CHAPTER 1

**MARKETING: CREATING AND CAPTURING CUSTOMER VALUE**

# PREVIEWING THE CONCEPTS – CHAPTER OBJECTIVES

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

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

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

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

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

**JUST THE BASICS**

# CHAPTER OVERVIEW

Marketing is managing profitable customer relationships.

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

Marketing is defined as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging value with others.

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.com: Obsessed with Creating Customer Value and Relationships*

When you think of shopping online, chances are you think first of Amazon. From the start, Amazon has grown explosively. Sales have grown from $150 million (1997) to $61 billion (today).

What has made Amazon such an amazing success story? Founder and CEO Bezos puts it in three simple words: “Obsess over customers.” To its core, the company is relentlessly customer driven. Rather than asking what it can do with its current capabilities, Amazon first asks: Who are our customers? What do they need?

Perhaps more important than WHAT Amazon sells is HOW it sells. Amazon wants to deliver a special experience to every customer. Most Amazon regulars feel a surprisingly strong relationship with the company.

Many analysts have speculated that Amazon will become the Walmart of the Web. Walmart wants to become the Amazon of the Web.

Whatever the eventual outcome, Amazon has become the poster child for companies that are obsessively and successfully focused on delivering customer value.

**WHAT IS MARKETING?**

A simple definition of marketing is *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.

### Marketing Defined

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

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

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

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 individuals* 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. An American *needs* food but *wants* a Big Mac.

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.

Use **Key Terms** *Needs*, *Wants*, and *Demands* here.

Use **Discussion Questions** **1-1** and **1-2** 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.

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 **Key Terms** *Market Offering* and *Marketing Myopia* here.

Customer Value and Satisfaction

Customers form expectations about the value and satisfaction that various market offerings will deliver and buy accordingly.

Satisfied customers buy again and tell others about their good experiences.

Dissatisfied customers switch to competitors and disparage the product to others.

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

Exchanges and Relationships

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

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

Use **Key Term** *Exchange* here.

Use **Critical Thinking Exercise** **1-6** here.

Markets

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

Marketing means managing markets to bring about profitable customer relationships.

Figure 1.2 shows the main elements in a modern marketing system.

Use **Figure 1.2** here.

Use **Key Term** *Market* here.

**DESIGNING A CUSTOMER-DRIVEN MARKETING STRATEGY**

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 **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. (Facebook helps you “connect and share with the people in your life,” whereas YouTube “provides a place for people to connect, inform, and inspire others across the globe.”)

Such value propositions *differentiate* one brand from another.

Marketing Management Orientations

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

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

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. (Figure 1.3)

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

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

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 the society’s* well‑being. (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** here.

BUILDING 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.

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 *club marketing programs* that offer members special benefits and create member communities. (For example, buy a Weber grill and you can join the Weber Nation – “the site for real people who love their Weber grills.”)

Use **Chapter Objective** **4** here.

Use **Key Terms** *Customer Relationship Management, Customer Perceived Value,* and *Customer Satisfaction* here.

Use **Marketing at Work 1.1** here.

Use **Video Case** here.

Engaging Customers

Significant changes are occurring in the nature of customer brand relationships.

*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.

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.

**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.

Harnessing consumer-generated content can be a time-consuming and costly process, and companies may find it difficult to glean even a little gold from all the garbage.

Consumer-generated marketing, whether invited by marketers or not, has become a significant marketing force.

Use **Key Term** *Consumer-Generated Marketing* here.

Use **Marketing at Work 1.2** here.

Use **Discussion Question** 1-**4** here.

Use **Critical Thinking Exercise 1-7** 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 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 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.

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 **Discussion Question** **1-5** here.

Use **Linking the Concepts** **2** here.

Use **Marketing by the Numbers** here.

THE CHANGING MARKETING LANDSCAPE

This section looks at five major developments: the digital age, the changing economic environment, the growth in not-for-profit marketing, rapid globalization, and the call for more ethics and social responsibility.

The Digital Age

By 2016, more than 40 percent of the world’s population will be online.

At the most basic level, marketers set up company and brand Web sites that provide information and promote the company’s products.

