# *Marketing An Introduction (Canadian) 7th edition Armstrong Solutions Manual*

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# CHAPTER 1
# MARKETING: CREATING CUSTOMER VALUE AND ENGAGEMENT

## PREVIEWING THE CONCEPTS – CHAPTER OBJECTIVES

1. Define marketing and outline the steps in the marketing process.
2. Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.
3. Identify the key elements of a customer value-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.
4. Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return.
5. Describe the major trends and forces that are changing the marketing landscape in this age of relationships.

## JUST THE BASICS

## CHAPTER OVERVIEW

Marketing is managing profitable customer relationships.

The aim of marketing is to create value for customers and to capture value in return.

Chapter 1 is organized around five steps in the marketing process (see Figure 1.1) – from understanding customer needs, to designing customer-driven marketing strategies and programs, to building customer relationships and capturing value for the firm.

## ANNOTATED CHAPTER NOTES/OUTLINE

*Amazon: Obsessed with Creating Customer Value, Engagement, and Relationships*

When you think of shopping online—or of shopping anywhere, for that matter—chances are good that you think first of Amazon.

The online pioneer first opened its virtual doors in 1995, selling books. Amazon is rapidly moving beyond online selling, not just into physical stores but also into video and music streaming, cloud services, and the Internet of Things. If one company represents where the world is now headed, it's probably Amazon.

Its annual sales have rocketed from a modest US$150 million in 1997 to US$177 billion in 2017. In the twelve months period ending September, 2018, revenues exceeded US$220 billion. In 2018, the company had more than 100 million Amazon Prime members around the world (nearly double the number from 2016).

Currently, Amazon is the second-largest retailer in the U.S., trailing only Walmart.


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What has made Amazon such an amazing success story? Jeff Bezos puts it in three simple words: "Obsess over customers." To its core, the company is relentlessly customer driven.

Amazon wants to deliver a special experience to every customer.

Visitors to Amazon.com receive a unique blend of benefits: huge selection, good value, low prices, and convenience. But it's the "discovery" factor that makes the buying experience really special.

Amazon does much more than just sell goods online. It engages customers and creates direct, personalized customer relationships and satisfying experiences.

Amazon's innovations have made the order and delivery process a breeze.

As Walmart and other store retailers are increasingly invading Amazon's digital domain, the online retailer is now invading their brick-and-mortar worlds. For example, Amazon purchased upscale grocery chain Whole Foods Market.

Amazon has become the poster child for companies that are obsessively and successfully focused on delivering customer value. "Our customers are loyal to us right up until the second somebody offers them a better service," says Bezos.

## WHAT IS MARKETING?

A simple definition of marketing is *engaging customers and managing profitable customer relationships.*

Marketing must both attract new customers and grow the current customers.

Every organization must perform marketing functions, not just for-profit companies.

Non-profits (universities, hospitals, churches, etc.) also must perform marketing.

### Marketing Defined

Most people think of marketing as selling and/or advertising—"telling and selling."

Selling and advertising are only part of a larger **marketing mix**—a set of marketing tools that work together to satisfy customer needs and build customer relationships.

We define **marketing** as the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.

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| Use **Key Term** *Marketing* here.<br>Use **Chapter Objective 1** here. |


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### The Marketing Process

Figure 1.1 shows the five-step marketing process.

1. Understand the marketplace and customer needs and wants.
2. Design a customer value-driven marketing strategy.
3. Construct an integrated marketing program that delivers superior value.
4. Engage customers, build profitable relationships, and create customer delight.
5. Capture value from customers to create profits and customer quality.

Use **Figure 1.1** here.

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.

## UNDERSTANDING THE MARKETPLACE AND CUSTOMER NEEDS

Five core customer and marketplace concepts are critical: (1) *needs, wants, and demands*; (2) *market offerings (products, services, and experiences)*; (3) *value and satisfaction*; (4) *exchanges and relationships*; and (5) *markets*.

### 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 *physical, social, and individuals* needs. 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. A person *needs* food but *wants* a Big Mac.

When backed by buying power, wants become **demands**.

Outstanding marketing companies go to great lengths to learn and understand their customers' needs, wants, and demands.

Use **Key Terms** *Needs*, *Wants*, and *Demands* here.
Use **Discussion Question 1-1** here.

### Market Offerings—Products, Services, and Experiences

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 want.


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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.

**Marketing myopia** occurs when a company becomes so taken with their own products that they lose sight of underlying customer needs.

