1 Marketing

Creating and Capturing **Customer Value**

Chapter Preview

This chapter introduces you to the basic concepts of marketing. We start with the question, What is marketing? Simply put, marketing is managing profitable customer relationships. The aim of marketing is to create value for customers and capture value from customers in return. Next we discuss the five steps in the marketing process—from understanding customer needs, to designing customer-driven marketing strategies and integrated marketing programs, to building customer relationships and capturing value for the firm. Finally, we discuss the major trends and forces affecting marketing in this age of customer relationships. Understanding these basic concepts and forming your own ideas about what they really mean to you will give you a solid foundation for all that follows.

Let's start with a good story about marketing in action at Zappos.com, one of the world's fastest-growing Web retailers. The secret to Zappos' success? It's really no secret at all. Zappos is flat-out customer obsessed. It has a passion for creating customer value and relationships. In return, customers reward Zappos with their brand loyalty and buying dollars. You'll see this theme of creating customer value in order to capture value in return repeated throughout this first chapter and the remainder of the text.

Zappos: A Passion for Creating Customer Value and Relationships

Imagine a retailer with service so good its customers wish it would take over the Internal Revenue Service or start up an airline. It might sound like a marketing fantasy, but this scenario is reality for 12-year-old Zappos.com. At Zappos, the customer experience really does come first—it's a daily obsession. Says Zappos understated CEO, Tony Hsieh (pronounced *shay*), "Our whole goal at Zappos is for the Zappos brand to be about the very best customer service and customer experience." When it comes to creating customer value and relationships, few companies can match Zappos' passion.

Launched in 1999 as a Web site that offered the absolute best selection in shoes—in terms of brands, styles, colors, sizes, and widths—the online retailer now carries many other categories of goods, such as clothing, handbags, and accessories. From the start, the scrappy Web retailer made customer service a cornerstone of its marketing. As a result, Zappos has grown astronomically. It now serves more than 10 million customers annually, and gross merchandise sales top $1 billion, up from only $1.6 million in 2000. Three percent of the U.S. population now shops at Zappos.com. And despite the harsh economy, Zappos sales have continued to soar in recent years.

Interestingly, Zappos doesn't spend a lot of money on media advertising. Instead, it relies on customer service so good that customers not only come back but also tell their friends. More than 75 percent of Zappos.com's sales come from repeat customers. "We actually take a lot of the money that we would have normally spent on paid advertising and put it back into the customer experience," says Hsieh. "We've always stuck with customer service, even when it was not a sexy thing to do." Adds Aaron Magness, Zappos' director of business development and brand marketing, "We decided if we can put all the money possible into our customer service, word of mouth will work in our favor."

What little advertising the company does do focuses on—you guessed it—customer service. The most recent Zappos TV ads feature "Zappets," puppetlike characters styled after actual Zappos employees, highlighting interactions between Zappos customer service reps and customers.

Free delivery, free returns, and a 365-day return policy have been the cornerstone of Zappos' customer-centric approach. To wow customers, it even quietly upgrades the experience, from four-to-five-day shipping to second-day or next-day shipping. Its customer service center is staffed 24/7 with 500 highly motivated employees—about one-third of the company's payroll—answering 5,000 calls a day. "Those things are all pretty expensive, but we view that as our marketing dollars," says Hsieh. "It's just a lot cheaper to get existing customers to buy from you again than it is to try to convince someone [new]."

Zappos has been steadfast in its focus on customer service even as it's grown. In a sluggish economy, retailers especially should be focusing on customer service. But as Hsieh points out, it's often the first thing to go. "The payoff for great customer service might be a year or two down the line. And the payoff for having a great company culture might be three or four years down the line."

At Zappos, customer intimacy starts with a deep-down, customer-focused culture. "We have a saying," proclaims the company at its Web site. "We are a service company that happens to sell [shoes (or handbags, or clothing, or eventually, anything and everything)]." The Zappos culture is built around its 10 Core Values, ranging from "Build open and honest relationships with communication" to "Create fun and a little weirdness." Value number one: "Deliver WOW through service!"

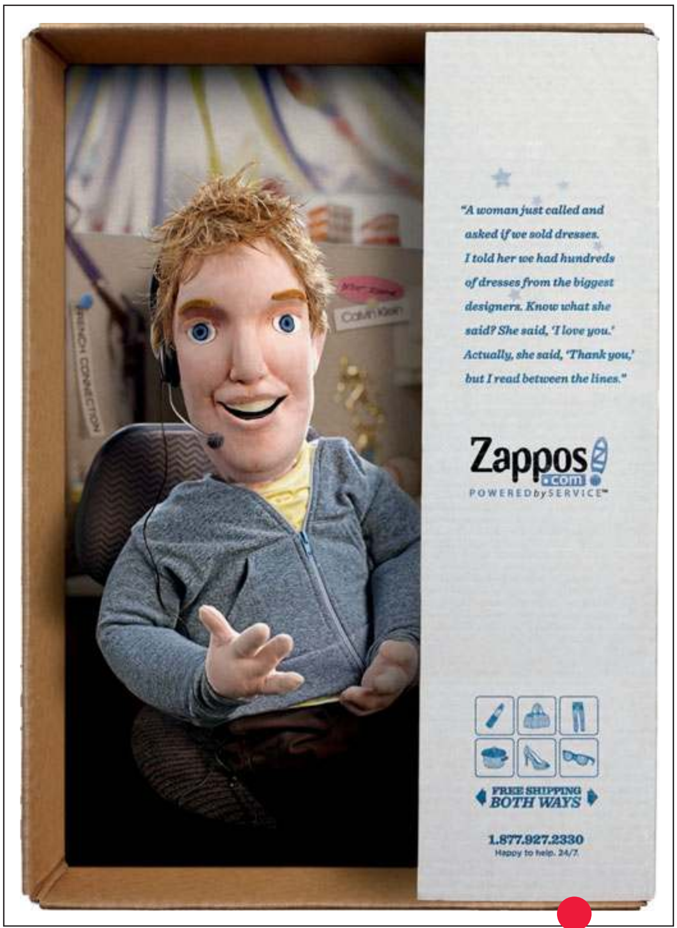
Zappos' online success and passion for customers made it an ideal match for another highly successful, customer-obsessed online retailer, Amazon.com, which purchased Zappos in late 2009. Amazon.com appears to be letting Hsieh and Zappos continue to pursue independently the strategy that has made them so successful in the past.

To make sure Zappos' customer obsession permeates the entire organization, each new hire—everyone from the chief executive officer and chief financial officer to the children's footwear buyer—is required to go through four weeks of customer-loyalty training. In fact, in an effort to weed out the half-hearted, Zappos actually bribes people to quit. During the four weeks of customer service training, it offers employees $2,000 cash, plus payment for the time worked, if they leave the company. The theory goes that those willing to take the money and run aren't right for Zappos' culture anyway.

Hsieh says that originally the incentive was $100, but the amount keeps rising because not enough people take it. On average, only 1 percent takes the offer, and Hsieh believes that's too low. Zappos argues that each employee needs to be a great point of contact with customers. "Getting customers excited about the service they had at Zappos has to come naturally," says Magness. "You can't teach it; you have to hire for it."

When dealing with customers, Zappos employees must check their egos and competitiveness at the door. Customer service reps are trained to look on at least three rival Web sites if a shopper asks for specific shoes that Zappos doesn't have in stock and refer customers accordingly. "My guess is that other companies don't do that," Hsieh says. "For us, we're willing to lose that sale, that transaction in the short term. We're focused on building the lifelong loyalty and relationship with the customer."

Relationships mean everything at Zappos. Hsieh and many other employees stay in direct touch with customers, with each other, and with just about anyone else interested in the company. They use social-networking tools, such as Facebook, Twitter, and blogs, to share information—both good and bad. And the company invites customers to submit frank online reviews. Such openness might worry some retailers, but Zappos embraces it. As Magness points out, "You only need to worry if you have something to hide," and Zappos seems to take even criticism as a free gift of information.



At Zappos, taking care of customers starts with a deep-down, customer-focused culture. Zappos is "happy to help, 24/7."

Zappos has set new standards in the industry, leading the way for a new type of consumer-focused company. "There's something about these young Internet companies," says a retailing expert. "I'm not sure exactly why—if it was because they were born in a different era, the leadership has a different worldview, or if they just have amazing access to customer data and see firsthand what customers are thinking," he says. "It seems that Zappos is really the poster child for this new age of consumer companies that truly are customer focused. A lot of companies like to say they are, but none of them is as serious as Zappos."

It's that intense customer focus that has set the stage for Zappos' growth, as the company branches out into new categories, such as electronics and home goods. "Hopefully, 10 years from now, people won't even realize we started out selling shoes online. We've actually had customers ask us if we would please start an airline or run the IRS," Hsieh says, adding, "30 years from now I wouldn't rule out a Zappos airline that's all about the very best service."[1]

Web seller Zappos is obsessed with creating the very best customer service and customer experience. In return, customers reward the company with their brand loyalty and buying dollars. The result: Zappos' sales have grown astronomically.

Objective OUTLINE

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

Customer relationships and value are especially important today. As the nation's economy has recovered following the worst downturn since the Great Depression, more frugal consumers are spending more carefully and reassessing their relationships with brands. In turn, it's more important than ever to build strong customer relationships based on real and enduring value.

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

What Is Marketing? (pp 4–5)

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

For example, Walmart has become the world's largest retailer—and the world's largest company—by delivering on its promise, "Save money. Live better." Nintendo surged ahead in the video-games market behind the pledge that "Wii would like to play," backed by its wildly popular Wii console and a growing list of popular games and accessories for all ages. And McDonald's fulfills its "i'm lovin' it" motto by being "our customers' favorite place and way to eat" the world over, giving it a market share greater than that of its nearest three competitors combined.[2]

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

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

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

Marketing Defined

What *is* marketing? Many people think of marketing as only selling and advertising. We are bombarded every day with TV commercials, catalogs, sales calls, and e-mail pitches. However, selling and advertising are only the tip of the marketing iceberg.

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

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

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

The Marketing Process

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. By creating value *for* consumers, they in turn capture value *from* consumers in the form of sales, profits, and long-term customer equity.

In this chapter and the next, we will examine the steps of this simple model of marketing. In this chapter, we review each step but focus more on the customer relationship steps—understanding customers, building customer relationships, and capturing value from customers. In Chapter 2, we look more deeply into the second and third steps—designing marketing strategies and constructing marketing programs.

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

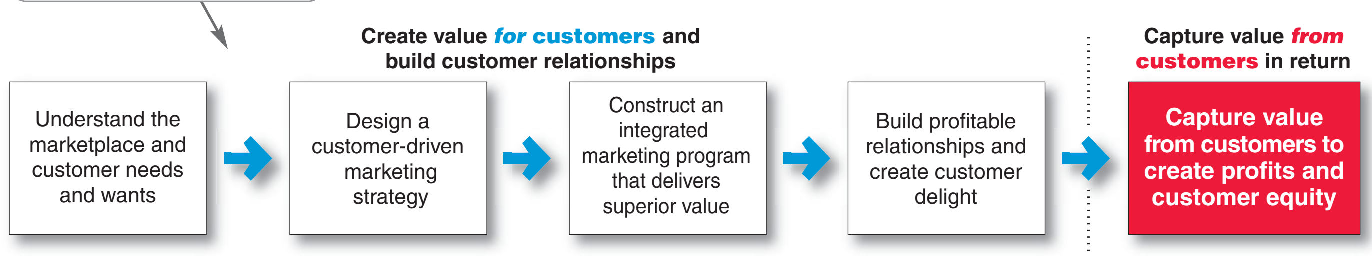


FIGURE | 1.1
A Simple Model of the Marketing Process

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

Understanding the Marketplace and Customer Needs (pp 6–8)

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

Customer Needs, Wants, and Demands

Needs
States of felt deprivation.

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

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

Demands
Human wants that are backed by buying power.

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, french fries, and a soft drink. A person in Papua New Guinea *needs* food but *wants* taro, rice, yams, and pork. Wants are shaped by one's society and are described in terms of objects that will satisfy those needs. When backed by buying power, wants become **demands**. Given their wants and resources, people demand products with benefits that add up to the most value and satisfaction.

