Principles of Marketing 18th edition Kotler Solutions Manual

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Chapter 1

MARKETING: CREATING CUSTOMER VALUE AND ENGAGEMENT

MARKETING STARTER: CHAPTER 1
AMAZON: Obsessed with Creating Customer Value, Engagement, and Relationships

Synopsis

Amazon, which was founded in 1995 as a book store, has experienced explosive growth by moving beyond online selling to physical stores, video and music streaming, cloud services, and the Internet of Things, which allowed it to grow revenue to $233 billion. Its CEO, Jeff Bezos, said that Amazon's success is due to its obsession with customers. It is driven to create genuine value and special experiences for customers. Selection, convenience, and value are the foundation stones of the Amazon experience, and Amazon has introduced innovations that make shopping easier (e.g. 1-Click ordering; Alexa; fast delivery; Amazon Key).

Discussion Objective

An active 10-minute discussion of the Amazon story will help link students to key foundational marketing concepts. Amazon provides an excellent vehicle for introducing the overall marketing framework presented in Chapter 1 and throughout the text: Good marketing is all about creating value for customers and building strong customer relationships in order to capture value from customers in return.

Starting the Discussion

To start the discussion, ask the class to share their experiences with Amazon. What attracts them to Amazon? What is it about the customer experience that is so enticing?

Next, pull up Amazon's Facebook page. Click on articles and links to further explore. Together, note the variety of approaches Amazon takes and the focus on customers. Investigate Amazon's other media, including the company's website, Twitter, Snapchat, and YouTube. In what ways does Amazon's focus on customer service show through?

You should be familiar with these websites in advance so that you can move purposefully to keep the discussion moving. But let the class discussion interactively guide the sites that you explore, taking you deeper into each page. Start with the first question below, and then ask other questions as the discussion allows. Throughout the discussion, keep your objective firmly in mind: to emphasize that good marketing is all about creating value for customers and managing customer relationships in order to capture value from customers in return. The final question leads the class into Chapter 1 and the discussion for the day. Have fun with this one!

Discussion Questions

1. The first marketing story in the text is about Amazon. Let's go to Amazon's Facebook page. What stands out about Amazon? Go to Amazon's other media channels to find examples of how Amazon connects the company and the customers.
2. How does the Amazon shopping experience affect performance? The company has grown astronomically in market share and strength of customer relationships, due largely to its customer satisfaction and customer experience.
3. Why did the authors choose Amazonas the very first company to highlight in the first chapter of the text? How does this opening story relate to the major points made in the rest of the chapter? (This question should lead naturally into major Chapter 1 concepts: What is marketing and what is the marketing process? What is customer-driven marketing? Why are customer value, customer satisfaction, and customer relationships so important?)

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CHAPTER OVERVIEW

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In this chapter, we introduce the basic concepts of marketing. It starts with the question, "What is marketing?" Simply put, marketing is managing profitable customer relationships. The aim of marketing is to create value *for* customers and to capture value *from* customers in return. Next, the five steps in the marketing process are discussed—from understanding customer needs, to designing customer-driven marketing strategies and integrated marketing programs, to building customer relationships and capturing value for the firm. Finally, there is a discussion of the major trends and forces affecting marketing in this age of customer relationships.

CHAPTER OBJECTIVES

Use Power Point Slide 1-2 here

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.

CHAPTER OUTLINE

p. 2	**INTRODUCTION**	
PPT 1-3	**Opening Vignette Questions** 1. The first marketing story in the text is about Amazon. What stands out about Amazon? 2. How does the Amazon shopping experience affect performance? 3. Why did the authors choose Amazon as the very first company to highlight in the first chapter of the text? How does this opening story relate to the major points made in the rest of the chapter?	p. 3 Photo: Amazon