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| Use **Chapter Objective 2** here.<br>Use **Discussion Question 1-2** here.<br>Use **Key Terms** *Market Offering* and *Marketing Myopia* here. |

**Customer Value and Satisfaction**

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 switch to competitors and disparage the product to others.

Customer value and customer satisfaction are key building blocks for developing and managing customer relationships.

**Exchanges and Relationships**

**Exchange** is the act of obtaining a desired object from someone by offering something in return.

Marketing consists of actions taken to build and maintain desirable exchange *relationships* with target audiences.

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| Use **Key Term** *Exchange* here.<br>Use **Critical Thinking Exercise 1-7** here. |

**Markets**

A **market** is the set of actual and potential buyers of a product.

Marketing means managing markets to bring about profitable customer relationships.

Figure 1.2 shows the main elements in a marketing system.

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| Use **Figure 1.2** here.<br>Use **Key Term** *Market* here. |


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## DESIGNING A CUSTOMER VALUE-DRIVEN MARKETING STRATEGY AND PLAN

**Marketing management** is defined as the art and science of choosing target markets and building profitable relationships with them.

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| Use **Chapter Objective 3** here.<br>Use **Discussion Question 1-3** here.<br>Use **Key Term** *Marketing Management* here. |

The marketing manager must answer two important questions:

1. What customers will we serve (what's our target market)?
2. How can we serve these customers best (what's our value proposition)?

### Selecting Customers to Serve

A company must 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*).

Marketing managers know they cannot serve all customers. By trying to do so, they end up not serving any well.

Marketing management is *customer management* and *demand management.*

### Choosing a Value Proposition

A company's *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs. (WestJet promises to "Act like an owner" and "Care from the heart." By contrast, British Columbia-based Flair Airlines gives you "Canada's ticket to ultra low airfares." Amazon's Echo smart speaker is "Always ready, connected, and fast. Just ask." By contrast, the Sonos One with Amazon Alexa is "The smart speaker for music lovers." It gives you all the advantages of Alexa but with high-quality Sonos sound.)

Such value propositions *differentiate* one brand from another.

### Marketing Management Orientations

Marketing management wants to design strategies that will build profitable relationships with target consumers. But what *philosophy* should guide these marketing strategies?

There are five alternative concepts under which organizations design and carry out their marketing strategies:


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### *1) The Production Concept*

The **production concept** holds that consumers will favour products that are available and highly affordable.

Management should focus on improving production and distribution efficiency.

### *2) The Product Concept*

The **product concept** holds that consumers will favour products that offer the most in quality, performance, and innovative features.

Under this concept, marketing strategy focuses on making continuous product improvements.

### *3) The Selling Concept*

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

The concept is typically practiced with unsought goods – those that buyers do not normally think of buying, such as insurance or blood donations.

These industries must be good at tracking down prospects and selling them on product benefits.

### *4) 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.

The job is not to find the right customers for your product but to find the right products for your customers.

The **selling concept** takes an *inside-out* approach, whereas the **marketing concept** uses an *outside-in* perspective. (Figure 1.3)

*Customer-driven* companies research current customers deeply to learn about their desires, gather new product and service ideas, and test proposed product improvements.

*Customer-driving* marketing involves understanding customer needs even better than


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customers themselves do and creating products and services that meet existing and latent needs.

***5) 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*.

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.

The societal marketing concept holds that companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, *and* society's interests. (Figure 1.4)

Use **Key Terms** *Production Concept, Product Concept, Selling Concept, Marketing Concept,* and *Societal Marketing Concept* here.
Use **Figures 1.3** and **1.4** here.

## PREPARING AN INTEGRATED MARKETING PLAN AND PROGRAM

The company's marketing strategy outlines which customers the company 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 consists of the firm's *marketing mix*, the set of marketing tools the firm uses to implement its marketing strategy.

The marketing mix tools are classified into the *four Ps* of marketing: product, price, place, and promotion.

The firm blends all of these marketing mix tools into a comprehensive *integrated marketing program* that communicates and delivers the intended value to chosen customers.


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## MANAGING CUSTOMER RELATIONSHIPS AND CAPTURING CUSTOMER VALUE

### Engaging Customers and Managing Customer Relationships

The first three steps in the marketing process all lead up to the fourth step: engaging customers and managing profitable customer relationships.

### Customer Relationship Management

*Customer relationship management* is the most important concept of modern marketing.

**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, keeping, 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.

**Customer-Perceived Value.** This is 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.

Customers often do not judge values and costs "accurately" or "objectively."

They act on *perceived* value.

**Customer Satisfaction. Customer satisfaction** depends on the product's perceived performance relative to a buyer's expectations.

If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted.

Although the customer-centred 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.