Outstanding marketing companies go to great lengths to learn about and understand their customers' needs, wants, and demands. They conduct consumer research and analyze mountains of customer data. Their people at all levels—including top management—stay close to customers. For example, retailer Cabela's vice-chairman, James W. Cabela, spends hours each morning reading through customer comments and hand-delivering them to each department, circling important customer issues. At Zappos, CEO Tony Hsieh uses Twitter to build more personal connections with customers and employees. Some 1.6 million people follow Hsieh's Twitter feed. And at P&G, executives from the chief executive officer down spend time with consumers in their homes and on shopping trips. P&G brand managers routinely spend a week or two living on the budget of low-end consumers to gain insights into what they can do to improve customers' lives.[5]

Market Offerings—Products, Services, and Experiences

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

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

More broadly, market offerings also include other entities, such as *persons, places, organizations, information,* and *ideas*. For example, the "Pure Michigan" campaign markets the state of Michigan as a tourism destination that "lets unspoiled nature and authentic character revive your spirits." ◉ And the U.S. Forest Service's "Reconnecting Kids with Nature" campaign markets the idea of encouraging urban young people to explore the joys of nature firsthand. Its DiscoverTheForest.org Web site helps children and their parents figure out where to go outdoors and what to do there.[6]

◉ **Market offerings are not limited to physical products. Here, the U.S. Forest Service markets the idea of reconnecting young people with exploring the joys of nature firsthand.**

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

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

Smart marketers look beyond the attributes of the products and services they sell. By orchestrating several services and products, they create *brand experiences* for consumers. For example, you don't just watch a NASCAR race; you immerse yourself in the exhilarating, high-octane NASCAR experience. Similarly, HP recognizes that a personal computer is much more than just a collection of wires and electrical components. It's an intensely personal user experience. As noted in one HP ad, "There is hardly anything that you own that is *more* personal. Your personal computer is your backup brain. It's your life. . . . It's your astonishing strategy, staggering proposal, dazzling calculation. It's your autobiography, written in a thousand daily words."[8]

Customer Value and Satisfaction

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

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

Exchanges and Relationships

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

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

Marketing consists of actions taken to build and maintain desirable exchange *relationships* with target audiences involving a product, service, idea, or other object. Beyond simply attracting new customers and creating transactions, companies want to retain customers and grow their businesses. Marketers want to build strong relationships by consistently delivering superior customer value. We will expand on the important concept of managing customer relationships later in the chapter.

Markets

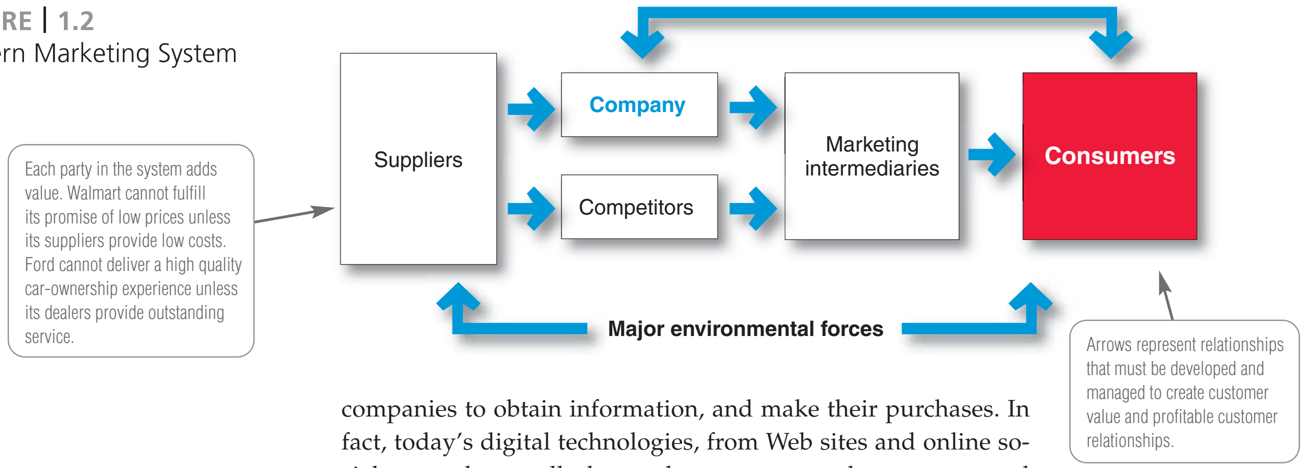
Market
The set of all actual and potential buyers of a product or service.

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

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

Although we normally think of marketing as being carried out by sellers, buyers also carry out marketing. Consumers market when they search for products, interact with

FIGURE | 1.2
A Modern Marketing System



companies to obtain information, and make their purchases. In fact, today's digital technologies, from Web sites and online social networks to cell phones, have empowered consumers and made marketing a truly interactive affair. Thus, in addition to customer relationship management, today's marketers must also deal effectively with *customer-managed relationships*. Marketers are no longer asking only "How can we reach our customers?" but also "How should our customers reach us?" and even "How can our customers reach each other?"

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

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

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

Designing a Customer-Driven Marketing Strategy (pp 8–12)

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

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

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

Selecting Customers to Serve

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

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

Choosing a Value Proposition

The company must also decide how it will serve targeted customers—how it will *differentiate and position* itself in the marketplace. A brand's *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs. At AT&T, it's "Your World. Delivered." whereas with T-Mobile, family and friends can "Stick together." The diminutive Smart car suggests that you "Open your mind to the car that challenges the status quo," whereas Infiniti "Makes luxury affordable," and BMW promises "the ultimate driving machine."

Such value propositions differentiate one brand from another. They answer the customer's question, "Why should I buy your brand rather than a competitor's?" Companies must design strong value propositions that give them the greatest advantage in their target markets. For example, the Smart car is positioned as compact, yet comfortable; agile, yet economical; and safe, yet ecological. It's "sheer automotive genius in a totally fun, efficient package. Smart thinking, indeed."

Value propositions: Smart car suggests that you "open your mind"—"Sorry, big guy. Efficiency is in these days."

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? What weight should be given to the interests of customers, the organization, and society? Very often, these interests conflict.

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

The Production Concept

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

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

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

The Product Concept

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

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

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

The Selling Concept

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

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

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

The Marketing Concept

Marketing concept
A philosophy that holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do.

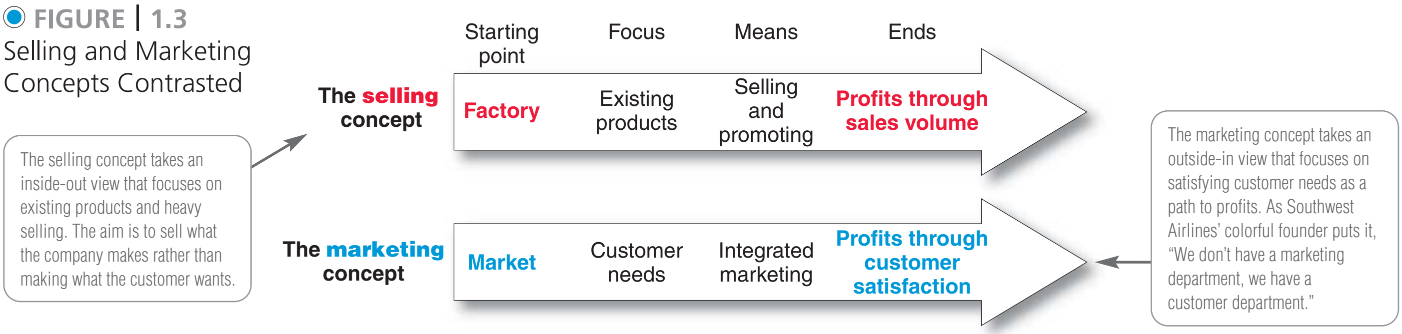
The **marketing concept** holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do. Under the marketing concept, customer focus and value are the *paths* to sales and profits. Instead of a product-centered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

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

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

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

FIGURE | 1.3
Selling and Marketing Concepts Contrasted



Customer-driving marketing: Even 20 years ago, how many consumers would have thought to ask for now-commonplace products such as cell phones, notebook computers, iPods, and digital cameras? Marketers must often understand customer needs even better than the customers themselves do.

In many cases, however, customers *don't* know what they want or even what is possible. For example, even 20 years ago, how many consumers would have thought to ask for now-commonplace products such as notebook computers, cell phones, digital cameras, 24-hour online buying, and satellite navigation systems in their cars? Such situations call for *customer-driving* marketing—understanding customer needs even better than customers themselves do and creating products and services that meet existing and latent needs, now and in the future. As an executive at 3M puts it, "Our goal is to lead customers where they want to go before *they* know where they want to go."

The Societal Marketing Concept

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

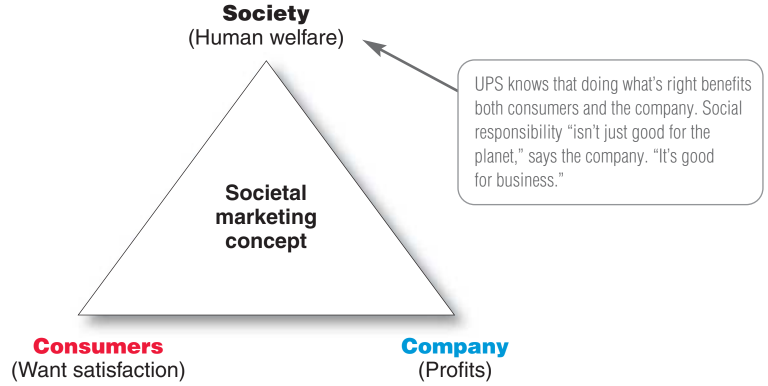
The **societal marketing concept** questions whether the pure marketing concept overlooks possible conflicts between consumer *short-run wants* and consumer *long-run welfare.* Is a firm that satisfies the immediate needs and wants of target markets always doing what's best for its consumers in the long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

Consider today's bottled water industry. You may view bottled water companies as offering a convenient, tasty, and healthy product. Its packaging suggests "green" images of pristine lakes and snow-capped mountains. Yet making, filling, and shipping billions of plastic bottles generates huge amounts of carbon dioxide emissions that contribute substantially to global warming. Further, the plastic bottles pose a substantial recycling and solid waste disposal problem. Thus, in satisfying short-term consumer wants, the bottled water industry may be causing environmental problems that run against society's long-run interests.

As **Figure 1.4** shows, companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, *and* society's interests. UPS does this well. Its concern for societal interests has earned it the number one or number two spot in *Fortune* magazine's Most Admired Companies for Social Responsibility rankings in four of the past five years.

> UPS seeks more than just short-run sales and profits. Its three-pronged corporate sustainability mission stresses *economic prosperity* (profitable growth through a customer focus), *social responsibility* (community engagement and individual well-being), and *environmental stewardship* (operating efficiently and protecting the environment). Whether it involves greening up its operations or urging employees to volunteer time in their communities, UPS proactively seeks opportunities to act responsibly. UPS

FIGURE | 1.4
Three Considerations Underlying the Societal Marketing Concept



knows that doing what's right benefits both consumers and the company. By operating efficiently and acting responsibly, it can "meet the needs of the enterprise . . . while protecting and enhancing the human and natural resources that will be needed in the future." Social responsibility "isn't just good for the planet," says the company. "It's good for business."[9]

Author Comment | The customer-driven marketing strategy discussed in the previous section outlines which customers the company will serve (the target market) and how it will serve them (the value proposition). Now, the company develops marketing plans and programs—a marketing mix—that will actually deliver the intended customer value.

Preparing an Integrated Marketing Plan and Program (p 12)

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

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

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

Building Customer Relationships (pp 12–19)

The first three steps in the marketing process—understanding the marketplace and customer needs, designing a customer-driven marketing strategy, and constructing a marketing program—all lead up to the fourth and most important step: building profitable customer relationships.

Customer Relationship Management

Customer relationship management is perhaps the most important concept of modern marketing. Some marketers define it narrowly as a customer data management activity (a practice called *CRM*). By this definition, it involves managing detailed information about individual customers and carefully managing customer "touchpoints" to maximize customer loyalty. We will discuss this narrower CRM activity in Chapter 4 when dealing with marketing information.

Most marketers, however, give the concept of customer relationship management a broader meaning. In this broader sense, **customer relationship management** is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. It deals with all aspects of acquiring, keeping, and growing customers.

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

Relationship Building Blocks: Customer Value and Satisfaction

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

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

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

To some consumers, value might mean sensible products at affordable prices, especially in the aftermath of recent recession. To other consumers, however, value might mean paying more to get more. For example, despite the challenging economic environment, GE recently introduced its new Profile washer-and-dryer set, which retails for more than $2,500 (more than double the cost of a standard washer-and-dryer set). Profile ads feature stylish machines in eye-catching colors, such as cherry red. But the ads also focus on down-to-earth practicality. They position the Profile line as a revolutionary new "clothes care system," with technology that allocates the optimal amount of soap and water per load and saves money by being gentle on clothes, extending garment life. Are Profile washers and dryers worth the much higher price compared to less expensive appliances? It's all a matter of personal value perceptions. To many consumers, the answer is no. But to the target segment of style-conscious, affluent buyers, the answer is yes.[10]

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

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.