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PPT 1-4 PPT 1-5 p. 4 p. 5	**Define marketing and outline the steps in the marketing process.** **WHAT IS MARKETING?** A simple definition of marketing is *engaging customers and managing profitable customer relationships.* Marketing must both attract new customers and grow current customers. Every organization must perform marketing functions, not only for-profit companies. Nonprofits (colleges, hospitals, churches, etc.) also must perform marketing. **Marketing Defined** Most people think of marketing only as selling and advertising or "telling and selling." Marketing must focus on *satisfying customer needs.* 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.	Learning Objective 1 p. 4 Key Term: Marketing p. 6 Photo: Social media marketing on mobile devices
	➢ **Troubleshooting Tip** 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 consider good marketing. Try to bring in contemporary examples that the students can relate to.	
p. 6 PPT 1-7	**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.	p. 6 Figure 1.1: The Marketing Process: Creating and Capturing Customer Value

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	4. Engage customers, build profitable relationships, and create customer delight. 5. Capture value from customers to create profits and customer equity. 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. **Review Learning Objective 1:** Define marketing and outline the steps in the marketing process.	
p. 6 PPT 1-8	**Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.** **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*.	Learning Objective 2 p. 6 Key Terms: Needs, Wants, Demands
PPT 1-9	**Customer Needs, Wants, and Demands** As the first step in the marketing process, the company must fully understand consumers and the marketplace in which it operates. The most basic concept underlying marketing is that of human needs. Human **needs** are states of felt deprivation. They include *physical, social,* and *individual* needs. These needs were not created by marketers; 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 typical American *needs* food but *wants* a Big Mac.	p. 7 Photo: Airbnb

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	When backed by buying power, wants become **demands**. The best marketing companies go to great lengths to learn and understand their customers' needs, wants, and demands.	
p. 7 PPT 1-10	**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. Market offerings include *products* and *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.	p. 7 Key Term: Market offerings p. 7 Key Term: Marketing myopia p. 7 Photo: Apple Store p. 8 Real Marketing 1.1
p. 9 p. 9 PPT 1-11	**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.	p. 9 Key Term: Exchange

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p. 9 PPT 1-12	**Markets** A **market** is the set of actual and potential buyers of a product. Marketing means managing markets to bring about profitable customer relationships.	p. 9 Key Term: Market
PPT 1-13	Figure 1.2 shows the main elements in a modern marketing system. **Review Learning Objective 2:** Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.	p. 10 Figure 1.2: A Modern Marketing System
p. 10 PPT 1-14 PPT 1-15	**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** **Marketing management** is defined as the art and science of choosing target markets and building profitable relationships with them. 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)?	Learning Objective 3 p. 10 Key Term: Marketing management
p. 10	**Selecting Customers to Serve** A 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*). Marketing managers know they cannot serve all customers. By trying to do so, they end up not serving any well. Marketing managers must decide which customers they want to target, and on the level, timing, and nature of their demand.	
	➢ **Troubleshooting Tip**	

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	The concept of not serving all customers may be confusing to students. Most of them have not yet encountered anything like it. However, the light bulb seems to go on with a discussion of crowded national parks and the efforts made to have people visit them during off-peak travel times. Having students come up with their own examples will increase the level of understanding.	
p. 11 PPT 1-16	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. (BMW promises "the ultimate driving machine.") Such value propositions *differentiate* one brand from another.	p. 11 Photo: Sonos
p. 11 PPT 1-17	**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. ***The Production Concept*** The **production concept** holds that consumers will favor products that are available and highly affordable. Management should focus on improving production and distribution efficiency. ***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	p. 11 Key Terms: Production concept, Product concept, Selling concept

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	continuous product improvements. ***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.	
p. 11	***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. Under the marketing concept, customer focus and value are the *paths* to sales and profits. Rather than a "make and sell" philosophy, it 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. *Customer-driven* companies research current customers deeply to learn about their desires, gather new product and service ideas, and test proposed product improvements. *Customer-driven* marketing requires understanding customer needs even better than customers themselves do and creating products and services that meet existing and latent needs.	p. 12 Key Term: Marketing concept
PPT 1-16	**Designing a Customer Value-Driven Marketing Strategy** 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	p. 12 Figure 1.3: Selling and Marketing Concepts Contrasted

