Marketing An Introduction 15th edition Armstrong Solutions Manual

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CHAPTER 1
MARKETING: CREATING CUSTOMER VALUE AND ENGAGEMENT

PREVIEWING THE CONCEPTS – CHAPTER OBJECTIVES

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

FIRST STOP

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 $150 million in 1997. During just the past three years, Amazon's revenues have more than doubled to $386 billion, an average of $283,000 every minute of every day.

Currently, Amazon is the nation's second-largest retailer, 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. Amazon is expanding its physical store presence further with store concepts such as Amazon Books (books), Amazon 4-Star (selections of top-rated or trending items), Amazon Fresh (assortments of fresh and prepared food).

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 (colleges, hospitals, churches, etc.) also must perform marketing. Today’s marketers want to become a part of your life and enrich your experiences with their brands. They want to help you live their brands.

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.

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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.

Use **Key Term** *Marketing* here. Use **Chapter Objective 1** here.

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-driven marketing strategy.
3. Construct a marketing program that delivers superior value.
4. 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 individual* 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. An American *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.

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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.

Market offerings are not limited to physical *products.* They also include *services*—activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, airline, hotel, retailing, and home repair services.

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

Use **Chapter Objective 2** here.
Use **Discussion Question 1-2** here.
Use **Key Terms** *Market Offerings* 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.

Use **Key Term** *Exchange* here.
Use **Critical Thinking Exercise 1-7** here.

Markets

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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.

Use **Figure 1.2** here. Use **Key Term** *Market* here.

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.

Use **Chapter Objective 3** here. Use **Discussion Question 1-3** here. 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. (JetBlue promises "Just Alright Doesn't Fly Here" by bringing "humanity back to travel." By contrast, Spirit Airlines gives you "Bare Fare" pricing: "Less Money. More Go." Netflix wants simply to let you "See What's Next." And online accommodations site Airbnb helps people to "Belong Anywhere"—to live like a local wherever they travel.

Such value propositions *differentiate* one brand from another.

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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:

1) 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.

2) The Product Concept

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

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

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. (see Figure 1.3)

Customer-driven companies research current customers deeply to learn about their

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desires, gather new product and service ideas, and test proposed product improvements.

Customer-driving marketing involves understanding customer needs even better than 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. (see 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.

Use **Linking the Concepts 1** here.

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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-centered firm seeks to deliver high customer satisfaction relative to competitors, it does not attempt to *maximize* customer satisfaction.

A company can always increase customer satisfaction by lowering its prices or increasing its services. But this may result in lower profits.

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, membership in Uber Rewards gives loyal customers points for Uber rides and Uber Eats that can be converted to redeemable Uber Cash—the more you use Uber, the more you benefit.)

Use **Chapter Objective 4** here.
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.

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 *customer brand advocacy*, by which satisfied customers initiate favorable interactions with others about a brand.

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

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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.

Use **Key Term** *Consumer-Generated Marketing* here. Use **Discussion Question 1-5** here. 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.

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.

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.

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.

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

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

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

Use **Key Term** *Customer Equity* here. Use **Figure 1.5** here. Use **Linking the Concepts 2** here. 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.

Almost 5 billion people—63 percent of the world's population—are now online; 80 percent of all American adults own smartphones.

The COVID-19 pandemic greatly hastened the shift to digital in almost every area of human activity, including marketing-related activities.

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 2.8 *billion* active monthly users. But smaller, more focused social media sites are also thriving, such as CafeMom, an online community of 25 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.

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Mobile Marketing

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.

More than 50 percent of all online purchases are now made from mobile devices.

Mobile advertising is surging and accounts for about two-thirds of all digital ad spending.

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.

Use **Chapter Objective 5** here. Use **Key Term** *Digital and Social Media Marketing* here. Use **Online, Mobile, and Social Media Marketing** here. Use **Critical Thinking Exercise 1-9** here. Use **Discussion Question 1-6** here. Use **Marketing Ethics** here.

The Growth of Not-for-Profit Marketing

The nation's nonprofits 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. The U.S. military is 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 American firms at home.

McDonald's now serves 69 million customers daily at more than 37,000 restaurants worldwide—some 73 percent of its revenues come from outside the United States.