Outstanding marketing companies go out of their way to keep important customers satisfied. Most studies show that higher levels of customer satisfaction lead to greater customer loyalty, which in turn results in better company performance. Smart companies aim to delight customers by promising only what they can deliver and then delivering more than they promise. Delighted customers not only make repeat purchases but also become willing marketing partners and "customer evangelists" who spread the word about their good experiences to others (see Real Marketing 1.1).[11]

For companies interested in delighting customers, exceptional value and service become part of the overall company culture. For example, year after year, Ritz-Carlton ranks at or near the top of the hospitality industry in terms of customer satisfaction. Its passion for satisfying customers is summed up in the company's credo, which promises that its luxury hotels will deliver a truly memorable experience—one that "enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests."[12]

Customer satisfaction: Ritz-Carlton's passion for satisfying customers is summed up in its Credo, which promises a truly memorable experience—one that "enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests."

Check into any Ritz-Carlton hotel around the world, and you'll be amazed by the company's fervent dedication to anticipating and meeting even your slightest need. Without ever asking, they seem to know that you're allergic to peanuts and want a king-size bed, a nonallergenic pillow, the blinds open when you arrive, and breakfast with decaffeinated coffee in your room. Each day, hotel staffers—from those at the front desk to those in maintenance and housekeeping—discreetly observe and record even the smallest guest preferences. Then, every morning, each hotel reviews the files of all new arrivals who have previously stayed at a Ritz-Carlton and prepares a list of suggested extra touches that might delight each guest.

Once they identify a special customer need, Ritz-Carlton employees go to legendary extremes to meet it. For example, to serve the needs of a guest with food allergies, a Ritz-Carlton chef in Bali located special eggs and milk in a small grocery store in another country and had them delivered to the hotel. In another case, when the hotel's laundry service failed to remove a stain on a guest's suit before the guest departed, the hotel manager traveled to the guest's house and personally delivered a reimbursement check for the cost of the suit. According to one Ritz-Carlton manager, if the chain gets hold of a picture of a guest's pet, it will make a copy, have it framed, and display it in the guest's room in whatever Ritz-Carlton the guest visits. As a result of such customer service heroics, an amazing 95 percent of departing guests report that their stay has been a truly memorable experience. More than 90 percent of Ritz-Carlton's delighted customers return.

Real Marketing 1.1

In-N-Out Burger:
The Power of Customer Delight

In-N-Out Burger opened its first restaurant in Baldwin Park, California, in 1948. It was a simple affair, with two drive-through lanes, a walk-up window, outdoor seating, and a menu that boasted only burgers, shakes, fries, and soft drinks. That was a pretty standard format for the time. In fact, another California burger stand fitting about the same description was opened that same year just 45 minutes away by the McDonald brothers. Today, however, In-N-Out is pretty much the exact opposite of McDonald's. Whereas McDonald's now operates more than 32,000 stores worldwide and pulls in more than $79 billion in annual system-wide sales, In-N-Out has less than 250 stores in four states and about $400 million in annual sales.

But In-N-Out Burger never wanted to be another McDonald's. And despite its smaller size—or perhaps because of it—In-N-Out's customers like the regional chain just the way it is. When it comes to customer satisfaction—make that customer *delight*—In-N-Out beats McDonald's hands down. It regularly posts the highest customer satisfaction scores of any fast-food restaurant in its market area. Just about anyone who's been to In-N-Out thinks it makes the best burger they've ever had.

In-N-Out has earned an almost cultlike following by doing something unthinkable: not changing. From the start, the chain has focused tenaciously on customer well-being. Its founding philosophy is as strongly held today as it was when the first In-N-Out Burger opened its doors: "Give customers the freshest, highest quality foods you can buy and provide them with friendly service in a sparkling clean environment."

Unlike McDonald's or Burger King, which introduce a seemingly unending stream of new menu items, In-N-Out's simple menu never changes. Instead, In-N-Out still focuses on what it does well: making really good hamburgers, really good fries, and really good shakes—that's it. The burgers are made from 100 percent pure, fresh beef with no additives, fillers, or preservatives. Potatoes and other fresh vegetables are hand cut daily at every restaurant, and shakes are made from—yes—real ice cream. In an industry increasingly enamored with technologies like cryogenically frozen ingredients and off-site food preparation, you won't find a single freezer, heat lamp, or microwave oven at an In-N-Out. Every meal is custom-made with fresh ingredients. "We serve every customer, one burger at a time," says one restaurant manager.

Although the menu might seem limited, In-N-Out employees will gladly customize a burger to each customer's tastes. In fact, over the years, a "secret menu" has emerged for customers who know the right code words (which aren't advertised or posted on the menu board). So a customer in the know might order a "Double-Double Animal Style" (double burger and double cheese, with pickles, grilled onions, extra spread, and fried mustard). Ordering a 4X4 gets you four beef patties and four slices of cheese, and a "grilled cheese" is an In-N-Out cheeseburger without the meat. Knowing the secret menu makes regulars feel even more special.

It's not just In-N-Out's food that pleases customers but also its friendly and well-trained employees. In-N-Out treats its employees very well. It pays new part-time staff $10 an hour to start and gives them regular pay raises. Part-timers also get paid vacations. General managers make at least $100,000 a year plus bonuses and a full-benefit package that rivals anything in the corporate world. Managers who meet goals are sent on lavish trips with their spouses, often to Europe in first-class seats. Managers are also promoted from within—80 percent of In-N-Out managers started at the very bottom. As a result, In-N-Out has one of the lowest turnover rates in an industry famous for high turnover.

Happy, motivated employees help to create loyal, satisfied customers. In fact, words like "loyal" and "satisfied" don't do justice to how customers feel about In-N-Out Burger. "Delighted" or even "fanatically loyal" might say it better. The restaurant chain has developed an unparalleled cult following. When a new In-N-Out first opens, the line of cars often stretches out a mile or more, and people stand in line for an hour to get a burger, fries, and a shake. Fans have been known to camp overnight to be first in line. When the first Arizona store opened in Scottsdale, people waited in line for as long as four hours while news helicopters buzzed above the parking lot.

Ardent fans willingly go out of their way to satisfy an In-N-Out Burger craving. Jeff Rose, a financial planner from Carbondale, Illinois, always stops at In-N-Out first when he visits his mother in Las Vegas. "You have to pass it when you drive to her house," he says in his own defense. But how does he explain that he once paid an extra $40 in cab fare to visit an In-N-Out on the way to the San Diego airport?

In-N-Out doesn't spend much on advertising—it doesn't have to. Other than a small promotional budget for local billboards and some radio ads, when it comes to getting the word out, In-N-Out lets its customers do its heavy lifting. Loyal customers are true apostles for the brand. They proudly wear In-N-Out T-shirts and slap In-N-Out bumper stickers on their cars. Rabid regulars drag a constant stream of new devotees into In-N-Out restaurants, an act often referred to as "the conversion." They can't wait to pass along the secret menu codes and share the sublime pleasures of diving into a 4X4 Animal Style. "When you tell someone else what 'animal style' means," says an analyst, "you feel like you're passing on a secret handshake. People really get into the whole thing."

In-N-Out Burger delights customers by focusing on friendly service and what it does well: making really good hamburgers, really good fries, and really good shakes—that's it.

In-N-Out doesn't use paid endorsers, but word-of-mouth regularly flows from the mouths of A-list celebrities. When former *Tonight Show* host Conan O'Brien once asked Tom Hanks what he recommended doing in Los Angeles, Hanks replied, "One of the truly great things about Los Angeles is In-N-Out Burger." PGA golf star Phil Mickelson talked about the chain so much that whenever he hit a losing streak, sportswriters began suggesting that he cut back on the Double-Doubles. Once, when celebrity socialite Paris Hilton was pulled over and charged with driving under the influence, her excuse was that she was on her way to satisfy an "In-N-Out urge" (a term originating from fans cutting the "B" and the "r" off from the company name on bumper stickers).

In-N-Out Burger is privately owned and doesn't release sales and profit figures. But if the long lines snaking out the door at lunchtime are any indication, the chain is doing very well financially. In-N-Out's average sales per store are double the industry average and well ahead of leaders McDonald's and Burger King. "The more chains like McDonald's and Burger King change and expand, the more In-N-Out sticks to its guns," says the analyst. "In a way, it symbolizes the ideal American way of doing business: Treating people well, focusing on product quality, and being very successful." In-N-Out's customers couldn't agree more. When it comes to fast-food chains, delighted customers will tell you, "there's In-N-Out, and then there's everyone else."

Sources: Stacy Perman, "In-N-Out Burger's Marketing Magic," *Businessweek*, April 24, 2009, accessed at www.businessweek.com; Stacy Perman, "The Secret Sauce at In-N-Out Burger," *Businessweek*, April 20, 2009, p. 68; Dan Macsai, "The Sizzling Secrets of In-N-Out Burger," *Fast Company*, April 22, 2009, accessed at www.fastcompany.com; Michael Rigert, "In-N-Out Fans Come Out En Masse for Orem Opening," *Daily Herald* (*Orem*), November 20, 2009; Lisa Jennings, "Regional Fast-Food Chains Top Satisfaction Survey," *Restaurant News*, February 15, 2010, accessed at www.nrn.com/article/regional-fast-food-chains-top-satisfaction-survey; Gil Rudawsky, "Is In-N-Out Burger Moving East?" *Daily Finance*, May 26, 2010, accessed at www.dailyfinance.com.

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

Customer Relationship Levels and Tools

Companies can build customer relationships at many levels, depending on the nature of the target market. At one extreme, a company with many low-margin customers may seek to develop *basic relationships* with them. For example, Nike does not phone or call on all of its consumers to get to know them personally. Instead, Nike creates relationships through brand-building advertising, public relations, and its Web site (www.Nike.com). At the other extreme, in markets with few customers and high margins, sellers want to create *full partnerships* with key customers. For example, Nike sales representatives work closely with the Sports Authority, Dick's Sporting Goods, Foot Locker, and other large retailers. In between these two extremes, other levels of customer relationships are appropriate.

Beyond offering consistently high value and satisfaction, marketers can use specific marketing tools to develop stronger bonds with customers. For example, many companies offer *frequency marketing programs* that reward customers who buy frequently or in large amounts. Airlines offer frequent-flyer programs, hotels give room upgrades to their frequent guests, and supermarkets give patronage discounts to "very important customers." For example, JetBlue Airways offers its TrueBlue members frequent-flyer points they can use on any seat on any JetBlue flight with no blackout dates. JetBlue promises its members "More award flights. More points. More to love." The airline's "Be True" marketing campaign even highlights real TrueBlue members who are nominated by JetBlue crewmembers for their TrueBlue dedication to inspiring causes.

Other companies sponsor *club marketing programs* that offer members special benefits and create member communities. ● For example, Harley-Davidson sponsors the Harley Owners

Building customer relationships: Harley Davidson sponsors the Harley Owners Group (H.O.G.), which gives Harley owners "an organized way to share their passion and show their pride." The worldwide club now numbers more than 1,500 local chapters and one million members.

Group (H.O.G.), which gives Harley riders a way to share their common passion of "making the Harley-Davidson dream a way of life." H.O.G. membership benefits include a quarterly *HOG* magazine, the *Touring Handbook*, a roadside assistance program, a specially designed insurance program, theft reward service, a travel center, and a "Fly & Ride" program enabling members to rent Harleys while on vacation. The worldwide club now numbers more than 1,500 local chapters and more than one million members.[13]

The Changing Nature of Customer Relationships

Significant changes are occurring in the ways in which companies are relating to their customers. Yesterday's big companies focused on mass marketing to all customers at arm's length. Today's companies are building deeper, more direct, and lasting relationships with more carefully selected customers. Here are some important trends in the way companies and customers are relating to one another.

Relating with More Carefully Selected Customers

Few firms today still practice true mass marketing—selling in a standardized way to any customer who comes along. Today, most marketers realize that they don't want relationships with every customer. Instead, they target fewer, more profitable customers. "Not all customers are worth your marketing efforts," states one analyst. "Some are more costly to serve than to lose." Adds another marketing expert, "If you can't say who your customers *aren't*, you probably can't say who your customers *are*."[14]

Many companies now use customer profitability analysis to pass up or weed out losing customers and target winning ones for pampering. One approach is to preemptively screen out potentially unprofitable customers. Progressive Insurance does this effectively. It asks prospective customers a series of screening questions to determine if they are right for the firm. If they're not, Progressive will likely tell them, "You might want to go to Allstate." A marketing consultant explains: "They'd rather send business to a competitor than take on unprofitable customers." Screening out unprofitable customers lets Progressive provide even better service to potentially more profitable ones.[15]

But what should the company do with unprofitable customers that it already has? If it can't turn them into profitable ones, it may even want to dismiss customers that are too unreasonable or that cost more to serve than they are worth. "Like bouncers in glitzy nightspots," says another consultant, "executives will almost certainly have to 'fire' [those] customers." For example, American Express recently sent letters to some of its members offering them $300 in exchange for paying off their balances and closing out their accounts. Reading between the lines, the credit card company was dumping unprofitable customers. Sprint took similar but more abrupt actions:[16]

> Sprint recently sent out letters to about 1,000 people to inform them that they had been summarily dismissed—but the recipients were Sprint *customers*, not employees. For about a year, the wireless-service provider had been tracking the number and frequency of support calls made by a group of high-maintenance users. According to a Sprint spokesperson, "in some cases, they were calling customer care hundreds of times a month . . . on the same issues, even after we felt those issues had been resolved." Ultimately, the company determined it could not meet the billing and service needs of this subset of subscribers and, therefore, waived their termination fees and cut off their service. Such "customer divestment" practices were once considered an anomaly. But new segmentation approaches and technologies have made it easier to focus on retaining the right customers and, by extension, showing problem customers the door.