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p. 13 PPT 1-17	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. 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. ***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*. 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. As Figure 1.4 shows, companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, *and* society's interests.	p. 12 Key Term: Societal marketing concept p. 13 Figure 1.4: Three Considerations Underlying the Societal Marketing Concept p. 13 Photo: Jeni's Splendid Ice Creams
	➢ **Troubleshooting Tip** Societal marketing is also something that can be a little unclear to students. Why should fast food chains, for instance, be responsible for the nation's 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. That can be 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 not to let that happen by focusing on how companies can increase revenues and profits by showing that they care about customers and communities. Newman's Own is a potential brand to discuss because the company donates most profits to charities and strives to ensure a sustainable environment.	
p. 14	**PREPARING AN INTEGRATED MARKETING PLAN**	

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PPT 1-20	**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 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 these marketing mix tools into a comprehensive *integrated marketing program* that communicates and delivers the intended value to chosen customers. **Review Learning Objective 3: Identify the key elements of a customer value-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.**	
p. 14 PPT 1-21 PPT 1-22	**Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return.** **ENGAGING CUSTOMERS AND MANAGINGCUSTOMER RELATIONSHIPS** **Customer Relationship Management** *Customer relationship management* is perhaps the most important concept of modern marketing. **Customer relationship management** is the overall process of building and maintaining profitable customer relation-ships by delivering superior customer value and satisfaction. It deals with all aspects of acquiring, keeping, and growing customers.	Learning Objective 4 p.14 Photo: Patek Phillippe p. 15 Key Terms: Customer relationship management, Customer-perceived value

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	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** 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." Instead, customers act on perceived value.	
p. 15	**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.	p. 15 Key Term: Customer satisfaction
	Although the 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 price or increasing its services. But this may result in lower profits. The purpose of marketing is to generate customer value profitably.	p. 15 Photo: L.L.Bean
	Customer Relationship Levels and Tools Companies can build customer relationships at many levels.	
p. 16	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	p. 16 Photo: Uber Rewards

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	customers. Many companies offer *frequency marketing programs* that reward customers who buy often or in large quantities.	
p. 17 PPT 1-23	**Customer Engagement and Today's Digital and Social Media** Yesterday's big companies focused on mass marketing to all customers at arm's length. Today's companies are building deeper, more direct, and more lasting relationships with carefully selected customers. The new marketing is **customer-engagement marketing**, fostering direct and continuous customer involvement in shaping brand conversations, brand experiences, and brand community. It involves using a rich mix of online, mobile, and social media marketing that promotes engagement and conversation. 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. **Customer brand advocacy** is actions by which satisfied customers initiate favorable interactions with others about a brand. The marketing world is now embracing *customer-managed relationships.* Companies can no longer rely on marketing by *intrusion*. Companies must practice marketing by *attraction*—creating market offerings and messages that *involve* consumers	 p. 17 Key Terms: Customer-engagement marketing, Customer brand advocacy p. 17 Photo: Bark Box

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p. 18 PPT 1-25	rather than interrupt them. **Consumer-generated marketing** has become a significant marketing force. Here, consumers themselves are playing a bigger role in shaping their own brand experiences and those of others. As consumers become more connected and empowered, and as the boom in digital and social media technologies continues, consumer brand engagement, whether invited or not, will be an important marketing force. Brands must embrace this trend or risk being left behind.	p. 18 Key Term: Consumer-generated marketing p. 18 Photo: Consumer-generated marketing
p. 18 PPT 1-26	**Partner Relationship Management** Today's marketers know they must work closely with others inside and outside the company to jointly bring more value to customers. Today, firms are linking all departments in the cause of creating customer value. In today's connected world, every functional area in the organization can interact with customers. Rather than assigning only sales and marketing people to customers, firms are forming cross-functional customer teams. 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.	p. 18 Key Term: Partner relationship management
p. 20	**CAPTURING VALUE FROM CUSTOMERS** The first four steps in the marketing process involve building customer relationships. The final step involves	