The purpose of marketing is to generate customer value profitably.

| Use **Discussion Question 1-4** here. |
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### *Customer Relationship Levels and Tools*

Companies can build customer relationships at many levels.

At one extreme, a company with many low-margin customers may seek to develop *basic relationships* with them.

At the other extreme, in markets with few customers and high margins, sellers want to create *full partnerships* with customers.

Many companies offer *frequency marketing programs* that reward customers who buy frequently or in large amounts.

Companies sponsor *loyalty rewards programs* that enhance and strengthen a customer's brand experience. (For example, Cineplex Entertainment has teamed up with Scotiabank for offer the SCENE loyalty program for Canadian movie buffs, offering points that can be redeemed for free movie tickets and cinema concession purchases at over 160 theatres across Canada..)

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| Use **Chapter Objective 4** here.<br>Use **Key Terms** *Customer Relationship Management, Customer Perceived Value,* and *Customer Satisfaction* here. |

### *Customer Engagement and Today's Digital, Mobile, and Social Media*

Yesterday's companies focused on mass marketing to all customers at arm's length.

Today's companies are using online, mobile, and social media to refine their targeting and to engage customers more deeply and interactively.

Old marketing involved marketing brands *to* consumers. The new marketing is **customer-engagement marketing.**

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.

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| Use **Key Term** *Customer-Engagement Marketing* here. |

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.

Marketers want to create *brand advocacy*, by which satisfied customers initiate favourableinteractions with others about a brand.


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Greater consumer empowerment means that companies can no longer rely on marketing by *intrusion*. Instead, they must practice marketing by *attraction*.

**Consumer-Generated Marketing.** A growing part of the new consumer dialogue is consumer-generated marketing, by which consumers themselves are playing a bigger role in shaping their own brand experiences and those of others.

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| Use **Key Term** *Consumer-Generated Marketing* here.<br>Use **Discussion Question 1-5** here.<br>Use **Critical Thinking Exercise 1-8** here. |

### Partner Relationship Management

Marketers must not only be good at customer relationship management, they must also be good at **partner relationship management** – working closely with others inside and outside the company to jointly bring more value to customers.

The new thinking is that – no matter what your job is in the company – you must understand marketing and be customer focused.

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*, many companies today are strengthening their connections with partners all along the supply chain.

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| Use **Key Term** *Partnership Relationship Management* here. |

## CAPTURING VALUE FROM CUSTOMERS

The first four steps in the marketing process outlined in Figure 1.1 involve building customer relationships. The final step involves capturing value in return.

By creating superior customer value, the firm creates highly satisfied customers who stay loyal and buy more.

### Creating Customer Loyalty and Retention

The aim of customer relationship management is to create not just customer satisfaction, but customer delight.

Companies realize that losing a customer means losing the entire stream of purchases the


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customer would have made over a lifetime of patronage. This is known as **customer lifetime value**.

| Use **Key Term** *Customer Lifetime Value* here. |
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**Growing Share of Customer**

**Share of customer** is defined as the share the company gets of customers purchasing in their product categories. (Thus, banks want to increase "share of wallet.")

| Use **Key Term** *Share of Customer* here. |
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**Building Customer Equity**

Companies want not only to create profitable customers, but also to "own" them for life, capture their customer lifetime value, and earn a greater share of their purchases.

***What Is Customer Equity?***

**Customer equity** is the total combined customer lifetime values of all of the company's current and potential customers.

Clearly, the more loyal the firm's profitable customers, the higher the firm's customer equity.

Customer equity may be a better measure of a firm's performance than current sales or market share.

***Building the Right Relationships with the Right Customers***

Not all customers, not even all loyal customers, are good investments.

Figure 1.5 classifies customers into one of four relationship groups, according to their profitability and projected loyalty.

"Strangers" show low potential profitability and little projected loyalty. The relationship management strategy for these customers is simple: Don't invest anything in them.

"Butterflies" are potentially profitable but not loyal. The company should use promotional blitzes to attract them, create satisfying and profitable transactions with them, and then 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 retain and grow them.


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"Barnacles" are highly loyal but not very profitable. There is a limited fit between their needs and the company's offerings.

Important point: Different types of customers require different relationship management strategies.

The goal is to build the *right relationships* with the *right customers.*

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| Use **Key Term** *Customer Equity* here.<br>Use **Figure 1.5** here.<br>Use **Marketing by the Numbers** here. |

## THE CHANGING MARKETING LANDSCAPE

This section looks at four major developments: the digital age, the growth in not-for-profit marketing, rapid globalization, and the call for sustainable marketing practices.