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

***Social Media Marketing***

Nearly 90 percent of all US companies now use social media as part of their marketing mix.

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

***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.

Most marketers are still learning how to use them effectively.

**The Changing Economic Environment**

The Great Recession of 2008-2009 and its aftermath hit American consumers hard.

After two decades of overspending, consumers tightened their purse strings and changed their buying attitudes and habits.

More than ever, marketers are emphasizing the *value* in their value propositions.

Use **Chapter Objective 5** here.

Use **Key Term** *Digital and social media marketing* 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. Various government agencies are now designing *social marketing campaigns*.

Rapid Globalization

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

American firms have been challenged at home by the skillful marketing of European and Asian multinationals.

McDonald’s now serves 69 million customers daily at more than 34,000 restaurants worldwide—some 71 percent of its revenues come from outside the United States.

Today, companies are buying more supplies and components abroad.

Sustainable Marketing—The Call for More 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 socially responsible actions as an opportunity to do well by doing good.

Use **Discussion Question 1-5** here.

Use **Marketing Ethics** here.

**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.

After the marketing strategy is defined, the marketing program is developed, which consists of the four Ps.

When building value for customers, companies must utilize marketing technology, go global in both selling and sourcing, and act in an ethical and socially responsible way.

Figure 1.6 shows a model of the marketing process.

Use **Figure 1.6** here.

Use **Critical Thinking Exercise 1-8** here.

**END OF CHAPTER MATERIAL**

**Discussion and Critical Thinking**

**Discussion Questions**

* 1. Define marketing and outline the steps in the marketing process. (AASCB: Written and oral communication)

*Answer:*

*Marketing* as the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return. Figure 1.1 presents a simple, five-step model of the marketing process. 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.

* 1. What is marketing myopia and how can it be avoided? (AACSB: Written and oral communication; Reflective thinking)

*Answer:*

Many sellers make the mistake of paying more attention to the specific products they offer than to the benefits and experiences produced by these products. These sellers suffer from *marketing myopia*. They are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs. They forget that a product is only a tool to solve a consumer problem. Smart marketers look beyond the attributes of the products and services they sell. By orchestrating several services and products, they create *brand experiences* for consumers

* 1. What is customer-engagement marketing and how is it related to the surge in digital and social media technologies? (AACSB: Written and oral communication; Reflective thinking)

*Answer:*

Yesterday’s companies focused mostly on mass marketing to broad segments of customers at arm’s length. By contrast, today’s companies are using online, mobile, and social media to refine their targeting and to engage customers more deeply and interactively. The *old marketing* involved marketing brands *to* consumers. The *new marketing* is *customer-engagement marketing*—fostering direct and continuous customer involvement in shaping brand conversations, brand experiences, and brand community. Customer-engagement marketing goes beyond just selling a brand to consumers. Its goal is to make the brand a meaningful part of consumers’ conversations and lives. Today’s greater consumer empowerment means that companies can no longer rely on marketing by intrusion. Instead, they must practice marketing by attraction—creating market offerings and messages that engage consumers rather than interrupt them. Hence, most marketers now augment their mass-media marketing efforts with a rich mix of online, mobile, and social media marketing that promotes brand-consumer engagement and conversation.

* 1. What is consumer-generated marketing? Describe examples of both invited and uninvited consumer exchanges. (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 consumer-to-consumer exchanges in blogs, video-sharing sites, and other digital forums.

At times, these exchanges are not always positive (for example, conduct a search using “I hate…” with any company name to see numerous negative comments). But increasingly, companies are *inviting* consumers to play a more active role in shaping products and brand messages. The chapter describes many examples, and students should be encouraged to find more recent ones.