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Today, companies are buying more supplies and components abroad.

Sustainable Marketing: The Call for More Environmental and Social 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.

Developing Skills for Your Career

Marketing is an exciting, fast-changing discipline that offers a wide range of rewarding careers. See Appendix 4, Careers in Marketing, to see if one of these careers is right for you.

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)

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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 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 whom the company will serve, which typically involves segmenting the market and selecting the segments to pursue (target marketing). The company wants to select customers 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.

1-3 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. Examples in the text included the #MyOreoCreation contest, the My Starbucks Idea site, and #MakingArtWithHeinz. Encourage students to find their own recent examples.

1-4 What is customer brand advocacy? Why is it important to brand managers? (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:
Customer brand advocacy is actions by which satisfied customers initiate favorable interactions with others about a brand. Brands with strong relationships with customers benefit by retaining the existing customer, which is usually less expensive than attracting a new customer. Brands also benefit when the customers help inform others about the brand's positive attributes and why they have favorable attitudes

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toward the brand. Customers often believe information that comes from other customers.

1-5 How did the COVID-19 pandemic impact markets and marketing? In the aftermath of the pandemic, are things returning to the way they were before? Why or why not? (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:
The COVID-19 pandemic lockdown accelerated the growth of e-commerce and boosted use of consumer-generated content. Marketers shifted from in-store and in-person connections to digital-first consumer engagement strategies. Marketing tactics shifted in response to the disruption to meet customers where they were. During the pandemic, customers were isolated in their homes. Customer use of online, mobile, social media, and other digital platforms to connect with each other and to acquire products increased the opportunities for brands to use digital channels to engage with consumers. Students may have different responses about what changes remain and the value of increased engagement via digital touchpoints in response to the disruption.

1-6 What is the Internet of Things (IoT)? How does it impact consumers and the marketers who serve them? (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:
The Internet of Things is a global environment where everything and everyone is digitally connected to everything and everyone else. It has applications in households, like smart appliances, and in industry, as it shapes health care, transportation, agriculture, and supply chain management. It has the potential to reduce waste and make life more convenient for consumers. And it provides more avenues for marketers to understand, reach, and serve consumers.

Critical Thinking Exercises

1-7 Visit the GORE-TEX website and discuss how well the brand balances the three considerations underlying the societal marketing concept. To what extent has GORE-TEX shifted from the pure marketing concept to the societal marketing concept? (AACSB: Written and Oral Communication; Analytical Thinking)

Answer:
By visiting various tabs at www.gore-tex.com, students can assess the extent to which GORE-TEX balances the interests of customers and company profits against current and longer-term societal welfare. 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

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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. The Sustainability portion of the GORE-TEX website outlines a "Protect & Prolong" strategy for the brand: "Protect People, Protect the Planet, Prolong Product Life, and Prolong Well-Being."

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.

Figure 1.5 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 Fitbit website at www.fitbit.com. Scroll to the bottom of the page and notice how Fitbit (recently acquired by Google) is currently connecting with customers on social media platforms including Facebook, Twitter, Pinterest, YouTube, and Instagram. Click on one or more of the platform icons to view ways in which Fitbit is building and maintaining customer linkages while illustrating value and providing information behind the brand. Evaluate Fitbit's effectiveness in

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creating customer engagement through its web and social media sites. Is the Fitbit brand message consistent across platforms? (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:
Student responses will depend on the social media channels they review. For example, a recent visit to the Fitbit Facebook page showed it had more than 2.97 million likes. It responded to individual comments from consumers, which may have increased consumer engagement. It put a spotlight on products, features of the products, and tips that were associated with brand values, which helped create customer engagement. Fitbit also utilizes its social media channels to help customers engage with each other. Although each platform has its own function, the message appears to be consistent across the website and social media.

Minicases and Applications

Digital 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, people on Twitter even follow her flatulence, she has inspired everything from a children's book to beer and ice cream flavors, and she has her own reality show on Facebook (four seasons, 27 episodes, and 3.5 million followers). People are heavily 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? What benefit does the zoo receive from Fionamania? (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. In all, Fionamania benefits the zoo in terms of attracting visitors as well as financial and volunteer support.