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

Welcome to the age of the *Internet of Things (IoT)*, a global environment where everything and everyone is digitally connected to everything and everyone else.

More than 4 billion people—52 percent of the world's population—are now online; more than 86% of all Canadian and 80 percent of all American adults own smartphones.

**Digital and social media marketing** involves using digital marketing tools and digital platforms to engage consumers anywhere, anytime.

At the most basic level, marketers set up company and brand websites that provide information and promote the company's products.

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

#### *Social Media Marketing*

Some social media are huge—Facebook has more than 2 *billion* active monthly users. 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.

Online social media provide a digital home where people can connect and share important information and moments in their lives.

#### *Mobile Marketing*


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Mobile marketing is perhaps the fastest growing digital marketing platform.

Marketers use mobile channels to stimulate immediate buying, make shopping easier, and enrich the brand experience.

Most marketers are still learning how to use them effectively.

***Big Data and Artificial Intelligence (AI)***
With the explosion in digital technologies, marketers can now amass mountains of data.

Brands can use such *big data* to gain deep customer insights, personalize marketing offers, and improve customer engagements and service.

*Artificial intelligence (AI)* involves machines that think and learn in a way that looks and feels human but with a lot more analytical capacity.

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| Use **Chapter Objective 5** here.<br>Use **Key Term** *Digital and social media marketing* here.<br>Use **Online, Mobile, and Social Media Marketing** here.<br>Use **Critical Thinking Exercise 1-9** here.<br>Use **Discussion Question 1-6** here.<br>Use **Marketing Ethics** here. |

**The Growth of Not-for-Profit Marketing**

Marketing has also become a major part of the strategies of many not-for-profit organizations, such as universities, hospitals, museums, zoos, symphony orchestras, foundations, and even churches. Not-for-profits face stiff competition for support and membership. Sound marketing can help them to attract membership and support.

Government agencies have shown an increased interest in marketing. Various government agencies are now designing social marketing campaigns.

**Rapid Globalization**

Almost every company, large or small, is touched in some way by global competition.

The skillful marketing of European and Asian multinationals has challenged North American firms at home.

McDonald's now serves 69 million customers daily at more than 36,000 restaurants worldwide—some 75 percent of its revenues come from outside the United States.

Today, companies are buying more supplies and components abroad.

**Sustainable Marketing—The Call for More Environmental and Social**


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**Responsibility**

Marketers are being called upon to take greater responsibility for the social and environmental impact of their actions and to develop *sustainable marketing practices*.

Corporate ethics and social responsibility have become hot topics for almost every business.

Forward-looking companies view sustainable marketing as an opportunity to do well by doing good.

## SO, WHAT IS MARKETING? PULLING IT ALL TOGETHER

Marketing is the process of building profitable customer relationships by creating value for customers and capturing value in return.

The first four steps in the marketing process create value *for* customers.

The final step in the process allows the company to capture value *from* customers.

In building customer and partner relationships, marketers 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 shows a model of the marketing process.

| Use **Figure 1.6** here. |
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## END OF CHAPTER MATERIAL

### Discussion and Critical Thinking

**Discussion Questions**

1-1. How does the marketing process create value for customers and the company? (AASCB: Written and Oral Communication; Reflective Thinking)

*Answer:*

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.


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1-2. What is a market offering? Give a recent example of a market offering that has satisfied your need or want. (AASCB: Written and Oral Communication; Reflective Thinking)

*Answer:*

Market offerings are products, services, information, or experiences offered to a market to satisfy a need or a want. They are not limited to physical products; they include persons, places, organizations, and ideas. Student examples will vary.

1-3. Define marketing management and explain how marketing managers design winning marketing strategies. (AACSB: Written and Oral Communication; Reflective Thinking)

*Answer:*

Marketing management is the art and science of choosing target markets and building profitable relationships with them. 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)?

1-4. Discuss the concept of customer satisfaction. How do customer relationship management and customer-perceived value impact customer satisfaction? (AACSB: Written and Oral Communication; Reflective Thinking)

*Answer:*

Customer relationship management is the process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. Customer-perceived value is the customer's evaluation of the difference between all the benefits and all the costs of a marketing offering relative to those of competing offers. Customer satisfaction depends on the product's perceived performance relative to a buyer's expectations. If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted. Companies aim to delight customers by promising only what they can deliver and then delivering more than they promise.