* 1. Discuss trends impacting marketing and the implications of these trends on how marketers deliver value to customers. (AACSB: Written and oral communication)

*Answer:*

The major changes in the marketplace are: (1) the digital age, (2) the changing economic environment, (3) the growth of not-for-profit marketing, (4) rapid globalization, and (5) the call for more ethics and social responsibility. The explosive growth in digital technology has fundamentally changed the way we live—how we communicate, share information, access entertainment, and shop. Beyond brand Web sites, most companies are also integrating social and mobile media into their marketing mixes. The Great Recession of 2008 in the United States caused many customers to rethink their spending priorities. In response, companies have aligned their marketing strategies with the new economic reality, emphasizing the *value* in their value propositions. Marketing also has become a major part of the strategies of many not-for-profit organizations, such as colleges, hospitals, churches, and so on that provide value. Sound marketing can help them attract membership and support. In an increasingly smaller world, companies are now connected *globally* with their customers and marketing partners. Finally, as the worldwide consumerism and environmentalism movements mature, today’s marketers are being called to develop *sustainable marketing* practices. Corporate ethics and social responsibility have become hot topics for almost every business, and more forward-looking companies readily accept their responsibilities to the world around them.

**Critical Thinking Exercises**

* 1. Select an FTSE 100 company. How much did the company spend on marketing activities in the most recent year for which data are available? What percentage of sales does marketing expenditure represent for the company? Have these expenditures increased or decreased over the past five years? Write a brief report of your findings. (AACSB: Written and Oral Communication; Analytic Reasoning)

*Answer:*

A comprehensive up-to-date list of the FTSE 100 companies can be found at <http://www.londonstockexchange.com/exchange/prices-and-markets/stocks/indices/constituents-indices.html>. Students’ responses will vary depending on the company selected. For consistency across students, instructors may want to assign specific companies. The companies have their annual reports featured on their websites and it should be a relatively straightforward task for the students to extract the necessary data for their reports.

* 1. Some believe that social marketing is primarily effective only for bigger companies with the time and capacity to manage and update their media content. Choose a local business and evaluate its effectiveness in creating customer engagement. Is the content up-to-date and relevant? How does it manage its content? (AACSB: Written and Oral Communication; Information Technology; Reflective Thinking)

*Answer:*

Students’ examples will vary and instructors may want to assign specific companies or organizations to get a broad array of examples. While some Web sites have links to social media, they don’t seem to have much content or interaction, which may be due to the nature of the product, company, or organization. However, others use social media extensively. For example, the Web site for Chandni Chowk Food has links to Facebook and Twitter. The Facebook site has pictures of food products that can be bought through them and viewers can subscribe to the site for more interaction with the company/brand. The Twitter site feature regular tweets from the company and more than a couple of hundred followers of the brand. Social media sites can thus be an easy way for local businesses to communicate with their customers and drive traffic to the business Web site.

* 1. Use the Internet to search for salary information regarding jobs in marketing in your country or region. What is the national average salary for five different jobs in marketing? How do the averages compare in different areas of the country? Write a brief report on your findings. (AACSB: Written and Oral Communication;

Information Technology; Reflective Thinking)

*Answer:*

Each country has several online job portals where different jobs in marketing are listed for different regions within the country. The data will be different for different countries and regions, and so will the salary scales be. Also note that similar jobs may be listed under radically different job titles across countries and regions. Students’ answers will vary depending on where they are located.

**Minicases and Applications**

**Online, Mobile, and Social Media Marketing: Xbox One**

Eight years after the launch of its wildly successful Xbox 360, Microsoft finally announced its new Xbox One to be released at the end of 2013. The company is hoping the new console will turn around its 71 percent plunge in profits in 2012. The Xbox One touts a blue-ray video player, voice-activated on-demand movies and TV, Skype calling, and social media integration. Smart-TV features will customize menus for each player and tailor content for individual users. Xbox Live’s 48 million members will be able to interact on social media during special televised events such as the Olympics, Super Bowl, Oscars, and other special programming. Games will have greater artificial intelligence, enabling players to feel like the virtual athletes are making decisions on their own. Sports data such as daily performance and injury updates will feed into online games, such as *Madden NFL*, mirroring its real-world counterpart. Players will be able to augment live televised games with fantasy football stats that can be shared with friends via Skype and Microsoft’s Smart-Glass apps. One thing the Xbox One won’t be able to do is play old games. Competitor Sony plans to come out with its PlayStation 4 that will have touch-sensors in its controller and allow players to play any game—current or old—instantly over the Internet. Both companies are banking on more digital and social media applications to save them from the fate competitor Nintendo faced with its failed Wii U console introduced in 2012.