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	capturing value in return. By creating superior customer value, the firm creates highly satisfied customers who stay loyal and buy more.	
p. 20	**Creating Customer Loyalty and Retention** The aim of customer relationship management (CRM) is to create both customer satisfaction and customer delight. This means that companies must aim high in building customer relationships. Customer delight creates an emotional relationship with a product or service, not just a rational preference.	p. 19 Photo: Stew Leonard p. 19 Key Term: Customer lifetime value
PPT 1-27	Companies are realizing that losing a customer means losing more than a single sale. It means losing **customer lifetime value**.	
	Growing Share of Customer	
p. 20 PPT 1-28	**Share of customer** is defined as the portion of the customer's purchasing that a company gets in its product categories. Thus, banks want to increase "share of wallet." 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.	p. 20 Key Term: Share of customer
	Building Customer Equity	
PPT 1-29	Companies want to not only create profitable customers, but 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.	p. 20 Key Term: Customer equity p. 21 Photo: Cadillac

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	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.	
p. 21	***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 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?	
	The company can classify customers by potential profitability and manage relationships with them accordingly.	
PPT 1-30	**Figure 1.5** classifies customers into one of four relationship groups, according to their profitability and projected loyalty. Each group requires a different relationship management strategy.	p. 21 Figure 1.5: Customer Relationship Groups
	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, efforts to convert butterflies into loyal customers are rarely successful. Instead, the firm 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 nurture, retain, and grow them. It wants to turn true friends into *true believers*, who come	

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	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. 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*. **Review Learning Objective 4: Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return.**	
PPT 1-31 p. 22	**Describe the major trends and forces that are changing the marketing landscape in this age of relationships.** **THE CHANGING MARKETING LANDSCAPE** This section explores five major developments: the digital age, the changing economic environment, the growth of not-for-profit marketing, rapid globalization, and the call for more ethics and social responsibility. **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. The **Internet of Things** (IoT) is a global environment where everything and everyone is digitally connected to everything and everyone else. Nearly eighty percent of all American adults own smartphones; these numbers will only grow as digital technology rockets into the future.	Learning Objective 5 p. 23 Key Terms: Internet of Things (IoT), Digital and social media marketing

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PPT 1-33	Most consumers are totally smitten with all things digital. According to one study, nearly three-fourths of Americans keep their mobile phone next to them when they sleep—they say it's the first thing they touch when they get up in the morning and the last thing they touch at night. 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 that 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 of these sites also serve as online brand communities, where customers can congregate and exchange brand-related interests and information.	p. 23 Photo: FitBit
p. 23	**Social Media Marketing**	Real Marketing 1.2
PPT 1-34	Social media provide exciting opportunities to extend customer engagement and get people talking about a brand.	
	Mobile Marketing Mobile marketing is perhaps the fastest-growing digital marketing platform. Four out of five smartphone users use their phones to shop.	p. 25 Photo: Taco Bell
	Big Data and Artificial Intelligence (AI) Brands can use *big data* generated from websites, social media devices, and IoT to gain customer insights, personalize marketing offers, improve customer engagements, and service. *Artificial intelligence* involves machines that think and learn in a way that looks and feels human but with a lot more	

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	analytical capacity.	
	➢ **Troubleshooting Tip** Traditional-age undergraduates have spent their entire lives with technology, so some of them may 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 email, the internet, or tweets?	
p. 25 PPT 1-35	**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."	p. 26 Photo: St. Jude Children's Research Hospital
p. 26 PPT 1-36	**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,	