1-5. What are the outcomes of creating superior customer value? Why should companies pay attention to these outcomes? (AACSB: Written and Oral Communication; Reflective Thinking)

*Answer:*


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By creating superior customer value, the firm creates satisfied customers who stay loyal, buy more, and advocate the brand to others. This, in turn, means greater long-run returns for the firm. Keeping customers loyal makes good economic sense. Loyal customers spend more and stay around longer. 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.

*1-6.* Explain the growing importance of digital and social media marketing. (AACSB: Written and Oral Communication; Reflective Thinking)

*Answer:*

*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. Because of the high volume of activity in these areas, marketers view these platforms as opportunities where companies can provide products, brand information, and messaging to current, past, or potential consumers.

Student answers will vary based on their personal experiences.

**Critical Thinking Exercises**

1-7. In small groups, using the five core customer and marketplace concepts, discuss how the following companies address the first step in the marketing process: (a) Uber, (b) Dunkin' Donuts, (c) Dannon, and (d) McDonald's. (AACSB: Written and Oral Communication; Information Technology; Reflective Thinking)

*Answer:*

Students' examples will vary based on their experiences. Instructors may want to assign specific companies to get more in-depth information. Students should address the 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.

*1-8.* Examine how your college or university creates value for the customers it serves. How does your institution differentiate and position itself? Outline its integrated marketing program from your own perspective. Is it successful? Why or why not? (AACSB Written or Oral Communication; Analytic Reasoning)


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*Answer:*

Students' responses will vary depending on their experiences. Students should discuss target market, positioning, and customer relationship building, as well as addressing the marketing mix elements of product, price, distribution, and promotion.

1-9. Visit tide.com/en-us. Scroll to the bottom of the page and notice how Tide is currently connecting with customers on social media platforms including Facebook, Twitter, Pinterest, and YouTube. Click on one or more of the platforms to view ways in which Tide is building and maintaining customer linkages while illustrating value and providing information about the brand. Evaluate Tide's effectiveness in creating customer engagement. (AACSB: Written and Oral Communication, Information Technology, Reflective Thinking)

*Answer:*

Student answers will vary based on their personal responses.

Students who visit YouTube will have access to Tide's recent promotional videos. A visit to Facebook will allow students to find tips on stain removal and folding clothes, information about Earth Week, and offers from the company.

**Minicases and Applications**

**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 to 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 available on YouTube included Will Smith, Bill Gates, Oprah Winfrey, and Mark Zuckerberg. The Ice Bucket Challenge generated 70 billion video views and raised $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 expanded the wildly successful challenge into several opportunities to support the fight against ALS. For more information, visit www. alsa.org/fight-als/challenge.

1-10. Real-time marketing lets marketers 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: Written and Oral Communication; Reflective Thinking).


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*Answer:*

The Ice Bucket Challenge became an extremely successful viral campaign. It fed on itself as more and more people, especially celebrities, posted videos and challenged others to take the challenge. It became a "social event" to which many people could relate, even if they were unfamiliar with ALS. It worked because it was fun, genuine, engaging, and provided a feel-good benefit at little cost to participants.

1-11. 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: Written and Oral Communication; Reflective Thinking)

*Answer:*

Students' responses will vary. Focus should include timeliness, genuineness, and relevance to the customers. Will success be measured by increased sales, increased awareness and knowledge of the product or service, or some other measure?

**Marketing Ethics: Is Big Brother Watching?**

Retailers commonly track their customer's shopping patterns and target them with special offers. For example, Shoppers Drug Mart has the *PC Optimum* card that, when swiped at checkout, earns the consumer points that can be redeemed for future purchases. Behind the scenes, Shoppers is gathering data on customers' purchases and using aggregated data to target individuals with special offers. Customers who haven't recently shopped may receive a discount in their email or an online offer to incentivize them to return.

1-12. Is it right for marketers to track consumer purchases? Should consumers be concerned with what information is being used? (AACSB: Written or Oral Communication; Ethical Understanding and Reasoning; Reflective Thinking)

*Answer:*

Student answers may vary about the ethical aspect of tracking consumer purchases. Students should consider how they provide that information to companies through their actions online and in stores. Privacy aspects, particularly regarding financial or medical information, should be considered.

1-13. Discuss other examples of marketers using data collection to sell products. Is this ethical? (AACSB: Written and Oral Communication; Ethical Understanding and Reasoning)

*Answer:*


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Student answers will vary. Most companies use data collection to market products. Data collection is done by many retailers, service providers, and other organizations. For example, insurance agents gather information about current and prospective clients in an attempt to sell additional policies and financial products. Customers who search a company website online for a particular product will most likely receive solicitations via email and Internet banners from both the company and its competitors. It is ethical for companies to use the data they collect from a customer's purchases? The question companies ask is should they sell the data as a source of revenue or guard it to use as a competitive advantage.