* 1. Debate whether these new features in game consoles are enough to survive against the growth of smartphone and tablet apps that offer free or inexpensive games. (AACSB: Written and oral communication; Reflective thinking)

*Answer:*

Students’ response will vary. The game console industry has suffered as a result of the growth of smartphones and tablets. Microsoft seems to be moving more toward television and movie streaming integration with its Xbox One and not relying only on games. However, smartphones and tablets also have these features. Probably the biggest advantage of the game consoles is that they are connected to a much larger screen than those found on smartphones and tablets.

* 1. Brainstorm three new game console features incorporating digital, mobile, or social media technology to encourage consumer interaction and engagement with gaming. (AACSB: Written and oral communication; Reflective thinking)

*Answer:*

Students’ responses will vary and are limited only by their imagination.

**Marketing Ethics: Goodbye Big Gulp?**

With two-thirds of adults and one-third of school-aged children in the United States overweight or obese, New York City mayor, Michael Bloomberg, took action against the soft drink industry. Mayor Bloomberg banned big sugary drinks such as 7-11’s mammoth 32-ounce “Big Gulp.” The ban put a 16-ounce cap on fountain and bottled drinks sold at restaurants, theaters, and sporting events. While it applied to drinks having more than 25 calories per 8-ounces, it did not apply to 100 percent juice or milk-based beverages. Establishments serving fountain drinks feared a significant revenue drop because these drinks are often marked up 10 to 15 times their cost. Many consumers opposed the ban because they perceived it as further encroachment of the “nanny state.” Even though this ban did not go into effect because a judge ruled that Mayor Bloomberg did not have jurisdiction to impose such a ban, he has already banned smoking in public parks and trans fats in restaurant foods, and required chain restaurants to include calorie information on menus. New York is not the only city taking action. The San Francisco city council passed the Healthy Food Incentive Ordinance, banning toys inside children’s meals that do not meet strict nutritional standards. This leads many to ask, “What’s next?”

* 1. Should marketers embrace the societal marketing concept with respect to foods or products that could be harmful to consumers? Discuss an example of a company embracing the societal marketing concept with respect to the obesity epidemic. (AACSB: Written and oral communication; Ethical understanding and reasoning)

*Answer:*

Students’ opinions will vary. The *societal marketing concept* questions whether the pure marketing concept overlooks possible conflicts between consumer *short-run wants* and consumer *long-run welfare.* Is a firm that satisfies the immediate needs and wants of target markets always doing what is best for its consumers in the long run? The societal marketing concept holds that marketing strategy should deliver value to customers in a way that maintains or improves both the consumer’s *and the society’s* well-being.

One example of a company embracing the societal marketing concept is Disney. The company is eliminating ads for sugar-laden drinks, snacks, and candy on the Disney TV channels, radio station, and Web sites by 2015.

**Marketing by the Numbers: Consumers Rule!**

Private consumption makes up a large portion of the UK gross domestic product (GDP). The UK Customer Satisfaction Index (UKCSI) is the national measure of customer satisfaction. Published every six months, the index is based on an online survey of consumers that has been designed to be demographically representative of the UK population. The July 2013 UKCSI incorporated over 30,000 responses from approximately 9,000 individual customers.

The UKCSI rates organizations in 13 sectors of the economy. It provides satisfaction ratings for each of the 13 sectors and an overall UK rating. It is published bi-annually and is used to track trends over time as well as to provide a snapshot of ratings. The UKCSI is based on real consumers’ actual (and recent) experiences with specific organizations.

* 1. Visit www.instituteofcustomerservice.com and learn about the UKCSI. Write a report explaining the index and comparing the ratings for five different industries along with the national average. Are there differences in customer satisfaction among industries? Explain why or why not. (AACSB: Written and Oral Communication; Information Technology; Reflective Thinking).