Marketers don't want relationships with every possible customer. In fact, a company might want to "fire" customers that cost more to serve than to lose.

Relating More Deeply and Interactively

Beyond choosing customers more selectively, companies are now relating with chosen customers in deeper, more meaningful ways. Rather than relying on one-way, mass-media messages only, today's marketers are incorporating new, more interactive approaches that help build targeted, two-way customer relationships.

Two-Way Customer Relationships. New technologies have profoundly changed the ways in which people relate to one another. New tools for relating include everything from e-mail, Web sites, blogs, cell phones, and video sharing to online communities and social networks, such as Facebook, YouTube, and Twitter.

This changing communications environment also affects how companies and brands relate to customers. The new communications approaches let marketers create deeper customer involvement and a sense of community surrounding a brand—to make the brand a meaningful part of consumers' conversations and lives. "Becoming part of the conversation between consumers is infinitely more powerful than handing down information via traditional advertising," says one marketing expert. Says another, "People today want a voice and a role in their brand experiences. They want co-creation."[17]

However, at the same time that the new technologies create relationship-building opportunities for marketers, they also create challenges. They give consumers greater power and control. Today's consumers have more information about brands than ever before, and they have a wealth of platforms for airing and sharing their brand views with other consumers. Thus, the marketing world is now embracing not only customer relationship management, but also **customer-managed relationships**.

Customer-managed relationships
Marketing relationships in which customers, empowered by today's new digital technologies, interact with companies and with each other to shape their relationships with brands.

Greater consumer control means that, in building customer relationships, companies can no longer rely on marketing by *intrusion*. Instead, marketers must practice marketing by *attraction*—creating market offerings and messages that involve consumers rather than interrupt them. Hence, most marketers now augment their mass-media marketing efforts with a rich mix of direct marketing approaches that promote brand-consumer interaction.

For example, many brands are creating dialogues with consumers via their own or existing *online social networks*. To supplement their marketing campaigns, companies now routinely post their latest ads and made-for-the-Web videos on video-sharing sites. They join social networks. Or they launch their own blogs, online communities, or consumer-generated review systems, all with the aim of engaging customers on a more personal, interactive level.

Take Twitter, for example. Organizations ranging from Dell, JetBlue Airways, and Dunkin' Donuts to the Chicago Bulls, NASCAR, and the Los Angeles Fire Department have created Twitter pages and promotions. They use "tweets" to start conversations with Twitter's more than six million registered users, address customer service issues, research customer reactions, and drive traffic to relevant articles, Web sites, contests, videos, and other brand activities. For example, Dell monitors Twitter-based discussions and responds quickly to individual problems or questions. Tony Hsieh, CEO of the Zappos family of companies, who receives more than 1,000 customer tweets per day, says that Twitter lets him give customers "more depth into what we're like, and my own personality." Another marketer notes that companies can "use Twitter to get the fastest, most honest research any company ever heard—the good, bad, and ugly—and it doesn't cost a cent."[18]

Online social networks: Many brands are creating dialogues with consumers via their own or existing networks. For example, Tony Hsieh receives more than 1,000 customer tweets per day. Twitter lets him give customers "more depth into what we're like, and my own personality."

Similarly, almost every company has something going on Facebook these days. Starbucks has more than six million Facebook "fans"; Coca-Cola has more than five million. Networks like Facebook can get consumers involved with and talking about a brand. For example, Honda's "Everybody Knows Somebody Who Loves a Honda" Facebook page let visitors upload photos of their cars or link up to owners of their favorite old Hondas worldwide. It asks people to help prove that "we all really can be connected through Honda love." The campaign netted about two million Facebook friends in less than two months, more than double previous fan levels.[19]

IKEA used a simple but inspired Facebook campaign to promote the opening of a new store in Malmo, Sweden. It opened a Facebook profile for the store's manager, Gordon Gustavsson. Then it uploaded pictures of IKEA showrooms to Gustavsson's Facebook photo album and announced that whoever was first to photo tag a product in the pictures with their name would win it. Thousands of customers rushed to tag items. Word spread quickly to friends, and customers were soon begging for more pictures. More than just looking at an ad with IKEA furniture in it, the Facebook promotion had people pouring over the pictures, examining products item by item.[20]

Most marketers are still learning how to use social media effectively. The problem is to find unobtrusive ways to enter consumers' social conversations with engaging and relevant brand messages. Simply posting a humorous video, creating a social network page, or hosting a blog isn't enough. Successful social network marketing means making relevant and genuine contributions to consumer conversations. "Nobody wants to be friends with a brand," says one online marketing executive. "Your job [as a brand] is to be part of other friends' conversations."[21]

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

Consumer-Generated Marketing. 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. But increasingly, companies are *inviting* consumers to play a more active role in shaping products and brand messages.

Some companies ask consumers for new product ideas. For example, Coca-Cola's Vitaminwater brand recently set up a Facebook app to obtain consumer suggestions for a new flavor, promising to manufacture and sell the winner ("Vitaminwater was our idea; the next one will be yours."). The new flavor—Connect (black cherry-lime with vitamins and a kick of caffeine)—was a big hit. In the process, Vitaminwater doubled its Facebook fan base to more than one million.[22]

Other companies are inviting customers to play an active role in shaping ads. For example, PepsiCo, Southwest Airlines, MasterCard, Unilever, H.J. Heinz, and many other companies have run contests for consumer-generated commercials that have been aired on national television. For the past several years, PepsiCo's Doritos brand has held a "Crash the Super Bowl" contest in which it invites 30-second ads from consumers and runs the best ones during the game. The consumer-generated ads have been a huge success. Last year, consumers submitted nearly 4,000 entries. The winning fan-produced Doritos ad (called "Underdog") placed number two in the *USA Today* Ad Meter ratings, earning the creator a $600,000 cash prize from PepsiCo. The lowest-rated of the four consumer-made ads came in 17th out of 65 Super Bowl ads.[23]

Harnessing consumer-generated marketing: When H.J. Heinz invited consumers to submit homemade ads for its ketchup brand on YouTube, it received more than 8,000 entries—some were very good, but most were only so-so or even downright dreadful.

However, 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. For example, when Heinz invited consumers to submit homemade ads for its ketchup on its YouTube page, it ended up sifting through more than

8,000 entries, of which it posted nearly 4,000. Some of the amateur ads were very good—entertaining and potentially effective. Most, however, were so-so at best, and others were downright dreadful. In one ad, a contestant chugged ketchup straight from the bottle. In another, the would-be filmmaker brushed his teeth, washed his hair, and shaved his face with Heinz's product.[24]

Consumer-generated marketing, whether invited by marketers or not, has become a significant marketing force. Through a profusion of consumer-generated videos, blogs, and Web sites, consumers are playing an increasing role in shaping their own brand experiences. Beyond creating brand conversations, customers are having an increasing say about everything from product design, usage, and packaging to pricing and distribution.

Author Comment | Marketers can't create customer value and build customer relationships by themselves. They must work closely with other company departments and partners outside the firm.

Partner Relationship Management

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

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

Partners Inside the Company

Traditionally, marketers have been charged with understanding customers and representing customer needs to different company departments. The old thinking was that marketing is done only by marketing, sales, and customer-support people. However, in today's more connected world, every functional area can interact with customers, especially electronically. The new thinking is that—no matter what your job is in a company—you must understand marketing and be customer focused. David Packard, the late cofounder of HP, wisely said, "Marketing is far too important to be left only to the marketing department."[25]

Today, rather than letting each department go its own way, firms are linking all departments in the cause of creating customer value. Rather than assigning only sales and marketing people to customers, they are forming cross-functional customer teams. For example, P&G assigns customer development teams to each of its major retailer accounts. These teams—consisting of sales and marketing people, operations specialists, market and financial analysts, and others—coordinate the efforts of many P&G departments toward helping the retailer be more successful.

Marketing Partners Outside the Firm

Changes are also occurring in how marketers connect with their suppliers, channel partners, and even competitors. Most companies today are networked companies, relying heavily on partnerships with other firms.

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. For example, the supply chain for PCs consists of suppliers of computer chips and other components, the computer manufacturer, and the distributors, retailers, and others who sell the computers.

Through *supply chain management*, many companies today are strengthening their connections with partners all along the supply chain. They know that their fortunes rest not just on how well they perform. Success at building customer relationships also rests on how well their entire supply chain performs against competitors' supply chains. These companies don't just treat suppliers as vendors and distributors as customers. They treat both as partners in delivering customer value. On the one hand, for example, Toyota works closely with carefully selected suppliers to improve quality and operations efficiency. On the other hand, it works with its franchise dealers to provide top-grade sales and service support that will bring customers in the door and keep them coming back.

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

Capturing Value from Customers (pp 20–22)

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

Creating Customer Loyalty and Retention

Good customer relationship management creates customer delight. In turn, delighted customers remain loyal and talk favorably to others about the company and its products. Studies show big differences in the loyalty of customers who are less satisfied, somewhat satisfied, and completely satisfied. Even a slight drop from complete satisfaction can create an enormous drop in loyalty. Thus, the aim of customer relationship management is to create not only customer satisfaction but also customer delight.

The recent economic recession put strong pressures on customer loyalty. It created a new consumer frugality that will last well into the future. One recent study found that, even in an improved economy, 55 percent of consumers say they would rather get the best price than the best brand. Nearly two-thirds say they will now shop at a different store with lower prices even if it's less convenient. It's five times cheaper to keep an old customer than acquire a new one. Thus, companies today must shape their value propositions even more carefully and treat their profitable customers well.[26]

Losing a customer means losing more than a single sale. It means losing the entire stream of purchases that the customer would make over a lifetime of patronage. For example, here is a dramatic illustration of **customer lifetime value**:

Customer lifetime value
The value of the entire stream of purchases that the customer would make over a lifetime of patronage.

Stew Leonard, who operates a highly profitable four-store supermarket in Connecticut and New York, says he sees $50,000 flying out of his store every time he sees a sulking customer. Why? Because his average customer spends about $100 a week, shops 50 weeks a year, and remains in the area for about 10 years. If this customer has an unhappy experience and switches to another supermarket, Stew Leonard's has lost $50,000 in revenue. The loss can be much greater if the disappointed customer shares the bad experience with other customers and causes them to defect. To keep customers coming back, Stew Leonard's has created what the *New York Times* has dubbed the "Disneyland of Dairy Stores," complete with costumed characters, scheduled entertainment, a petting zoo, and animatronics throughout the store. From its humble beginnings as a small dairy store in 1969, Stew Leonard's has grown at an amazing pace. It's built 29 additions onto the original store, which now serves more than 300,000 customers each week. This legion of loyal shoppers is largely a result of the store's passionate approach to customer service. "Rule #1: The customer is always right. Rule #2: If the customer is ever wrong, re-read rule #1."[27]

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

Stew Leonard is not alone in assessing customer lifetime value. Lexus, for example, estimates that a single satisfied and loyal customer is worth more than $600,000 in lifetime sales. And the estimated lifetime value of a young mobile phone consumer is $26,000.[28] In fact, a company can lose money on a specific transaction but still benefit greatly from a long-term relationship. This means that companies must aim high in building customer relationships. Customer delight creates an emotional relationship with a brand, not just a rational preference. And that relationship keeps customers coming back.

Growing Share of Customer

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

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

To increase share of customer, firms can offer greater variety to current customers. Or they can create programs to cross-sell and up-sell to market more products and services to existing customers. For example, Amazon.com is highly skilled at leveraging relationships with its 88 million customers to increase its share of each customer's purchases. Originally an online bookseller, Amazon.com now offers customers music, videos, gifts, toys, consumer electronics, office products, home improvement items, lawn and garden products, apparel and accessories, jewelry, tools, and even groceries. In addition, based on each customer's purchase history, previous product searches, and other data, the company recommends related products that might be of interest. This recommendation system influences up to 30 percent of all sales.[29] In these ways, Amazon.com captures a greater share of each customer's spending budget.

Building Customer Equity

We can now see the importance of not only acquiring customers but also keeping and growing them. One marketing consultant puts it this way: "The only value your company will ever create is the value that comes from customers—the ones you have now and the ones you will have in the future. Without customers, you don't have a business."[30] Customer relationship management takes a long-term view. Companies want not only to create profitable customers but also "own" them for life, earn a greater share of their purchases, and capture their customer lifetime value.

What Is Customer Equity?