**Marketing by the Numbers: Gillette Trying to Shave Off Competition**

Gillette, Procter & Gamble's powerhouse razor brand, is experiencing challenges from consumer trends and upstart digital competitors. Gillette and close competitor Schick have focused on product innovation and higher prices. Indeed, their cartridges first contained two blades, then three, and now five. Razors now have swiveling balls that let the blades pivot, some used to vibrate, and Gillette recently applied for a patent for a razor that heats up. And with each addition, prices have increased accordingly. Even though Gillette produces excellent products that garnered $1.5 billion in sales last year, it faces threats posed by the continuing consumer trend of "beardedness," such as the "scruff" or "stubble" look that's not going away soon. Online upstarts like Dollar Shave Club, Harry's, and 800Razor.com are also eating away at Gillette's sales. And when Gillette's patent expired on its Mach3 razor, rival Schick came out with a less expensive compatible refill blade cartridge. Although still capturing more than 50 percent market share in the men's grooming market, Gillette's market share has dropped from 70 percent in 2010. To help win back share, Gillette launched its own Gillette Shave Club in 2016. But the brand's most significant change was to focus less on product innovation and implement an average 12 percent across-the-board price cut.

1-14. Assuming a contribution margin of 60 percent, what sales would be necessary to break even (that is, maintain the current total contribution) on the 12 percent across-the-board price reduction? Refer to Financial Analysis of Marketing Tactics: Price Decrease in Appendix 4: Marketing by the Numbers to learn how to perform this analysis. (AACSB: Written and Oral Communication; Analytical Thinking)

*Answer:*

Since price decreases by 12 percent, that means the contribution margin will decrease because costs do not change with a price reduction. Therefore, to determine sales necessary to maintain the current total contribution in terms of absolute dollars, we must first determine the current total contribution:

Current total contribution = contribution margin × sales

$$= 0.60 \times \$1.5 \text{ billion} = \$900 \text{ million}$$


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Though we do not know individual prices, we can base our analyses on 100 percent or price equals $1.00. Because we know the contribution margin is 60 percent, the unit contribution margin will equal $0.60 per unit and unit variable costs will equal $0.40 per unit if price equals $1.00 per unit. Thus, we can see the effect on unit contribution margin and contribution margin percentage when price is decreased 12 percent to $0.88 per unit ($1.00 x (1 – 0.12) = $0.88):

| | **Old** | **New (reduced 12%)** |
|---|---|---|
| Price | $1.00 per unit | $0.88 per unit |
| – Unit variable costs | $0.40 per unit | $0.40 per unit |
| = unit contribution margin | $0.60 per unit | $0.48 per unit |
| Contribution margin (%) | 60% (given) | $0.48/$0.88 = 0.545 or 54.5% |

As can be seen, a 12 percent reduction in price resulted in a decrease of the contribution margin from 60 percent to 54.5 percent. To determine the level of sales necessary to break even on this price reduction, we calculate the level of sales that must be attained at the new, lower contribution margin to achieve the original total contribution of $900 million:

New contribution margin × new sales level = original total contribution

So,

$$\text{New sales level} = \frac{\text{original total contribution (\$)}}{\text{new contribution margin (\%)}} = \frac{\$900{,}000{,}000}{0.545} = \$1{,}651{,}376{,}147$$

1-15. What absolute increase and percentage increase in sales does this represent? (AACSB: Written and Oral Communication; Analytical Thinking)

*Answer:*

The absolute increase in sales to break even on a 12 percent reduction in price equals $151,376,147 (i.e., $1,651,376,147 – $1,500,000,000).

So,

$$\text{\% change in sales increase} = \frac{\text{sales}_{new} - \text{sales}_{old}}{\text{sales}_{old}} = \frac{\$151{,}376{,}147}{\$1{,}500{,}000{,}000} = 0.10 \Rightarrow 10\%$$


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## Company Case Teaching Notes

**Company Cases 1 Chick-Fil-A / 4 Qualtrics / 11 Bass Pro Shops**
See Appendix 1 for cases appropriate for this chapter.

**Case 1, Chick-Fil-A: Getting Better before Getting Bigger.** Chick-Fil-A has quietly become the largest chicken chain in the United States by holding tenaciously to the philosophy that the most sustainable way to do business is to provide the best possible customer experience.

**Case 4, Qualtrics: Managing the Complete Customer Experience.** Qualtrics pioneered the online survey. Now, it employs online surveys toward managing customer experience.