*Answer:*

Students’ responses will vary depending on when they access the Web site. The UKCSI executive summaries, published bi-annually, contain results and analysis from each wave of UKCSI. They are available in the form of downloadable PDFs and should provide considerable information to answer the question. In the Executive Summary for July 2013, the individual indices range from 70.1 to 84.4, with the national index at 77.9.

Analyses of industry benchmarks reveal that utilities, transport, and other services score lower than those operating in the consumer discretionary sector such as automobile companies and general retailers. This could possibly be due to fewer available choices for customers as a result of limited competition in the former sector compared to the latter which assigns greater importance to customer satisfaction.

* 1. Customer satisfaction indexes (CSIs) similar to the UKCSI are used in many countries. Find another country’s CSI and compare its results to those in the UKCSI. Are UK consumers more or less satisfied than consumers in the other country? Are trends in the national score similar? (AACSB: Written and Oral Communication; Information Technology; Reflective Thinking)

*Answer:*

Students’ responses will vary. There are several other Customer Satisfaction indexes to compare such as those in South Africa (<http://www.sacsi.biz/>) and Singapore (<http://ises.smu.edu.sg> ). It is important to note that there is no standardized way of measuring customer satisfaction and that some of the indexes have limited numbers of sectors; for example, the Dubai survey looks at only three sectors.

**Video Case Teaching Notes**

**Video Case Chapter 1 – Zappos**

**Running time**

**Intro: 1:44**

**Problem: 1:25**

**Solution: 3:10**

**Total: 6:21**

**Video Summary**

These days, online retailers are a dime a dozen. But in a short period of time, Zappos has become a billion dollar retailer. How did it hit the dot-com jackpot? By providing some of the best service available anywhere. Zappos customers are showered with such perks as free shipping both ways, surprise upgrades to overnight service, a 365-day return policy, and a call center that is always open. Customers are also delighted by employees who are empowered to spontaneously hand out rewards based on unique needs.

With such attention to customer service, it’s no surprise that Zappos has an almost cult-like following of repeat customers. But remaining committed to the philosophy that the customer is always right can be challenging. This video highlights some of the dilemmas that can arise from operating within a highly customer-centric strategy. Zappos also demonstrates the ultimate rewards the firm receives from keeping that commitment.

**Questions and Answers**

* 1. How would you describe Zappos’ market offering?   
     *According to the text, a market offering is “some combination of products, services, information, or experiences offered to a market to satisfy a need or want.” Students can easily identify the combination of products that Zappos offers that include shoes, clothing, handbags, accessories, beauty items, eyewear, sporting goods, and many other categories of retail items. However, students should be challenged to identify the rest of the Zappos package. This could include:*
* *Services – online shopping, 24-hour customer service, free shipping both ways.*
* *Information – detailed product descriptions with 360 degree views and videos, brand and company information, product reviews and ratings.*
* *Experience – this revolves around the nature of Zappos’ customer service culture. Every customer can speak directly with a person who treats you like an old friend. The online interface is easy to use and customizable. Zappos interacts with customers in a very personal way through email, social media, and the company’s Web page.* 
  1. What is Zappos’ value proposition? How does it relate to its market offering?

*Providing the best selection and the best service for any category of retail goods.*

* 1. How does Zappos build long-term customer relationships?

*While this video is brief, it gives a nice peak inside of the culture at Zappos. The company starts by recruiting and training only people that will be truly customer-oriented employees, regardless of their job title. Every employee is trained in Zappos’ ten core values. Through this, the old cliché that “The customer is always right” is truly believed, practiced, and lived by Zappos employees. The case study in this video is a perfect example of that. Zappos did not have to honor the error in price for all the customers who purchased the shoes in question. In fact, there are few companies that would have. And likely, there are few customers who would have held it against Zappos. Also, Zappos could have not honored the price but offered the customer in question a bonus that wouldn’t cost the company so much, such as $20 off on the next order or free shoe laces. But Zappos truly chose to go above and beyond. To do so when it didn’t have to is the mark of a truly customer-centric company.*

**Teaching Ideas**

The video case for Zappos follows a unique format for videos in the Pearson Video Library that accompany Armstrong and Kotlers *Marketing: An Introduction,* 11e. It begins with an introductory segment, followed by a problem segment, and ends with a solution segment. The intention here is to provide flexibility and multiple options for using the video. The following are some of the ways that instructors may utilize these three video segments.