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	almost every company, large or small, is touched in some way by global competition.	
p. 27	**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.* **Review Learning Objective 5: Describe the major trends and forces that are changing the marketing landscape in this age of relationships.**	p. 27 Photo: Warby Parker
PPT 1-37 p. 28	**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. When building customer and partner relationships, companies must harness marketing technology, take advantage of global opportunities, and act in an ethical and socially responsible way. Figure 1.6 provides a road map to future chapters of this text. **Developing Skills for your Career** The content and exercises in this book will help you sharpen critical thinking, problem-solving, and persuasive communication skills; learn about technology and marketing analytics; understand the importance of collaboration, teamwork, business ethics, and social responsibility.	p. 28 Figure 1.6: An Expanded Model of the Marketing Process

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END OF CHAPTER MATERIAL

Discussion and Critical Thinking

Discussion Questions

1-1 What are the paths to profits under the marketing concept? (AASCB: Written and oral communication)

Answer:
Customer focus and value are the paths to sales and profits under the marketing concept. Marketing focuses on engaging customers and managing profitable customer relationships. Marketers want to attract new customers by promising superior value and to keep and grow current customers by delivering value and satisfaction.

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 Identify the two important questions a marketing manager must answer to design a winning marketing strategy. Briefly describe why the answer to each question is important. (AACSB: Written and oral communication; Reflective thinking)

Answer:
The two questions a marketing manager must answer to design a winning marketing strategy are 1) What customers will we serve (what's our target market)? And 2) How can we serve these customers best (what's our value proposition)?

The first question relates to the decision about who the company will serve, which typically involves segmenting the market and selecting the segments to pursue (target marketing). The company wants to select customer it can serve well and profitably.

The second question relates to the decision about how the company will serve targeted customers. The company will differentiate its offerings and position itself in the marketplace. Its value proposition is the set of beliefs or values it promises to deliver to satisfy customer needs.

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1-4 What is consumer-generated marketing? What are the challenges associated with consumer-generated marketing? (AACSB: Written and oral communication; Reflective thinking)

Answer:
A growing part of the new customer dialogue is *consumer-generated marketing*, by which consumers themselves are playing a bigger role in shaping their own brand experiences and those of others. This might happen through uninvited or invited consumer-to-consumer exchanges in blogs, video-sharing sites, and other digital forums. It can be costly and time-consuming. Sometimes when marketers encourage consumers to share stories using a hashtag, consumers turn them into bashtags, or use them as a way to say negative things about the brands. An example is the McDonald's initiative to get people to share heartwarming stories about Happy Meals. Twitter users used the hashtag to share negative messages about fast food. Encourage students to find their own recent examples.

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:
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 Describe how a firm like GORE-TEX that follows the pure marketing concept might transform its marketing strategy if it shifted to the societal marketing concept. (AACSB Written and oral communication; Analytical Thinking)

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Answer:
The firm might change the way it approaches sourcing and producing its materials. The pure marketing concept might overlook conflicts between what consumers want in the short-run and what is best for consumers in the long-run. If a firm focuses only on the immediate needs and wants of its target markets and wants to shift to an approach that delivers value to customers in a way that maintains or improves the consumer's and society's well-being, it would probably emphasize shared value, which uses societal needs that define markets and focuses on creating economic value and value for society. It would balance company profits, consumer wants, and society's interests as it set its marketing strategy.

1-8 Your manager sets a goal for your office: 100 percent satisfaction from 100 percent of customers. How would you communicate with your manager about the limitations of this goal? Describe why firms might use different relationship management strategies for customers with different potential profitability and loyalty. (AACSB: Written and Oral communication; Reflective Thinking)

Answer:
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.

The challenge with 100 percent satisfaction from 100 percent of customers is that different customers are likely to have different needs, wants, and expectations. As a result, a goal that completely satisfies all customers may be costly, as it reduces the efficiencies gained by segmenting and targeting specific segments and based on the firm's ability to profitably meet their expectations. The needs of the entire market may not match the company's offerings. Therefore, it may be more profitable to satisfy a segment of potential customers than to try to satisfy all customers.