Customer equity
The total combined customer lifetime values of all of the company's customers.

The ultimate aim of customer relationship management is to produce high *customer equity*.[31] **Customer equity** is the total combined customer lifetime values of all of the company's current and potential customers. As such, it's a measure of the future value of the company's customer base. Clearly, the more loyal the firm's profitable customers, the higher its customer equity. Customer equity may be a better measure of a firm's performance than current sales or market share. Whereas sales and market share reflect the past, customer equity suggests the future. ● Consider Cadillac:[32]

● **Managing customer equity: To increase customer lifetime value and customer equity, Cadillac needs to come up with more stylish models and marketing that can attract younger buyers.**

> In the 1970s and 1980s, Cadillac had some of the most loyal customers in the industry. To an entire generation of car buyers, the name *Cadillac* defined American luxury. Cadillac's share of the luxury car market reached a whopping 51 percent in 1976. Based on market share and sales, the brand's future looked rosy. However, measures of customer equity would have painted a bleaker picture. Cadillac customers were getting older (average age 60) and average customer lifetime value was falling. Many Cadillac buyers were on their last cars. Thus, although Cadillac's market share was good, its customer equity was not. Compare this with BMW. Its more youthful and vigorous image didn't win BMW the early market share war. However, it did win BMW younger customers with

higher customer lifetime values. The result: In the years that followed, BMW's market share and profits soared while Cadillac's fortunes eroded badly.

In recent years, Cadillac has attempted to make the Caddy cool again by targeting a younger generation of consumers. Still, the average age of its buyers remains a less-than-youthful 62 (13 years older than typical BMW owners). Says one analyst, "no image remake can fully succeed until Cadillac comes up with more stylish models and marketing that can attract younger buyers. For now, the company's image will likely remain dinged as it continues churning out land yachts such as its DTS, which . . . appeals mainly to buyers in their 70s." It's a real "geezer-mobile." As a result, the brand's fortunes continue to fall; last year was its worst sales year since 1953. The moral: Marketers should care not just about current sales and market share. Customer lifetime value and customer equity are the name of the game.

Building the Right Relationships with the Right Customers

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

The company can classify customers according to their potential profitability and manage its relationships with them accordingly. One classification scheme defines four relationship groups based on potential profitability and projected loyalty: strangers, butterflies, true friends, and barnacles.[33] Each group requires a different relationship management strategy. For example, "strangers" show low potential profitability and little projected loyalty. There is little fit between the company's offerings and their needs. The relationship management strategy for these customers is simple: Don't invest anything in them.

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

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

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

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

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

The Changing Marketing Landscape (pp 22–29)

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

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

The Uncertain Economic Environment

Beginning in 2008, the United States and world economies experienced a stunning economic meltdown, unlike anything since the Great Depression of the 1930s. The stock market plunged, and trillions of dollars of market value simply evaporated. The financial crisis left shell-shocked consumers short of both money and confidence as they faced losses in income, a severe credit crunch, declining home values, and rising unemployment.

The so-called Great Recession caused many consumers to rethink their spending priorities and cut back on their buying. After a decade of overspending, "frugality has made a comeback," says one analyst. More than just a temporary change, the new consumer buying attitudes and spending behavior will likely remain for many years to come. "The 'new frugality,' born of the Great Recession, . . . is now becoming entrenched consumer behavior that is reshaping consumption patterns in ways that will persist even as the economy rebounds," says another analyst.[34] Even in its aftermath, consumers are now spending more carefully. (See Real Marketing 1.2.)

In response, companies in all industries—from discounters such as Target to luxury brands such as Lexus—have aligned their marketing strategies with the new economic realities. More than ever, marketers are emphasizing the *value* in their value propositions. They are focusing on value-for-the-money, practicality, and durability in their product offerings and marketing pitches. "Value is the magic word," says a P&G marketing executive. These days, "people are doing the math in their heads, and they're being much more thoughtful before making purchases. Now, we're going to be even more focused on helping consumers see value." For example, although it might cost a little more initially, P&G's Tide Total Care proclaims that the product "helps keep clothes like new even after 30 washes."[35]

Similarly, in the past, discount retailer Target focused on the "expect more" side of its "Expect More. Pay Less." value proposition. ● But that has now changed.[36]

> For years, Target's carefully cultivated "upscale-discounter" image successfully differentiated it from Walmart's more hard-nosed "lowest price" position. But when the economy soured, many consumers believed that Target's trendier assortments and hip marketing also meant steeper prices, and Target's performance slipped relative to Walmart's. So Target shifted its focus more to the "pay less" half of the slogan. It's now making certain that its prices are in line with Walmart's and that customers are aware of it. Although still trendy, Target's ads feature explicit low-price and savings appeals. "We're . . . trying to define and find the right balance between 'Expect More. Pay Less.'" says Target's CEO.

● In tough economic times, companies must emphasize the *value* in their value propositions. Target is now focusing squarely on the "pay less" side of its "Expect More. Pay Less." positioning.

Even wealthier consumers have joined the trend toward frugality. Conspicuous free spending is no longer so fashionable. As a result, even luxury brands are stressing value. For years, Lexus has emphasized status and performance. For example, its pre-Christmas ads typically feature a loving spouse giving his or her significant other a new Lexus wrapped in a big red bow. Lexus is still running those ads, but it's also hedging its bets by running other ads with the tagline "lowest cost of ownership," referring to Lexus' decent fuel economy, durability, and resale value.

In adjusting to the new economy, companies were tempted to cut marketing budgets deeply and slash prices in an effort to coax cash-strapped customers into opening their wallets. However, although cutting costs and offering

Real Marketing 1.2

The New Era of Consumer Frugality

Frugality has made a comeback. Beaten down by the recent Great Recession, Americans are showing an enthusiasm for thriftiness not seen in decades. This behavioral shift isn't simply about spending less. The new frugality emphasizes stretching every dollar. It means bypassing the fashion mall for the discount chain store, buying secondhand clothes and furniture, packing a lunch instead of eating out, or trading down to store brands. Consumers are clipping more coupons and swiping their credit cards less. Says one analyst:

> A shift in behavior has taken place. Consumers across all income segments have responded to the economy by reining in spending, postponing big purchases, and trading down when possible. Above all else, they're seeking out the best value for their money. Marketers must take a different tack to reach these increasingly pragmatic consumers: Forego the flash and prove your products' worth.

Not that long ago, yoga teacher Gisele Sanders shopped at the Nordstrom in Portland, Oregon, and didn't think twice about dropping $30 for a bottle of Chianti to go with dinner. That was before the recession, when her husband, a real estate agent, began to feel the brunt of slowing home sales. Now, even with the improved economy, Sanders picks up grocery-store wine at $10 or less per bottle, shops for used clothes, and takes her mother's advice about turning down the thermostat during winter. "It's been a long time coming," she said. "We were so off the charts before."

Such frugality is likely to be more than a fad. "It is a whole reassessment of values," says a retailing consultant. "We had just been shopping until we drop, and consuming and buying it all, and replenishing before things wear out. People [have learned] again to say, 'No, not today.'" Even people who can afford to indulge themselves are doing so more sparingly and then bargain hunting to offset the big purchases.

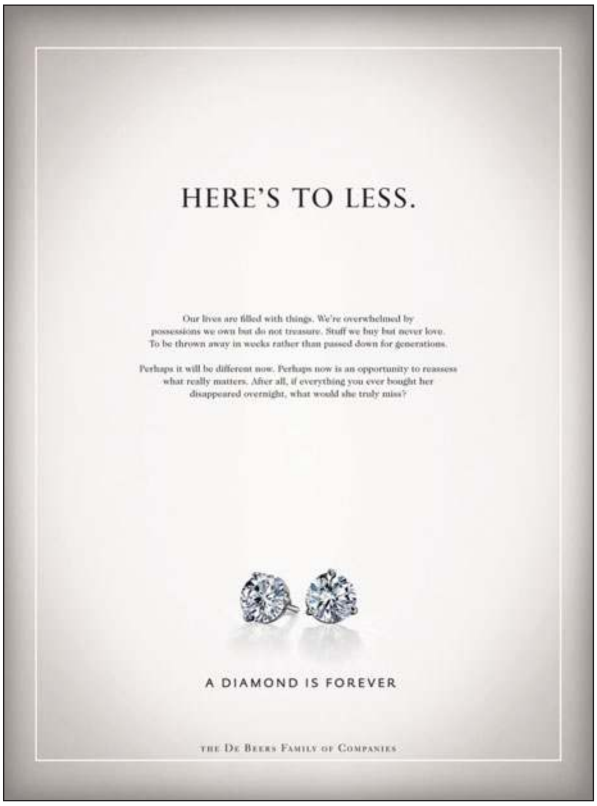
When the recession hit, the housing bust, credit crunch, and stock-market plunge ate away at the retirement savings and confidence of consumers who for years operated on a buy-now, pay-later philosophy, chasing bigger homes, bigger cars, and better brands. The new economic realities have forced families to bring their spending in line with their incomes and rethink priorities. Notes a market analyst, "The recession has tempered rampant and excessive consumption, which has given way to more mindful choices." Keeping up with the Joneses and conspicuous consumption have taken a backseat to practical consumption and stretching buying dollars.

Even as the economy has recovered, it's difficult to predict how long the pullback will last, particularly among generations of consumers who have never seen such a sharp economic downturn. But experts agree that the impact of the recession will last well into the future. "The newfound thrifty consumer is not going anywhere," declares one business writer. "Frugality's in. Value's under scrutiny. There's a new consumer in town who's adapting to circumstances by spending less and scrutinizing more." Says another, "Americans will continue to pinch their pennies long into the post-recession era." A recent survey asked consumers whether they "intend to revert back to my prerecession buying habits" in several specific categories during the next year. In most categories, fewer than one in five consumers said they planned to do so.

But most consumers don't see the new frugality as such a bad thing. The survey also showed that 78 percent of people believed the recession has changed their spending habits for the better. In another survey, 79 percent of consumers agreed with the statement, "I feel a lot smarter now about the way I shop versus two years ago." According to a researcher, "They look at their old spending habits and are a bit embarrassed by their behavior. The new consumer is wiser and in more control, so while consumption may [not] be as carefree and fun as it was before, consumers seem to like their new outlook, mindfulness, and strength."

For example, in Maine, Sindi Card says her husband's job is now secure. However, because the couple has two sons in college in the rebounding but still uncertain economy, she fixed her broken 20-year-old clothes dryer herself. It was a stark change from the past, when she would have taken the old model to the dump and had a new one delivered. With help from an appliance-repair Web site, she saved hundreds of dollars. "We all need to find a way to live within our means," she said.

The new back-to-basics mentality applies to all kinds of purchases. Indeed, some of the behavior associated with the new frugality betrays an America having difficulty letting go of



The new consumer frugality: Today, marketers in all industries must clearly spell out their value propositions. Even diamond marketer De Beers has adjusted its long-standing "a diamond is forever" promise to these more frugal times.

expensive tastes. Donna Speigel has built a Cincinnati-area chain of upscale consignment shops called the Snooty Fox aimed at women who still have to have their Louis Vuitton and Ann Taylor products but want them at a fraction of the retail price. Her sales were up 17 percent last October. In the suburbs of Dallas, Kay Smith still drives a black Lexus but now passes by the high-end malls and heads to Walmart. "I think about everything I buy now," Ms. Smith says.

Still, the new frugality doesn't mean that consumers have resigned themselves to lives of deprivation. As the economy improves, they're starting to indulge in luxuries and bigger-ticket purchases again, just more selectively. "We're seeing an emergence in what we call 'conscious recklessness,' where consumers actually plan out frivolous or indulgent spending," says the researcher. It's like someone on a diet who saves up calories by eating prudently during the week and then lets loose on Friday night. But "people are more mindful now and aware of the consequences of their (and others') spending. So luxury is [again] on the 'to-do' list, but people are taking a more mindful approach to where, how, and on what they spend."

What does the new era of frugality mean to marketers? Whether it's for everyday products or expensive luxuries, marketers must clearly spell out their value propositions: what it is that makes their brands worth a customer's hard-earned money. "The saying has always been, 'Sell the sizzle, not the steak.' Well, I think there's been too much sizzle," says one luxury goods marketer. "Image alone doesn't sell anymore—consumers want to know what they're getting for their money."

Even diamond marketer De Beers has adjusted its long-standing "A diamond is forever" value proposition to these more frugal times. One ad headlined "Here's to Less," makes that next diamond purchase seem—what else—downright practical. "Our lives are filled with things. We're overwhelmed by possessions we own but do not treasure. Stuff we buy but never love. To be thrown away in weeks rather than passed down for generations. Perhaps we will be different now. Perhaps now is an opportunity to reassess what really matters. After all, if everything you ever bought her disappeared overnight, what would she truly miss? A diamond is forever."