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

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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 corporate social responsibility (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 and social goals align with the values of its customers. However, consumers may notice that the desire to build the best products is no longer

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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 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 profits, but it may have to pass the costs on to its customers, which may in turn 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

The Global Grooming division of Procter & Gamble, which includes Gillette, is experiencing challenges from consumer trends and upstart digital competitors. Gillette and close competitor Schick (an Edgewell brand) have focused on product innovation and higher prices. In 2021, Gillette was the number one razor even though it had experienced years of market share erosion. Gillette continued to innovate and sought to expand its reach by putting more emphasis on grooming tools, purchasing the Bevel brand, which targets Black men, and attempting to acquire a razor startup that sells blades and body-care products to young women. Still, Gillette faces threats posed by the continuing consumer trend of "beardedness," such as the "scruff" or "stubble" look associated with the more casual workplace. It also faces threats from high-growth direct-to-consumer competitors like Harry's and Shavelogic. As a result, Gillette's market share dropped from 70 percent in 2010 to only about 50 percent in 2021. To protect its market leader position, Gillette periodically cuts prices on its razors.

1-14 Assuming a contribution margin of 65 percent and current sales of $1.6 billion, what sales would be necessary to break even (that is, maintain the current total contribution) on a 15 percent across-the-board price reduction? Refer to Financial Analysis of Marketing Tactics: Price Decrease in Appendix 3: Marketing by the Numbers to learn how to perform this analysis. (AACSB: Written and Oral Communication; Analytical Thinking)

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Answer:
Since price decreases by 15 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

= 0.65 × $1.6 billion = $1.04 billion

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 65 percent, the unit contribution margin will equal $0.65per unit and unit variable costs will equal $0.35 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 15 percent to $0.85 per unit ($1.00 x (1 – 0.15) = $0.85):

	Old	**New (reduced 15%)**
Price	$1.00 per unit	$0.85 per unit
– Unit variable costs	$0.35 per unit	$0.35 per unit
= unit contribution margin	$0.65 per unit	$0.50 per unit
Contribution margin (%)	65% (given)	$0.50/$0.85 = 0.588 or 59%

As can be seen, a 15 percent reduction in price resulted in a decrease of the contribution margin from 65 percent to 50 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 $1.04 billion:

New contribution margin × new sales level = original total contribution

So,

$$\text{New sales level} = \frac{\text{original total contribution (\$)}}{\text{new contribution margin (\%)}} = \frac{\$1{,}040{,}000{,}000}{0.588} = \$1{,}768{,}707{,}483$$

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

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Answer:
The absolute increase in sales to break even on a 15 percent reduction in price equals $168,707,483 (i.e., $1,768,707,483 – $1,600,000,000).

So,

$$\% \text{ change in sales} = \frac{\text{sales}_{new} - \text{sales}_{old}}{\text{sales}} = \frac{\$168,707,483}{\$1,600,000,000} = 0.10 \Rightarrow 10.5\% \text{ increase}$$

Company Case Teaching Notes

Company Cases 1 Buffalo Wild Wings / 4 Qualtrics / 11 Ulta Beauty
See Appendix 1 for teaching notes for the below cases.

Case 1, Buffalo Wild Wings: Fueling the Sports Fan Experience. With a mission to "WOW people every day," Buffalo Wild Wings serves up more than wings and beer. It is in the business of providing the best customer experience possible for sports fans.

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

Case 11, Ulta Beauty: Where the Experience Is Beautiful. As the largest U.S. beauty retailer, customers of all kinds enthusiastically flock to Ulta because more than any other retailer, it offers a complete beauty experience.

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?

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3. Societal marketing is 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. 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 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.
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 center 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?

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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?

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? What can Amazon do to ensure customer loyalty remains at current high levels?

2. 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 Creating Customer Loyalty and Retention).

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 and how it has impacted business. Next, remember that the

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majority of students will never have known an era without the 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 positioned in the marketplace?

Key Concepts

Relating to customers
Relating to partners
Creating customer loyalty and retention

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- Customer loyalty and retention programs are important in building customer relationships and customer equity. Discuss why a national grocery chain such as Safeway or Kroger 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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