The example in the chapter separates groups into strangers (low potential profitability and little projected loyalty); butterflies (potentially profitably but not loyal); true friends (profitable and loyal); and barnacles (not profitable but very loyal). It suggests different relationship management strategies for each:

1) Do not invest in strangers; make money on every transaction.
2) Capture as much of the business from butterflies as possible in the moment but do not invest to try to convert them to loyal customers.
3) Invest in continuous relationships to delight true friends; engage, nurture, retain, and grow them. Turn them into true believers who advocate on behalf of the firm.
4) Sell barnacles more, raise fees, or reduce services to make the relationships profitable. If that can't be done, fire them.

1-9 Visit the Clorox website at www.clorox.com. Scroll to the bottom of the page and notice how Clorox is currently connecting with customers on social media platforms including

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Facebook, Twitter, Pinterest, YouTube, and Instagram. Click on one or more of the platforms to view ways in which Clorox is building and maintaining customer linkages while illustrating value and providing information behind the brand. Evaluate Clorox's effectiveness in creating customer engagement through its web and social media sites. (AACSB: Communication; Reflective Thinking)

Answer:
Student responses will depend on the social media channel they review. For example, a recent visit to the Clorox Facebook page showed it had more than 1.16 million likes. It featured videos related to the What Comes Next Project, which aims to transform the world by cleaning. The video promoting the project had been viewed 2.1 million times and shared by more than 700 people in the past seven months. It also had a recent video with a child throwing up in a car, used to promote its disinfecting wipes, which had more than 359,000 views, 1,300 reactions, 864 comments, and 879 shares. It responded to individual comments from consumers, which may have increased consumer engagement. It also featured organizations that were being sponsored as part of the What Comes Next Project, including a teenager who was helping provide clean laundry and animal shelters that were providing clean spaces for animals to increase the likelihood they would be adopted. The examples reinforced the brand messages in an authentic way and made positive emotions resulting from use of the Clorox products part of the stories, which helped create customer engagement.

Applications and Cases

Online, Mobile, and Social Media Marketing: Fionamania

Fiona, a young hippo who was born prematurely and survived, lives in the Cincinnati Zoo's Africa exhibit. Fiona became a star when the zoo's communication director and her team started posting every move she made from the day she was born prematurely. She became a symbol of resilience and positivity, earning millions of fans and engaging the not-for-profit zoo's visitors and potential donors. Today, videos of Fiona twirling around the internet gain millions of views, she has had her own seven-episode reality show on Facebook, people on Twitter even follow her flatulence, and she has inspired everything from a children's book to beer and ice cream flavors. People are invested in Fiona's story.

1-10 Go to www.facebook.com/cincinnatizoo and find posts that feature Fiona the hippo. How does the zoo's communications team engage with Fiona's fans? (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:
The Facebook page includes features that highlight Fiona's history and capitalizes on emotions from Fiona's team and from user-generated content. People post messages for Fiona, for the team that cares for her, and for each other. Fans ask for new or updated content and express how much they care about Fiona.

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1-11 What can other not-for-profit marketers learn from the Cincinnati Zoo's use of social media to generate interest in Fiona? How does it fit with the Cincinnati Zoo's overall social media strategy? (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:
Student responses will vary. Since the not-for-profit space is competitive, other marketers in this space might use storytelling or mythology to make the cause resonate with the potential donor or customer. They may also choose to highlight an individual beneficiary and his/her/its struggle or triumph. Fiona is one of the animals featured on the Cincinnati Zoo's Facebook page; other animals are also featured and the zoo is doing less live streaming of Fiona than it used to when she was more popular. The user comments reflect a desire for updated content. The lesson for marketers is if an audience is engaged, you should be prepared to keep up your end of the conversation.