Sources: Portions adapted from Dan Sewell, "New Frugality Emerges," *Washington Times*, December 1, 2008; with quotes, extracts, and other information from Noreen O'Leary, "Squeeze Play," *Adweek*, January 12, 2009, pp. 8–9; "Consumer 'New Frugality' May Be an Enduring Feature of Post-Recession Economy, Finds Booz & Company Survey," *Business Wire*, February 24, 2010; Piet Levy, "How to Reach the New Consumer," *Marketing News*, February 28, 2010, pp. 16–20; Mark Dolliver, "Will Traumatized Consumers Ever Recover?" *Adweek*, March 22, 2010, accessed at www.adweek.com; "Is Shopping Behavior Permanently Muted?" *USA Today* (*Magazine*), April 2010, pp. 3–4; and "Maybe Demand Isn't so Pent Up," *Adweek,* July 26, 2010, p. 19.

selected discounts can be important marketing tactics in a down economy, smart marketers understand that making cuts in the wrong places can damage long-term brand images and customer relationships. The challenge is to balance the brand's value proposition with the current times while also enhancing its long-term equity.

"A recession creates winners and losers just like a boom," notes one economist. "When a recession ends, when the road levels off and the world seems full of promise once more, your position in the competitive pack will depend on how skillfully you managed [during the tough times]."[37] Thus, rather than slashing prices, many marketers held the line on prices and instead explained why their brands are worth it. And rather than cutting their marketing budgets in the difficult times, companies such as Walmart, McDonald's, Hyundai, and General Mills maintained or actually increased their marketing spending. The goal in uncertain economic times is to build market share and strengthen customer relationships at the expense of competitors who cut back.

A troubled economy can present opportunities as well as threats. For example, the fact that 40 percent of consumers say they are eating out less poses threats for many full-service restaurants. However, it presents opportunities for fast-food marketers. For instance, during the recession, a Seattle McDonald's franchise operator took on Starbuck's in its hometown with billboards proclaiming "Large is the new grande" and "Four bucks is dumb." Playing on its cheap-eats value proposition, McDonald's worldwide sales grew steadily through the worst of the downturn, whereas Starbucks sales stuttered. The premier coffee chain was forced to shutter many unprofitable stores.[38]

Similarly, the trend toward saving money by eating at home plays into the hands of name-brand food makers, who have positioned their wares as convenient and—compared with a restaurant meal—inexpensive. Rather than lowering prices, many food manufacturers have instead pointed out the value of their products as compared to eating out. An ad for Francesco Rinaldi pasta sauce asserts, "Now you can feed a family of four for under $10." Kraft's DiGiorno pizza ads employ "DiGiornonomics," showing that the price of a DiGiorno pizza baked at home is half that of a delivery pizza.

The Digital Age

The recent technology boom has created a digital age. The explosive growth in computer, communications, information, and other digital technologies has had a major impact on the ways companies bring value to their customers. Now, more than ever before, we are all connected to each other and to information anywhere in the world. Where it once took days or weeks to receive news about important world events, we now learn about them as they are occurring via live satellite broadcasts and news Web sites. Where it once took weeks to correspond with others in distant places, they are now only moments away by cell phone, e-mail, or Web cam. For better or worse, technology has become an indispensable part of our lives:[39]

> Karl and Dorsey Gude of East Lansing, Michigan, can remember simpler mornings not too long ago. They sat together and chatted as they ate breakfast and read the newspaper and competed only with the television for the attention of their two teenage sons. That was so last century. Today, Karl wakes around 6:00 AM to check his work e-mail and his Facebook and Twitter accounts. The two boys, Cole and Erik, start each morning with text messages, video games, and Facebook. Dorsey cracks open her laptop right after breakfast. The Gudes' sons sleep with their phones next to their beds, so they start the day with text messages in place of alarm clocks. Karl, an instructor at Michigan State University, sends texts to his two sons to wake them up. "We use texting as an in-house intercom," he says. "I could just walk up stairs, but they always answer their texts." This is morning in the Internet age. After six to eight hours of network deprivation—also known as sleep—people are increasingly waking up and lunging for cell phones and laptops, sometimes even before swinging their legs to the floor and tending to more biologically current activities.

The digital age has provided marketers with exciting new ways to learn about and track customers and create products and services tailored to individual customer needs. It's helping marketers communicate with customers in large groups or one-to-one. Through Web videoconferencing, marketing researchers at a company's headquarters in New York can look in on focus groups in Chicago or Paris without ever stepping onto a plane. With only a few clicks of a mouse button, a direct marketer can tap into online data services to learn anything from what car you drive to what you read to what flavor of ice cream you prefer. Or, using today's powerful computers, marketers can create their own detailed customer databases and use them to target individual customers with offers designed to meet their specific needs.

Internet
A vast public web of computer networks that connects users of all types all around the world to each other and to an amazingly large information repository.

Digital technology has also brought a new wave of communication, advertising, and relationship building tools—ranging from online advertising, video-sharing tools, and cell phones to Web apps and online social networks. The digital shift means that marketers can no longer expect consumers to always seek them out. Nor can they always control conversations about their brands. The new digital world makes it easy for consumers to take marketing content that once lived only in advertising or on a brand Web site with them wherever they go and share it with friends. More than just add-ons to traditional marketing channels, the new digital media must be fully integrated into the marketer's customer-relationship-building efforts.

The most dramatic digital technology is the **Internet**. The number of Internet users worldwide now stands at more than 1.8 billion and will reach an estimated 3.4 billion by 2015. On a typical day, 58 percent of American adults check their e-mail, 50 percent use Google or another search engine to find information, 38 percent get the news, 27 percent keep in touch with friends on social-networking sites such as Facebook and LinkedIn, and 19 percent watch a video on a video-sharing site such as YouTube. And by 2020, many experts believe, the Internet will be accessed primarily via a mobile device operated by voice, touch, and even thought or "mind-controlled human-computer interaction."[40]

● **Web 3.0—the third coming of the Web—"will bring you a virtual world you can carry in your pocket."**

Whereas *Web 1.0* connected people with information, the next generation *Web 2.0* has connected people with people, employing a fast-growing set of new Web technologies such as blogs, social-networking sites, and video-sharing sites. ● *Web 3.0*, starting now, puts all these information and people connections together in ways that will make our Internet experience more relevant, useful, and enjoyable.[41]

In Web 3.0, small, fast, customizable Internet applications, accessed through multifunction mobile devices, "will bring you a virtual world you can carry in your pocket. We will be carrying our amusements with us—best music collections, video collections, instant news access—all tailored to our preferences and perpetually updatable. And as this cooler stuff [evolves], we won't be connecting to this new Web so much as walking around inside it."[42] The interactive, community-building nature of these new Web technologies makes them ideal for relating with customers.

Online marketing is now the fastest-growing form of marketing. These days, it's hard to find a company that doesn't use the Web in a significant way. In addition to the click-only dot-coms, most traditional brick-and-mortar companies have now become "click-and-mortar" companies. They have ventured online to attract new customers and build stronger relationships with existing ones. Today, more than 75 percent of American online users use the Internet to shop.[43] Business-to-business (B-to-B) online commerce is also booming. It seems that almost every business has created shops on the Web.

Thus, the technology boom is providing exciting new opportunities for marketers. We will explore the impact of digital marketing technologies in future chapters, especially Chapter 17.

Rapid Globalization

As they are redefining their customer relationships, marketers are also taking a fresh look at the ways in which they relate with the broader world around them. In an increasingly smaller world, companies are now connected *globally* with their customers and marketing partners.

Today, almost every company, large or small, is touched in some way by global competition. A neighborhood florist buys its flowers from Mexican nurseries, and a large U.S. electronics manufacturer competes in its home markets with giant Korean rivals. A fledgling Internet retailer finds itself receiving orders from all over the world at the same time that an American consumer-goods producer introduces new products into emerging markets abroad.

American firms have been challenged at home by the skillful marketing of European and Asian multinationals. Companies such as Toyota, Nokia, Nestlé, and Samsung have often outperformed their U.S. competitors in American markets. Similarly, U.S. companies in a wide range of industries have developed truly global operations, making and selling their products worldwide. ● Quintessentially American McDonald's now serves 60 million customers daily in more than 32,000 local restaurants in 100 countries worldwide—65 percent of its corporate revenues come from outside the United States. Similarly, Nike markets in more than 180 countries, with non-U.S. sales accounting for 66 percent of its worldwide sales.[44] Today, companies are not only selling more of their locally produced goods in international markets but also buying more supplies and components abroad.

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

● U.S. companies in a wide range of industries have developed truly global operations. Quintessentially American McDonald's captures 65 percent of its revenues from outside the United States.

Sustainable Marketing—The Call for More Social Responsibility

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

Sustainable marketing: Patagonia believes in "using business to inspire solutions to the environmental crisis." It backs these words by pledging at least 1 percent of its sales or 10 percent of its profits, whichever is greater, to the protection of the natural environment.

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

Some companies, such as Patagonia, Ben & Jerry's, Timberland, Method, and others, practice "caring capitalism," setting themselves apart by being civic minded and responsible. They build social responsibility and action into their company value and mission statements. For example, when it comes to environmental responsibility, outdoor gear marketer Patagonia is "committed to the core." "Those of us who work here share a strong commitment to protecting undomesticated lands and waters," says the company's Web site. "We believe in using business to inspire solutions to the environmental crisis." Patagonia backs these words with actions. Each year it pledges at least 1 percent of its sales or 10 percent of its profits, whichever is greater, to the protection of the natural environment.[45] We will revisit the topic of sustainable marketing in greater detail in Chapter 20.

The Growth of Not-for-Profit Marketing

In recent years, marketing also has become a major part of the strategies of many not-for-profit organizations, such as colleges, hospitals, museums, zoos, symphony orchestras, and even churches. The nation's not-for-profits face stiff competition for support and membership. Sound marketing can help them attract membership and support.[46] Consider the marketing efforts of the American Society for the Prevention of Cruelty to Animals (ASPCA):[47]

> The ASPCA gets its funding from more than one million active supporters. However, like many not-for-profits, attracting new donors is tricky—that is, until singer-songwriter Sarah McLachlan came along and created what many in not-for-profit circles call "The Ad." Produced by a small 12-person Canadian firm, EagleCom, the two-minute television commercial features heartbreaking photographs of dogs and cats scrolling across the screen while McLachlan croons the haunting song "Angel" in the background (see the "The Ad" at www.youtube.com/watch?v=Iu_JqNdp2As). McLachlan appears only momentarily to ask viewers to share her support for the ASPCA. The heart-rending commercial has tugged at viewers' heartstrings and opened their wallets. This one ad attracted 200,000 new donors and raised roughly $30 million for the organization since it started running in early 2007. That makes it a landmark in nonprofit fund-raising, where such amounts are virtually unimaginable for a single commercial. The donations from the McLachlan commercial have enabled the ASPCA to buy prime-time slots on national networks, such as CNN, which in turn has generated more income. The ASPCA is now rolling out new McLachlan ads to further bolster its fund-raising efforts.

Not-for-profit marketing: A single two-minute TV commercial—"The Ad"—has attracted 200,000 new donors and raised roughly $30 million for the ASPCA since it started running in early 2007.

Government agencies have also shown an increased interest in marketing. For example, the U.S. military has a marketing plan to attract recruits to its different services, and various government agencies are now designing *social marketing campaigns* to encourage energy conservation and concern for the environment or discourage smoking, excessive drinking, and drug use. Even the once-stodgy U.S. Postal Service has developed innovative marketing to sell commemorative stamps, promote its priority mail services, and lift its image as a contemporary and competitive organization. In all, the U.S. government is the nation's 33rd largest advertiser, with an annual advertising budget of more than $1 billion.[48]

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

So, What Is Marketing? Pulling It All Together (pp 29–30)

At the start of this chapter, Figure 1.1 presented a simple model of the marketing process. Now that we've discussed all the steps in the process, **Figure 1.5** presents an expanded model that will help you pull it all together. What is marketing? Simply put, marketing is the process of building profitable customer relationships by creating value for customers and capturing value in return.