**Case 11, Bass Pro Shops: Creating Nature's Theme Park for People Who Hate to Shop.** Bass Pro Shops became one of the largest sporting goods retailers in North America by providing the broadest assortment of products and enticing customers with engaging experiences.

## GREAT IDEAS

### Barriers to Effective Learning

1. For most students, this will be their first introduction to marketing and all its ramifications. To most of them, marketing is nothing more than selling and/or advertising, and this gets reinforced daily when they see "marketing" job ads that are really sales positions. It helps to get students talking about what marketing is, and to give examples of what they think is really good marketing. Try to bring in contemporary examples that the students can relate to.
2. Building relationships can sometimes be easy to understand in a business-to-business transaction, but it can be much more difficult to comprehend in consumer businesses. Use examples such as Amazon.com that do a wonderful job of developing one-on-one relationships with millions of customers through their tracking of customer purchases and analysis of these purchases to recommend additional items. Ask students to discuss how they feel about the companies they buy from. Have any developed relationships with them that have made them loyal to the brand or store?
3. Societal marketing is something that can be a little unclear to students. Why should fast food chains, for instance, be responsible for the increase in obesity (just one very topical discussion point)? Understanding how one should balance the need for profits with what some might consider "soft" issues can be difficult at times. And that can be made even more difficult among the politically astute students, as they can easily lead the class into a left versus right discussion on individual versus corporate versus governmental responsibility. Try to not let that


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happen, instead focusing on how companies can actually increase their revenue and profits by showing that they care about their customers and their communities. Newman's Own is a brand that could be discussed, as most profits are donated to charities, and the company has moved strongly into ensuring a sustainable environment. You can find examples (including many Canadian companies) of businesses that balance purpose and profit on the webpage of Certified B Corporations: https://bcorporation.net/

4. Traditional-age undergraduates have spent their entire lives with technology, and so some of them can actually snicker when the discussion turns to how technology has changed business in general and marketing more specifically. A discussion of the difficulties of connecting to consumers without the internet is warranted. How would the students approach a one-on-one relationship with millions of customers if they didn't have digital social media (Facebook or Twitter), email, or internet?
5. At this stage, students are very apprehensive about the course. When they walked into class, they thought they might learn about selling and advertising, and now they've discovered that there is much more to marketing than just those two subjects. Ease their minds and make them look forward to learning more by talking about how much fun it is to be the centre of the company and to know more about customers than any other functional area in the company. Emphasizing that marketing combines both the analytical and the creative can also ease some tension. The accounting and finance majors will find that there is something in it to suit their more analytical frame of reference, and the artists and designers who hope to become fashion mavens can also rest assured that although they will need to understand the more logical areas of the subject, their intuition can still reign supreme.

## Student Projects

1. What does the term "marketing" mean to you? Think about an automobile you would like to have (realistically) when you graduate. Write about how each phase of the marketing process is addressed by that vehicle.
2. Why is it important to truly understand the customer? Make a list of 10 "wants" that you have. What would have to occur to move each of these from "wants" to "needs?"
3. Not everyone can be part of your market. Go take a look at CBS online (www.cbs.com). Who would you say is their market? Why?
4. Review the five alternative concepts under which organizations design and carry out their marketing strategies. Now, take a look at one of the auto dealers in your town. Which one of these five concepts do you believe they are typically employing? Why?
5. Think of a product or retailer to which you are loyal. What has caused this loyalty? What could a competing product/retailer do to break this loyalty?


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## Small Group Assignment

Form students into groups of three to five. Each group should read the opening vignette to the chapter on Amazon. Each group should answer the following questions:

1. How has Amazon managed to create such intense customer loyalty?
2. What can Amazon do to ensure customer loyalty remains at current high levels?

Each group should then share its findings with the class.

## Individual Assignment

Companies are realizing that losing a customer means more than losing a single sale. It means losing a stream of revenue from that customer over their lifetime. Reread the story of Stew Leonard (under Capturing Value from Customers).

Is it possible to take his idea of "the customer is always right" too far so that it becomes a negative for the company? Why or why not?

## Think-Pair-Share

Consider the following questions, formulate answers, pair with the student on your right, share your thoughts with one another, and respond to the questions from the instructor. These questions could also be given as out-of-class assignments.

1. Do marketers create needs?
2. How is marketing different from selling?
3. What are two companies with which you have an emotional bond? Describe that bond.

## Classroom Exercise/Homework Assignment

Five core customer and marketplace concepts are critical to success: (1) *needs, wants, and demands*; (2) *market offerings (products, services, and experiences)*; (3) *value and satisfaction*; (4) *exchanges and relationships*; and (5) *markets*.

