possession as these have proven useful to newspaper print manufacturers. According to the firm, it has already been able to recycle 91 percent of waste from the business, had a 9 percent reduction in its carbon footprint, ensured a 35 percent reduction in the waste sent to landfill, and has established a goal to reduce its CO₂ emission per square foot by 40 percent by the year 2020. Argos's impacts in the local community are also notable: it supports various charities and other related organizations, and it specifically chose Macmillan Cancer Support as its charity of the year from 2015 to 2017. Argos has shown that it is quite possible to create value for customers and still build relationships with stakeholders.

Questions for Discussion

- 1-18** To what extent do you think the acquisition of Argos by Sainsbury's resulted in delivering superior value to customers?
- 1-19** How is the concept of share of customer illustrated in the case study?
- 1-20** To what extent would you agree with the claim that Argos's marketing management orientation is a marketing concept? Justify your standpoint with relevant points from the case study.
- 1-21** What are the key actions taken by Argos that show that the organization is following the changing marketing landscape?
- 1-22** In view of the stiff competition in the UK retail sector, suggest various ways by which Argos could continue to provide better value to its customers.

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