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

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

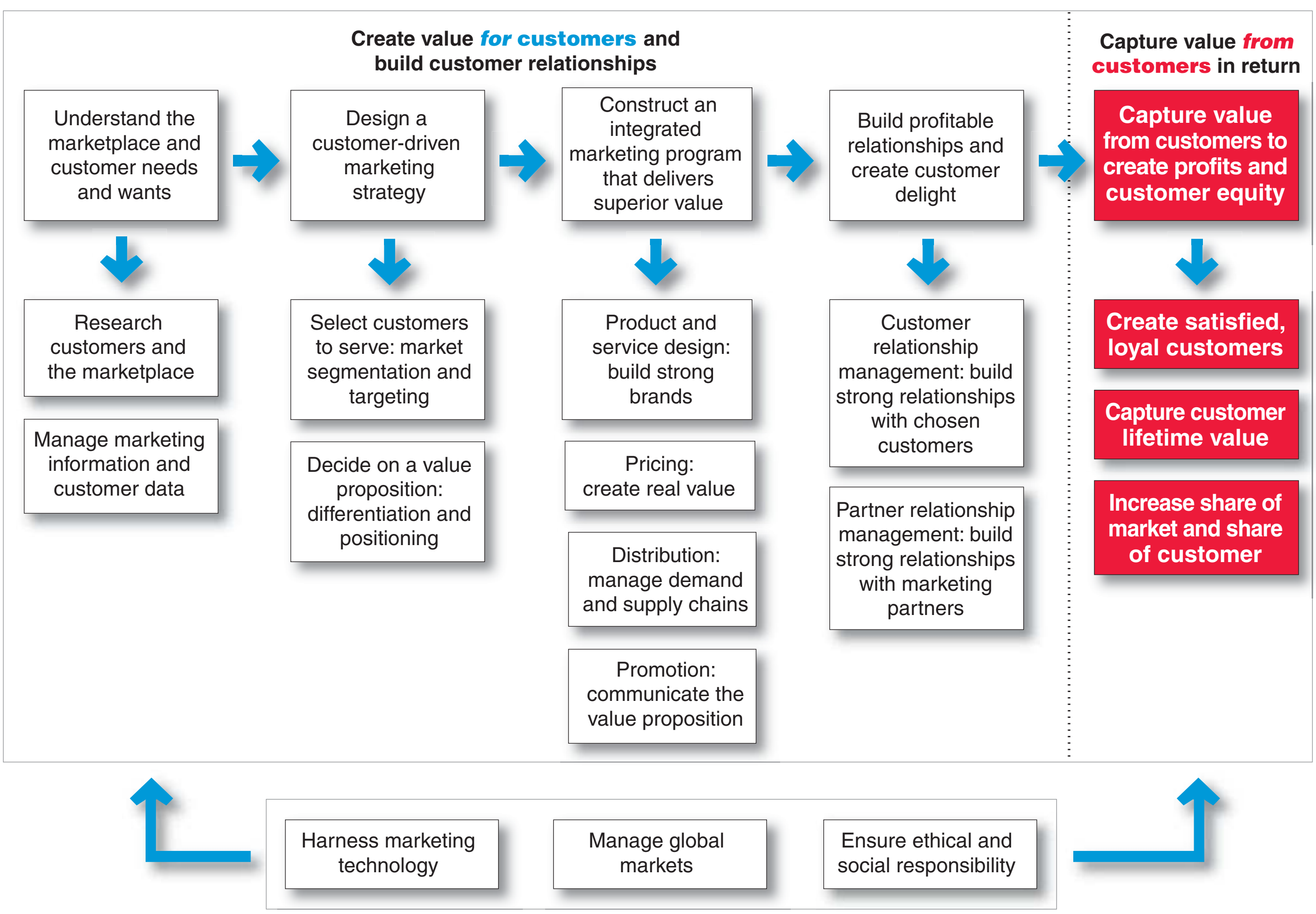


FIGURE | 1.5
An Expanded Model of the Marketing Process

targeted customers?" (differentiation and positioning). Here, the marketer outlines a value proposition that spells out what values the company will deliver to win target customers.

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

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

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

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

Figure 1.5 provides a good road map to future chapters of this text. Chapters 1 and 2 introduce the marketing process, with a focus on building customer relationships and capturing value from customers. Chapters 3 through 6 address the first step of the marketing process—understanding the marketing environment, managing marketing information, and understanding consumer and business buyer behavior. In Chapter 7, we look more deeply into the two major marketing strategy decisions: selecting which customers to serve (segmentation and targeting) and determining a value proposition (differentiation and positioning). Chapters 8 through 17 discuss the marketing mix variables, one by one. Chapter 18 sums up customer-driven marketing strategy and creating competitive advantage in the marketplace. The final two chapters examine special marketing considerations: global marketing and sustainable marketing.

REVIEWING Objectives AND KEY Terms

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

Objective 1 Define marketing and outline the steps in the marketing process. (pp 4–5)

Marketing is the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.

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

Objective 2 Explain the importance of understanding customers and the marketplace and identify the five core marketplace concepts. (pp 6–8)

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

The core marketplace concepts are needs, wants, and demands; *market offerings* (products, services, and experiences); value and satisfaction; exchange and relationships; and markets. Wants are the form taken by human needs when shaped by culture and individual personality. When backed by buying power, wants become demands. Companies address needs by putting forth a value proposition, a set of benefits that they promise to consumers to satisfy their needs. The value proposition is fulfilled through a market offering, which delivers customer value and satisfaction, resulting in long-term exchange relationships with customers.

Objective 3 Identify the key elements of a customer-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy. (pp 8–12)

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

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

Objective 4 Discuss customer relationship management and identify strategies for creating value *for* customers and capturing value *from* customers in return. (pp 12–22)

Broadly defined, *customer relationship management* is the process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. The aim of customer relationship management is to produce high *customer equity,* the total combined customer lifetime values of all of the company's customers. The key to building lasting relationships is the creation of superior *customer value* and *satisfaction.*

Companies want not only to acquire profitable customers but also build relationships that will keep them and grow "share of customer." Different types of customers require different customer relationship management strategies. The marketer's aim is to build the *right relationships* with the *right customers.* In return for creating value *for* targeted customers, the company captures value *from* customers in the form of profits and customer equity.

In building customer relationships, good marketers realize that they cannot go it alone. They must work closely with marketing partners inside and outside the company. In addition to being good at customer relationship management, they must also be good at *partner relationship management.*

Objective 5 Describe the major trends and forces that are changing the marketing landscape in this age of relationships. (pp 22–30)

Dramatic changes are occurring in the marketing arena. The recent Great Recession left many consumers short of both money and confidence, creating a new age of consumer frugality that will last well into the future. More than ever, marketers must now emphasize the *value* in their value propositions. The challenge is to balance a brand's value proposition with current times while also enhancing its long-term equity.

The boom in computer, telecommunications, information, transportation, and other technologies has created exciting new ways to learn about and relate to individual customers. It has also allowed new approaches by which marketers can target consumers more selectively and build closer, two-way customer relationships in the Web 3.0 era.

In an increasingly smaller world, many marketers are now connected *globally* with their customers and marketing partners. Today, almost every company, large or small, is touched in some way by global competition. Today's marketers are also reexamining their ethical and societal responsibilities. Marketers are being called to take greater responsibility for the social and environmental impact of their actions. Finally, in recent years, marketing also has become a major part of the strategies of many not-for-profit organizations, such as colleges, hospitals, museums, zoos, symphony orchestras, and even churches.

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

KEY Terms

OBJECTIVE 1

Marketing (p 5)

OBJECTIVE 2

Needs (p 6)
Wants (p 6)
Demands (p 6)
Market offerings (p 6)
Marketing myopia (p 7)
Exchange (p 7)
Market (p 7)

OBJECTIVE 3

Marketing management (p 8)
Production concept (p 9)
Product concept (p 9)
Selling concept (p 10)
Marketing concept (p 10)
Societal marketing concept (p 11)

OBJECTIVE 4

Customer relationship management (p 12)

Customer-perceived value (p 12)
Customer satisfaction (p 13)
Customer-managed relationships (p 17)
Consumer-generated marketing (p 18)
Partner relationship management (p 19)
Customer lifetime value (p 20)
Share of customer (p 21)
Customer equity (p 21)

OBJECTIVE 5

Internet (p 26)

mymarketinglab

- Check your understanding of the concepts and key terms using the mypearsonmarketinglab study plan for this chapter.
- Apply the concepts in a business context using the simulation entitled **What Is Marketing?**

DISCUSSING & APPLYING THE Concepts

Discussing the Concepts

1. Define marketing and discuss how it is more than just "telling and selling." (AACSB: Communication; Reflective Thinking)
2. Marketing has been criticized because it "makes people buy things they don't really need." Refute or support this accusation. (AACSB: Communication; Reflective Thinking)
3. Discuss the two important questions a marketing manager must answer when designing a winning marketing strategy. How should a manager approach finding answers to these questions? (AACSB: Communication; Reflective Thinking)
4. What are the five different marketing management orientations? Which orientation do you believe Apple follows when marketing products such as the iPhone and iPad? (AACSB: Communication; Reflective Thinking)
5. Explain the difference between *share of customer* and *customer equity*. Why are these concepts important to marketers? (AACSB: Communication; Reflective Thinking)
6. Discuss trends impacting marketing and the implications of these trends on how marketers deliver value to customers. (AACSB: Communication)

Applying the Concepts

1. Talk to five people, varying in age from young adult to senior citizen, about their automobiles. Ask them what value means to them with regard to an automobile and how the manufacturer and dealer create such value. Write a brief report of what you learned about customer value. (AACSB: Communication; Reflective Thinking)
2. Select a retailer and calculate how much you are worth to that retailer if you continue to shop there for the rest of your life (your customer lifetime value). What factors should you consider when deriving an estimate of your lifetime value to a retailer? How can a retailer increase your lifetime value? (AACSB: Communication; Reflective Thinking; Analytic Reasoning)
3. Read Appendix 3 or go online to learn about careers in marketing. Interview someone who works in one of the marketing jobs described in the appendix and ask him or her the following questions:
   a. What does your job entail?
   b. How did you get to this point in your career? Is this what you thought you'd be doing when you grew up? What influenced you to get into this field?
   c. What education is necessary for this job?
   d. What advice can you give to college students?
   e. Add one additional question that you create.

   Write a brief report of the responses to your questions and explain why you would or would not be interested in working in this field. (AACSB: Communication; Reflective Thinking)

FOCUS ON Technology

In only a few short years, *consumer-generated marketing* has increased exponentially. It's also known as *consumer-generated media* and *consumer-generated content*. More than 100 million Web sites contain user-generated content. You may be a contributor yourself if you've ever posted something on a blog; reviewed a product at Amazon.com; uploaded a video on YouTube; or sent a video from your mobile phone to a news Web site, such as CNN.com or FoxNews.com. This force has not gone unnoticed by marketers—and with good reason. Nielsen, the TV ratings giant, found that most consumers trust consumer opinions posted online. As a result, savvy marketers encourage consumers to generate content. For example, Coca-Cola has more than 3.5 million fans on Facebook, mothers can share information at Pampers Village (www.pampers.com), and Dorito's scored a touchdown with consumer-created advertising during the past several Super Bowls. Apple even encourages iPhone users to develop applications for its device. However, consumer-generated marketing is not without problems—just search "I hate (insert company name)" in any search engine!

1. Find two examples (other than those discussed in the chapter) of marketer-supported, consumer-generated content and two examples of consumer-generated content that is not officially supported by the company whose product is involved. Provide the Web link to each and discuss how the information impacts your attitude toward the companies involved. (AACSB: Communication; Reflective Thinking; Technology)
2. Discuss the advantages and disadvantages of consumer-generated marketing. (AACSB: Communication; Reflective)

FOCUS ON Ethics

Sixty years ago, about 45 percent of Americans smoked cigarettes, but now the smoking rate is less than 20 percent. This decline results from acquired knowledge on the potential health dangers of smoking and marketing restrictions for this product. Although smoking rates are declining in most developed nations, however, more and more consumers in developing nations, such as Russia and China, are puffing away. Smoker rates in some countries run as high as 40 percent. Developing nations account for more than 70 percent of world tobacco consumption, and marketers are fueling this growth. Most of these nations do not have the restrictions prevalent in developed nations, such as advertising bans, warning labels, and distribution restrictions. Consequently, it is predicted that one billion people worldwide will die this century from smoking-related ailments.

1. Given the extreme health risks, should marketers stop selling cigarettes even though they are legal and demanded by consumers? Should cigarette marketers continue to use marketing tactics that are restricted in one country in other countries where they are not restricted? (AACSB: Communication; Ethical Reasoning)
2. Research the history of cigarette marketing in the United States. Are there any new restrictions with respect to marketing this product? (AACSB: Communication; Reflective Thinking)

MARKETING & THE Economy

Hershey

During uncertain economic times, there are still some things that today's consumers just aren't willing to give up—such as chocolate. But as with eating out and clothing purchases, they *are* trading down. That is just fine with Hershey, America's best-known chocolate maker. For years, riding the good times, premium chocolates grew faster than lower-priced confectionery products. Slow to jump on the premium bandwagon, Hershey lost market share to Mars Inc.'s Dove line. But as consumer frugality increased during the Great Recession, the sales of premium chocolate brands went flat. However, Hershey's sales, profits, and stock price increased as many consumers passed up higher-end goods in favor of Hershey's chocolate bars, Reese's Peanut Butter Cups, and Kit Kat wafers. Hershey seized the opportunity of this trend by running new ads that stressed their value. It also cut costs by paring back the varieties of products such as Hershey's Kisses. As supermarkets reduced the shelf space they allotted to premium chocolates, Hershey cashed in as consumers looked to affordable Hershey favorites to satisfy their cravings. After all, even on a tight budget, people need to indulge at least a little.