Marketing Ethics: Patagonia—Saving Our Home Planet

Companies are increasingly building social and environmental responsibility into their company value and mission statements. More than 500 American companies have signed the UN Global Compact, a commitment to standards that improve human rights, protect the environment, and advance societal goals. Outdoor clothing and gear company Patagonia has grown its business profitably for more than 45 years while advocating for public lands, environmental activism, and sustainable supply chains. Its founding mission was to "build the best product, cause no unnecessary harm, and use business to inspire and implement solutions to the environmental crisis." Recently, Patagonia changed its mission to "Patagonia is in business to save our home planet." To ensure movement toward this mission, the company prepared for a full year in advance of publicly announcing the shift. Patagonia recently announced that it would give the $10 million it gained from a federal tax cut to fight for environmental causes that were threatened by the tax cut, including regenerative agriculture, politics, and protected lands. It has also used its brand marketing to endorse specific political candidates who support sound environmental policies.

1-12 Patagonia's mission realignment and its focus on counteracting the causes of global warming may seem more appropriate for a nonprofit organization than for a business. How might Patagonia's new mission affect its reputation among consumers who rely on it to make and market the best products? (AACSB: Written and oral communication; Ethical understanding and reasoning)

Answer:
In the past, Patagonia's stances on CSR have attracted both consumers and employees that share the company's values, resulting in substantial increases in sales. Because of its target audience—people who love the outdoors—its business goals align with the values of its customers. However, consumers may notice that the desire to build the best products is no longer the first part of its mission. Further, Patagonia may have higher costs associated with raw materials if it uses processes such as regenerative agriculture to grow cotton for its

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clothing. It wants to use a process that does not use chemicals and takes carbon out of the air, which is a higher priority for the firm than its profits, but it may have to pass the costs on to its customers, which may affect the perceived value associated with the products.

1-13 How should a public firm that wants to engage in corporate social responsibility in a way that might sacrifice short-term profitability explain this decision to shareholders? (AACSB: Written and Oral Communication; Ethical Understanding and Reasoning)

Answer:
A public firm could point to the recent study that suggests that although leaders at companies that are committed to CSR are making choices that put social responsibility before profits, the firms have higher profit margins, valuation, and more stable returns on assets but lower risk. However, if the firm is going to engage in CSR, it should do so in an authentic, meaningful way that relates to the firm's values or it could backfire, resulting in a loss of reputation and lower sales revenues.

Marketing by the Numbers: Gillette Trying to Shave Off Competition

Gillette, Proctor & 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 direct-to-consumer upstarts like Dollar Shave Club (now owned by Unilever), 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 on Demand 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 breakeven (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 2: Marketing by the Numbers to learn how to perform this analysis. (AACSB: Oral and Written Communication; Analytic Reasoning)

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

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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

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

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 $0.30 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 $900million:

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: Oral and Written Communication; Analytic Reasoning)

Answer:

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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,

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

Company Case: Buffalo Wild Wings: Fueling the Sports Fan Experience

Synopsis

Buffalo Wild Wings has emerged as the largest pourer of draft beer, the largest server of chicken wings, and one of the fastest growing restaurant chains in the U.S. The reason for its success goes far beyond its menu offerings. Rather, BWW is in the business of fueling the sports fan experience. Every aspect of the chain's design supports that focus, from restaurants' interior (made to look like a stadium with 60 flat screens showing any game customers want to see) to employees (Guest Experience Captains ensure each table has a personalized, engaging experience) to its use of innovative technology (table-top tablets provide entertainment, ordering, and payment) to its menu offerings (over 20 varieties of wings and as many as 30 different quality beers on tap). With a mission to "WOW people every day", BWW has created the perfect place for sports fans to hand out with friends and experience their passion.

Teaching Objectives

The teaching objectives for this case are to:

1. Introduce students to the concept of customer perceived value and its central role in marketing.
2. Understand the differences between needs, wants, and demands.
3. Consider the business model for a company and how it fits into marketing management orientations.
4. Introduce the concepts involved in customer relationship management.