Take a look at Sea Ray boats (www.searay.com). Answer the following questions:

1. What needs, wants, and/or demands is Sea Ray attempting to fill?
2. Describe their marketing offers.
3. How are they providing value?
4. Describe the relationships they have with their customers.
5. What are their markets?


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## Classroom Management Strategies

The first chapter of this textbook sets the stage for the rest of the content. It outlines the major topics and principles that will be discussed in each of the following chapters, and gives students a good grounding in what to expect in their journey into the world of marketing.

First classes are always difficult, both for the instructor and for the students. Therefore, using examples students can easily relate to is always a good idea when starting out.

In reviewing the material in class, a good way to break it down follows. This assumes a typical one-hour structure; if the class is longer, you can work through the Marketing Application in class. If shorter, you can either break the chapter over two sessions, or shorten each topic's allotted discussion time.

1. Ten minutes should be spent on discussing what marketing really is. Many students will come into class thinking they are going to be learning all about advertising, or all about selling. Ask students to talk about what they think marketing is, and to use examples of what they've encountered in their own lives.
2. Ten minutes can also be spent on the second major topic of the chapter, understanding the marketplace and consumer needs. Discussing the differences of needs, wants, and demands, and how they relate to marketing, can greatly enhance the students' understanding of the basis of marketing. Also included in this section are the notions of market offerings, satisfaction, and relationships. You can discuss the various ways companies develop relationships with their customers. Using Amazon, the company discussed in the opening pages of the chapter, can really help the students understand that a company with thousands of customers can still easily develop relationships with each and every one of them.
3. Another 10 minutes can be spent on designing customer-driven marketing strategies. Many students will still not understand how needs, wants, and demands can drive companies' product development, but this section of the chapter will help them see it a little more clearly.
4. Preparing a marketing plan and program can be covered in 5 minutes. This section shows how everything they learn in marketing will be pulled together, but it is too soon in the semester to be spending a lot of time on the topic.
5. Customer relationships are the heart of the chapter and the entire text. Spend 15 minutes discussing this topic, and use examples that the students will appreciate. Discussing the difference in the relationships they have with their hairdresser or barber and that of www.amazon.com or another one of the online merchants can drive home the importance of holding on to good customers. Students will also be well aware of frequency marketing programs, and examples of those will also be beneficial.
6. The final 10 minutes can be spent discussing the future of marketing and the development of customer relationships. Spend time talking about the recent economic meltdown / COVID-19 and how it has impacted business. Next, remember that the majority of students will never have known an era without the


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ability to be online. Asking them how they would have developed relationships with their customers without the assistance of technology is always a good way to get a discussion started on how marketing programs are developed. Then you can talk about how the rise of digital social media marketing has opened the entire world for even a small retailer, as well as raised some ethical issues, such as marketing American culture to the entire world, regardless of the mores and cultures of other societies.

If time permits, revisit the question of "what is marketing?" The students should now have a greater appreciation of the science behind marketing, as well as the creativity necessary to develop successful marketing programs.

## PROFESSORS ON THE GO

### Marketing: Creating and Capturing Customer Value

**Key Concepts**

Needs, wants, and demands
Market offerings
Customer value and satisfaction

- Copy or clip three advertisements from newspapers or magazines. What customer needs are the advertisers trying to meet?
- It seems just about everyone has purchased products through Amazon.com. Certainly, the product purchased is important, but describe the complete market offering of Amazon.com. What services, information, or experiences are included?
- This chapter discusses the concepts of customer value and satisfaction. Building on this knowledge, is it logical to assume that if you increase the perceived customer value for a product that there is a corresponding increase in customer satisfaction? Under what conditions might this not occur?

**Key Concepts**

Choosing a value proposition
Marketing management orientations

- Contrast the following marketing management orientations: "The Selling Concept" and "The Marketing Concept." Can you name a market or market category where "The Selling Concept" is still the most popular marketing management orientation?
- How is your college/university positioned in the marketplace?

**Key Concepts**

Relating to customers
Relating to partners


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Creating customer loyalty and retention

- Customer loyalty and retention programs are important in building customer relationships and customer equity. Discuss why a grocery chain such as Safeway or Save-On-Foods would choose a "club" program over a "frequency" program.
- "Today, most marketers realize that they don't want to connect with just *any* customers." Do you agree with this statement? Why? Which company would be more likely to follow this creed, Sephora or Chanel?
- Think of a product or brand that you buy over and over. What might your customer lifetime value be, assuming the product or brand continues to delight you?


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