1. Introduction only - Instructors may choose to use the introduction segment alone as a means of highlighting the company. As a stand-alone video, the introduction segment supplements material in many of the chapters of the text. As this video pertains to Chapter 1, this segment could be used to illustrate customer needs, customer experiences, customer value, market offerings, value propositions, and other concepts.
2. Problem challenge - The instructor may show the problem segment, either with or without the introduction segment, and with or without the solution segment. This may be done in the interest of time. It may also be done strategically. An ideal way to challenge students is to require them to develop possible solutions to the presented problem before they have seen the solution segment. The instructor then has the option of whether or not to show the solution segment. In this Zappos video, students can assume the challenge of realistically dealing with a price markdown that was a mistake which led to a huge financial loss.
3. Solution only – This may be done to illustrate a specific concept in the chapter. Rather than taking the time to perform a problem/solution exercise, the solution segment may be shown to demonstrate how a company overcame a specific problem. Focus should be given to Zappos’ actions that are true to its philosophy of building customer relationships. Discussion should bring out the tradeoff between saving money (even when a company is legally entitled to it) and the benefit of long-term loyal customers.

**Company Case Teaching Notes**

Cases appropriate for this chapter include:

* Case 1, In-N-Out Burger: Customer Value the Old-Fashioned Way (Synopsis, Discussion Questions, and Teaching Notes below)
* Case 9, JCPenney: The Struggle to Find Optimum Price (see IM Chapter 9 for instructor material)
* Case 14, Pinterest: Revolutionizing the Web—Again (see IM Chapter 14 for instructor material)

**In-N-Out Burger: Customer Value the Old-Fashioned Way**

**Synopsis**

Most people have at least heard of In-N-Out. But what they may not realize is just how unique In-N-Out is. This burger chain that is now more than 60 years old has done something that few restaurants can claim. It has succeeded in opening almost 300 stores without changing a thing. Its dedication to a basic burger menu, fresh ingredients, clean stores, and friendly service has earned it a special place in the hearts of millions. While there are many who literally beg In-N-Out to bring its formula to their state and town, the company has stuck with its slow-growth strategy, opening only about 10 stores per year. This case illustrates just some of why the brand has developed such a loyal following.

Teaching Objectives

The teaching objectives for this case are to:

1. Introduce students to the concept of customer value creation and its central role in marketing.
2. To provide a case for the analysis of customer satisfaction.
3. Allow students to analyze a product offering in depth.
4. Introduce the concepts involved in customer relationship management.