Discussion Questions

1-16. Describe the Buffalo Wild Wings market offering based on the concepts of needs, wants, and demands, differentiating the three.

Needs. *When considered in a purely "Maslow" sense, the needs experienced by BWW customers are the physiological needs of eating and drinking. These are the most basic level human needs. But given that BWW's market offering goes beyond the menu items, it is clear that it also involves belonging and love needs, oriented toward friendships or intimate connections.*

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Wants. *Wants fulfill a consumer need, but in a specific way that isn't necessary for the fulfillment of that need. Thus, while a person can satisfy their hunger or thirst needs in a variety of different ways, BWW customers demonstrate a want each time they choose the brand—that is, a desire to eat a particular variety of food and beverage in an authentic sports environment that facilitates social interaction and bonding.*

Demands. *You need reliable transportation. You want a high-performing luxury sport sedan. A BMW M5 would fit the bill. But you don't have the "buying power" to get your wishes. The concept of "demands" as defined in this chapter is very related to the more general concept of "demand." In other words, the fact that BWW experienced such strong growth and success over a ten-year period indicates the extent to which large amounts of customers support their wants with their buying power. The same concept can be explored to explain why BWW's tremendous growth reach a sudden plateau—at that time, it was apparent that BWW had reached the upper limit in terms of the number of people who desired its market offering enough to pay for it.*

1-17. Discuss Buffalo Wild Wings' success and stagnation in terms of customer perceived value.

Value = benefits – costs.

- *Benefits*
  - *quality wings in dozens of varieties as well as other food options*
  - *more draft beer than any other chain of restaurants*
  - *an ambience that provides customers with an experience of being at a major sports event*
  - *the ability to view virtually any current sporting event at a high level of quality*
  - *intimate customer service*
  - *strengthened social connections*
  - *no dull moments given the variety of entertaining activities*

- *Costs*
  - *price is comparable to offerings from strong competitors*
  - *price is higher than fast food or eating at home*
  - *in most areas of the country, customers don't have to travel far as there are BWW in most cities*
  - *the BWW experience requires at least one hour*

If the total of the benefits exceeds the total of the costs, then value is provided.

At first glance, customer engagement may not seem to fit in the same question as customer value. However, it can be argued that customer engagement itself provides benefits to customers. All the techniques that BWW employs provide a benefits that

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are separate and apart from those provided by the food and beverages.

1-18. Which of the five marketing management orientations best applies to Buffalo Wild Wings?
The marketing concept is the orientation that best fits the BWW market offering. The company has thrived by studying and understanding customer needs and delivering the desired satisfactions better than its competition. It can be argued that BWW is a market-oriented company (see Chapter 2). Some students may argue for the societal marketing concept. While BWW is a company invested in long-term relationships with customers, it is questionable just how much it focuses on the long-run interest of society.

1-19. Do you think Buffalo Wild Wings' turnaround plan will turn things around? Why or why not?
Student responses will vary. A case in favor of a successful turnaround should point out that BWW has achieved success in the past by designing and delivering exceptional customer value. The ability of this company to do so may have stalled. But it is not likely that it has lost this ability all together. However, it will require that BWW adjust to the changes in consumer demands.

Teaching Suggestions

A discussion based on this case is optimal when the concepts of needs/wants/desires, customer value, customer satisfaction, and marketing management orientations have been covered. After these concepts have been covered, ask students to consider the classic scenario of making a choice as to which restaurant option they might choose for a given meal. What did that situation feel like? Is that decision only based on how certain food items taste? Or is it based on far more than that? Ask how many students are familiar with BWW. Then ask what the attitudes toward it are as well as the specific reasons.

This case has been designed to be used with Chapter 1, Marketing: Creating Customer Value and Engagement. This case also works well with the marketing environment chapter (Chapter 3), the marketing channels chapter (Chapter 12), and the competitive advantage chapter (Chapter 18).

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