1. Is Hershey's resurgence based on a want or a need?
2. Evaluate the shift in chocolate sales based on benefits and costs that customers perceive.
3. What other products are harmed or helped by the new consumer frugality?

MARKETING BY THE Numbers

Marketing is expensive! A 30-second advertising spot during the 2010 Super Bowl cost $3 million, which doesn't include the $500,000 or more necessary to produce the commercial. Anheuser-Busch usually purchases multiple spots each year. Similarly, sponsoring one car during one NASCAR race costs $500,000. But Sprint, the sponsor of the popular Sprint Cup, pays much more than that. What marketer sponsors only one car for only one race? Do you want customers to order your product by phone? That will cost you $8–$13 per order. Do you want a sales representative calling on customers? That's about $100 per sales call, and that's if the rep doesn't have to get on an airplane and stay in a hotel, which can be very costly considering some companies have thousands of sales reps calling on thousands of customers. What about the $1 off coupon for Tropicana orange juice that you found in the Sunday newspaper? It costs Tropicana more than a $1 when you redeem it at the store. These are all examples of just one marketing element—promotion. Marketing costs also include the costs of product research and development (R&D), the costs of distributing products to buyers, and the costs of all the employees working in marketing.

1. Select a publically traded company and research how much the company spent on marketing activities in the most recent year of available data. What percentage of sales does marketing expenditures represent? Have these expenditures increased or decreased over the past five years? Write a brief report of your findings. (AACSB Communication; Analytic Reasoning)
2. Search the Internet for salary information regarding jobs in marketing. Use www.marketingsalaries.com/home/national_averages.htm?function=# or a similar Web site. What is the national average 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: Communication; Use of IT; Reflective Thinking)

VIDEO Case

Stew Leonard's

Stew Leonard's is a little-known grocery store chain based in Connecticut. It has only four stores. But its small number of locations doesn't begin to illustrate what customers experience when they visit what has been called the "Disneyland of dairy stores." Since opening its first dairy store in 1969, the company has been known for its customer-centric way of doing business. In fact, founder Stew Leonard's obsession with the concept of customer lifetime value made him determined to keep every customer who entered his store.

The video featuring Stew Leonard's shows how the retailer has delighted customers for more than 40 years. With singing animatronics farm animals, associates in costume, petting zoos, and free food and drink samples, this chain serves as many as 300,000 customers per store every week and has achieved the highest sales per square foot of any single store in the United States. After viewing the video, answer the following questions about the company.

1. What is Stew Leonard's value proposition?
2. How does Stew Leonard's build long-term customer relationships?
3. How has Stew Leonard's applied the concepts of customer equity and customer lifetime value?

COMPANY Case

JetBlue: Delighting Customers Through Happy Jetting

In 2007, JetBlue was a thriving young airline with a strong reputation for outstanding service. In fact, the low-fare airline referred to itself as a customer service company that just happened to fly planes. But on Valentine's Day 2007, JetBlue was hit by the perfect storm—literally—of events that led to an operational meltdown. One of the most severe storms of the decade covered JetBlue's main hub at New York's John F. Kennedy International Airport with a thick layer of snow and ice. Small JetBlue did not have the infrastructure to deal with such a crisis. The severity of the storm, coupled with a series of poor management decisions, left JetBlue passengers stranded in planes on the runway for up to 11 hours. Worse still, the ripple effect of the storm created major JetBlue flight disruptions for six more days.

Understandably, customers were livid. JetBlue's efforts to clean up the mess following the six-day Valentine's Day nightmare cost over $30 million dollars in overtime, flight refunds, vouchers for future travel, and other expenses. But the blow to the company's previously stellar customer-service reputation stung far more than the financial fallout. JetBlue became the butt of jokes by late night talk show hosts. Some industry observers even predicted that this would be the end of the seven-year-old airline.

But just three years later, the company is not only still flying, it is growing, profitable, and hotter than ever. During the recent economic downturn, even as most competing airlines were cutting routes, retiring aircraft, laying off employees, and losing money, JetBlue was adding planes, expanding into new cities, hiring thousands of new employees, and turning profits. Even more, JetBlue's customers adore the airline. For the fifth consecutive year (even including 2007), JetBlue has had the highest J.D. Power and Associates customer satisfaction score for the entire airline industry. Not only did JetBlue recover quickly from the Valentine's Day hiccup, it's now stronger than ever.

TRULY CUSTOMER FOCUSED

What's the secret to JetBlue's success? Quite simply, it's an obsession with making sure that every customer experience lives up to the company slogan, "Happy Jetting." Lots of companies say they focus on customers. But at JetBlue, customer well-being is ingrained in the culture.

From the beginning, JetBlue set out to provide features that would delight customers. For example, most air travelers expect to be squashed when flying coach. But JetBlue has configured its seats with three more inches of legroom than the average airline seat. That may not sound like much. But those three inches allow six-foot three-inch Arianne Cohen, author of *The Tall Book: A Celebration of Life from on High*, to stretch out and even cross her legs. If that's not enough, for as little as $10 per flight, travelers can reserve one of JetBlue's "Even More Legroom" seats, which offer even more space and a flatter recline position. Add the fact that every JetBlue seat is well padded and covered in leather, and you already have an air travel experience that rivals first-class accommodations (something JetBlue doesn't offer).

Food and beverage is another perk that JetBlue customers enjoy. The airline doesn't serve meals, but it offers the best selection of free beverages and snacks to be found at 30,000 feet. In addition to the standard soft drinks, juices, and salty snacks, JetBlue flyers enjoy Terra Blues chips, Immaculate Baking's Chocobillys cookies, and Dunkin' Donuts coffee. But it isn't just the selection; it's the fact that customers don't feel like they have to beg for a nibble. One customer describes snacking on JetBlue as an "open bar for snacks. They are constantly walking around offering it. I never feel thirsty. I never feel hungry. It's not 'Here, have a little sip,' and 'Good-bye, that's all you get.'"

Airlines often can't control flight delays, especially at busy airports like JFK. So JetBlue wants to be sure that customers will be entertained even in the event of a delay. That's why every seat has its own LCD entertainment system. Customers can watch any of 36 channels on DirectTV or listen to 100+ channels on Sirius XM Radio, free of charge. If that isn't enough, six bucks will buy a movie or your favorite television show. JetBlue rounds out the amenities with free Wi-Fi in terminals and free sending and receiving of e-mails and instant messages in the air.

Even JetBlue's main terminal, the new state-of-the-art T-5 terminal at JFK, is not the usual airline experience. With more security lanes than any terminal in the country, travelers scurry right through. High end dining (tapas, lobster tempura, and Kobe sliders, just to name a few options) can be found among the terminal's 22 restaurants. And its 25 retail stores are characteristic of the latest mall offerings. A children's play zone, comfortable lounge areas, work spaces, and piped in music from Sirius XM Radio make travelers hesitant to leave.

MORE THAN AMENITIES

Although the tangible amenities that JetBlue offers are likely to delight most travelers, CEO David Barger recognizes that these things are not nearly enough to provide a sustainable competitive advantage. "The hard product—airplanes, leather seats, satellite TVs, bricks and mortar—as long as you have a checkbook, they can be replicated," Barger tells a group of new hires in training. "It's the culture that can't be replicated. It's how we treat each other. Do we trust each other? Can we push back on each other? The human side of the equation is the most important part of what we're doing."

It's that culture that gives JetBlue customer service unlike that of any other airline. Taking care of customers starts as early as a customer's first encounter with a JetBlue call center. Many callers feel like they are talking to the lady next door. That's because, in all likelihood, they are. JetBlue's founder pioneered a reservation system that employs part-time reps working from home. Mary Driffill is one of 700 at-home reservations agents in Salt Lake City alone. She logs on to her computer and receives calls in her four-year-old daughter's bedroom, under the watchful eye of Raggedy Ann, Potbelly Bear, and Chewy, the family Pomeranian-Chihuahua mix. "It's the best job I've ever had," says Driffill. "Every day I talk to people who love the company as much as I do. That reminds me I'm part of this."

JetBlue employees are well acquainted with the company's core values: safety, integrity, caring, passion, and fun. If that sounds like an awful lot of warm fuzzies, it's intentional. But JetBlue hires the types of employees that fit these values. The values then provide the basis for what Robin Hayes, JetBlue's chief commercial officer, calls the company's S.O.C.I.A.L. currency program. In JetBlue's words:

Standing for something. JetBlue was formed with the idea of bringing humanity back to travel, and our engagement with our customers is central to that mission.

Operationalizing the brand. Whether it be in the airport, on the planes, on the phones, or online, the connection with our customers is a key factor in how we do business.

Conversing with customers, broadly. To be properly in touch with the community, it requires the ability to understand and react to the collective conversation that occurs.

Involving, immersing employees. Social media involvement requires understanding and involvement from all aspects and departments of the company.

Advocating the brand. For JetBlue, we understand the ability to market to a social community is dependent on our customers' willingness to hear and spread those marketing messages.

Listening. Waiving the carry-on bike fee . . . shows we quickly identify and adapt new policies based on feedback we receive through social media channels. It demonstrates our ability to listen and react holistically.

WHEN YOU LOVE YOUR CUSTOMERS, THEY LOVE YOU BACK

Customers who spread positive word-of-mouth are called many names—true friends, angels, apostles, evangelists. The religious overtones of such labels come from the idea that loyal customers are like true believers who share the good word like a missionary would. JetBlue has an unusually high ratio of such customers. Most airline customers are loyal because they have frequent flyer points. If not for those points, most couldn't care less with whom they fly. For most, flying is a generally unpleasant experience regardless of who operates the plane.

However, JetBlue customers are so enthralled with what the airline has to offer that they look forward to flying. And they want to keep in touch with the brand even when they aren't flying. JetBlue has 1.1 million followers on Twitter, more than any other company except Whole Foods Market and Zappos.com, two other customer service legends. Twitter even features JetBlue as a case study on smart corporate twittering. More broadly, by the metric of social currency (a fancy term for networks of customers spreading by word of mouth), JetBlue is the strongest U.S. brand, outperforming even Apple.

JetBlue's strong word of mouth has been fueled by the company's ability to delight customers.

> People love to talk about JetBlue because the experience is so unexpected. Most airline travel has a particular pattern: small seats, bad entertainment, and little (if any) food. JetBlue breaks this pattern. Leather seats, your own entertainment system with dozens of channels, and at least some choice of food. People can't stop talking about the experience because they have to express their surprise, especially given the "value" price. They are so used to airline travel being poor, late, or uncomfortable these days that cases where a company seems to care and provide good service seems noteworthy. Satisfaction itself is unexpected.

In ten short years, JetBlue has proven that an airline can deliver low fares, excellent service, and steady profits. It has shown that even in the airline business, a powerful brand can be built. Few other airlines have been able to write this story. If you're thinking Southwest Airlines, you'd be on target. In fact, JetBlue's founders modeled the airline after Southwest. JetBlue has often been called, "the Southwest of the Northeast." JetBlue's onboard crews even greet customers onboard with jokes, songs, and humorous versions of the safety routine, something Southwest has been known for since the 1970s. But where Southwest has made customers happy with no frills, JetBlue is arguably doing it all, including the frills.

Until last year, Southwest and JetBlue steered clear of each other. But then both airlines added a Boston-Baltimore route. Boston is a JetBlue stronghold; Baltimore is Southwest's biggest market. But with JetBlue's younger workforce and newer, more fuel-efficient planes, its cost per available seat mile is 8.88 cents, whereas it's 9.76 cents for Southwest. That has allowed JetBlue to do something that no other airline has done to Southwest; undercut it on price with $39 tickets that are $20 cheaper than Southwest's lowest fare. It's not clear yet how the battle of the low-fare, high-service airlines will play out. But it may well turn out that as JetBlue and Southwest cross paths on more routes, the losers will be the other airlines.

Questions for Discussion

1. Give examples of needs, wants, and demands that JetBlue customers demonstrate, differentiating these three concepts. What are the implications of each for JetBlue's practices?
2. Describe in detail all the facets of JetBlue's product. What is being exchanged in a JetBlue transaction?
3. Which of the five marketing management concepts best applies to JetBlue?
4. What value does JetBlue create for its customers?
5. Is JetBlue likely to continue being successful in building customer relationships? Why or why not?

Sources: Stuart Elliott, "JetBlue Asks Its Fliers to Keep Spreading the Word," *New York Times*, May 10, 2010, p. B7; Marc Gunther, "Nothing Blue about JetBlue," *Fortune*, September 14, 2009, p. 114; Chuck Salter, "Calling JetBlue," *Fast Company*, May 1, 2004, accessed at www.fastcompany.com/magazine/82/jetblue_agents.html; Kevin Randall, "Red, Hot, and Blue: The Hottest American Brand Is Not Apple," *Fast Company*, June 3, 2010, accessed at www.fastcompany.com/1656066/apple-jetblue-social-currency-twitter.