Discussion Questions

1. Describe In-N-Out in terms of the value it provides for customers.   
   *To get to the heart of this question, students must go to the definition of customer-perceived value from the chapter. The response should be based on all benefits minus all costs. The benefit side (including features/attributes) should include all those things that draw customers in: an offering that never changes, fresh ingredients, food that is made-to-order, friendly and competent service, customization through the secret menu, and the cool factor that others simply don’t have. On the cost side, the price is certainly core to any response such as this. INO’s price is not rock bottom, but it is average for an offering of its kind. Other costs must be noted, such as waiting time, time and effort to go out of one’s way to get to an INO location, and even the lack of menu items other than the basic burger offering. However, it should also be noted that these so called costs are actually part of the allure that easily translates into benefits.*
2. Evaluate In-N-Out’s performance relative to customer expectations. What is the outcome of this process?   
   *This is a customer satisfaction question. The text defines this as “the extent to which perceived performance matches a buyer’s expectations.” It goes on to point out that exceeding expectations results in high levels of satisfaction, or “delight.” INO presents a very interesting case for discussion of these concepts. The generally accepted philosophy in today’s highly competitive marketing environment is that merely satisfying customers (meeting expectations) is not sufficient to establish customer relationships and retain loyal customers. However, with INO, we have a case of a company that seems to do nothing but “meet expectations.” After all, it hasn’t changed anything in the more than 60 years it has been operating. Existing customers as well as new recruits know what it is and know what they can expect. And INO carries out its promise to perfection – nothing more, nothing less. And yet customers remain die-hard loyalists. Some might argue that this level of perfect execution in meeting expectations somehow produces emotions that are better described as “delight.” But by definition, that is not conceptually possible. Another possibility for the emotional outcomes of customers is that through a consistent meeting of expectations, INO produces other positive emotions in customers that have an equally, if not more, binding effect as does delight. “Trust” is one such emotion, but it is not discussed in this text.*
3. Do you think In-N-Out should adopt a high-growth strategy? Why or why not?   
   *While there are certainly more INO restaurants today than ever before (and with the recent expansion into Texas, INO is now in five states), the company has stuck to a slow and steady growth strategy. Any discussion of this question should be based on whether or not a faster-growth strategy would change anything in terms of customer value. If INO could grow faster and keep everything the same, there would still be the issue of losing some of the “special” nature of the brand by virtue of the fact that it would be available in more places to more people. And while the impact of that on customer value is questionable, the rest of the assumption represents a big “if.” One of the biggest reasons that INO has retained a slow-growth strategy is to ensure product and service quality. INO will not expand into new areas until it has distribution facilities in place that allow for the delivery of all the necessary fresh ingredients to each store. They will also not expand faster than their ability to train new employees and managers properly, an essential element for their formula. The only benefit for the company in expanding faster would be greater revenue growth. But as a privately held, family organization, that kind of growth simply isn’t necessary. With no public stockholders, as long as the owners are content with revenue growth, that’s all that matters.*
4. With so many customers drawn in to In-N-Out’s “no change” philosophy, why don’t more burger chains follow suit?   
   *Just about every chain of national fast food restaurants is hooked on the novelty of new offerings. If Wendy’s, Taco Bell, or McDonald’s ever stop producing new menu items, they will see a downturn in store traffic. The images of these other brands are not based on “the formula never changes.” As such, in order for any of the other brands to succeed on a strategy like the one that has made INO successful, it would have to change its brand image. And that would be very risky indeed. On the other hand, there are smaller, regional players that do operate based on a strategy that at the very least is closer to INO’s “no change” approach. But you’d be hard-pressed to find one that sticks so rigidly to the formula and has thrived on the level of INO.*

**Teaching Suggestions**

Start by asking how many students have ever experienced In-N-Out. Students who have will provide a range of responses to their experiences. Many will echo the kind of positive evaluations described in the case. Some, however, might say that with all the hype, they had expected more and were disappointed. This should drive home that In-N-Out is not a gourmet offering. It isn’t high-end or fancy. Rather, it is a brand that has built itself on perfect execution of a rather basic formula. Perhaps this video clip of a patron at a recent store opening in Dallas will drive home just how passionate In-N-Out’s customers are: <http://www.youtube.com/watch?v=HgTVuwFRjXA>.

### GREAT IDEAS

**Barriers to Effective Learning**

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.

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?

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.

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 social media (Facebook or Twitter), email, or the Internet?

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 ABC online ([www.abc.com](http://www.abc.com)). Who would you say is their market? Why?
4. Review the five alternative concepts under which organizations design and carry out their marketing strategies. Now, take a look at one of the auto dealers in your town. Which one of these five concepts do you believe they are typically employing? Why?
5. Think of a product or retailer to which you are loyal. What has caused this loyalty? What could a competing product/retailer do to break this loyalty?

**Small Group Assignment**

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

How has Amazon managed to create such intense customer loyalty?

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

Each group should then share its findings with the class.

**Individual Assignment**

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

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

**Think-Pair-Share**

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

1. Do marketers create needs?
2. What is Walmart’s value proposition?
3. How is marketing different from selling?
4. 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](http://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?

# 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 JetBlue, 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](http://www.amazon.com) or another one of the Internet 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 majority of students will never have known an era without the Internet. Asking them how they would have developed relationships with their customers without the assistance of technology is a good way to get a discussion started on how marketing programs are developed. Then you can talk about how the advent of email and the Internet 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?
* Many people have 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

* 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, Walmart or Porsche?
* 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?