

Part 1: Defining Marketing and the Marketing Process

Marketing Managing Profitable Customer Relationships

Previewing the Concepts

Welcome to the exciting world of marketing. In this chapter, to start you off, we will first introduce you to the basic concepts. We'll start with a simple question: What is marketing? Simply put, marketing is managing profitable customer relationships. The aim of marketing is to create value for customers and to capture value in return. Chapter 1 is organized around five steps in the marketing process—from understanding customer needs, to designing customer-driven marketing strategies and programs, to building customer relationships and capturing value for the firm. 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.

To set the stage, let's first look at NASCAR. In only a few years, NASCAR has swiftly evolved from a pastime for beer-guzzling Bubbas into a national marketing phenomenon. How? By creating high-octane value for its millions of fans. In return, NASCAR captures value from these fans, both for itself and for its many sponsors. Read on and see how NASCAR does it.

When you think of NASCAR, do you think of tobacco-spitting rednecks and run-down race tracks? Think again! These days, NASCAR (the National Association for Stock Car Auto Racing) is much, much more. In fact, it's one great marketing organization. And for fans, NASCAR is a lot more than stock car races. It's a high-octane, totally involving experience.

As for the stereotypes, throw them away. NASCAR is now the second-highest rated regular season sport on TV—only the NFL draws more viewers—and races are seen in 150 countries in 23 languages. NASCAR fans are young, affluent, and decidedly family oriented—40 percent are women. What's more, they are 75 million strong—according to one survey, one in three Americans follows NASCAR. Most important, fans are passionate about NASCAR. A hardcore NASCAR fan spends nearly \$700 a year on NASCAR-related clothing, collectibles, and other items. NASCAR has even become a cultural force, as politicians scramble to gain the favor of a powerful demographic dubbed “NASCAR dads.”

What's NASCAR's secret? Its incredible success results from a single-minded focus: creating lasting customer relationships. For fans, the NASCAR relationship develops through a careful blend of live racing events, abundant media coverage, and compelling Web sites.

Each year, fans experience the adrenalin-charged, heart-stopping excitement of NASCAR racing firsthand by attending national tours to some two dozen tracks around the country. NASCAR races attract the largest crowds of any U.S. sporting event. About 240,000 people attended the recent Daytona 500, far more than attended the Super Bowl, and the Allstate Brickyard 400 sells out its more than 300,000 seats each year. Last year alone, NASCAR events captured 306 million television viewers.

At these events, fans hold tailgate parties, camp and cook out, watch the cars roar around the track, meet the drivers, and swap stories with other NASCAR enthusiasts. Track facilities even include RV parks next to and right inside the racing oval. Marvels one sponsor, “[In] what other sport can you drive your beat-up RV or camper into the stadium and sit on it to watch the race?” NASCAR really cares about its customers and goes out of its way to show them a good time. For example, rather than fleecing fans with over-priced food and beer, NASCAR tracks encourage fans to bring their own. Such actions mean that NASCAR might lose a sale today, but it will keep the customer tomorrow.

To further the customer relationship, NASCAR makes the sport a wholesome family affair. The environment is safe for kids—uniformed security guards patrol the



track to keep things in line. The family atmosphere extends to the drivers, too. Unlike the aloof and often distant athletes in other sports, NASCAR drivers seem like regular guys. They are friendly and readily available to mingle with fans and sign autographs. Fans view drivers as good role models, and the long NASCAR tradition of family involvement creates the next generation of loyal fans.

Can't make it to the track? No problem. An average NASCAR event reaches 18 million TV viewers. Well-orchestrated coverage and in-car cameras put fans in the middle of the action, giving them vicarious thrills that keep them glued to the screen. "When the network gets it right, my surround-sound bothers my neighbors but makes my ears happy," says Angela Kotula, a 35-year-old human resources professional.

NASCAR also delivers the NASCAR experience through its engaging Web sites. NASCAR.com serves up a glut of information and entertainment—in-depth news, driver bios, background information, online games, community discussions, and merchandise. True die-hard fans can subscribe to TrackPass to get up-to-the-minute standings, race video, streaming audio from the cars, and access to a host of archived audio and video highlights. TrackPass with PitCommand even delivers a real-time data feed, complete with the GPS locations of cars and data from drivers' dashboards.

But a big part of the NASCAR experience is the feeling that the sport, itself, is personally accessible. Anyone who knows how to drive feels that he or she, too, could be a champion NASCAR driver. As 48-year-old police officer Ed Sweat puts it: "Genetics did not bless me with the height of a basketball player, nor was I born to have the bulk of a

Objectives

After studying this chapter, you should be able to:

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

lineman in the NFL. But . . . on any given Sunday, with a rich sponsor, the right car, and some practice, I could be draftin' and passin', zooming to the finish line, trading paint with Tony Stewart. . . . Yup, despite my advancing age and waistline, taking Zocor, and driving by a gym . . . I could be Dale Jarrett!"

Ultimately, such fan enthusiasm translates into financial success for NASCAR, and for its sponsors. Television networks pay on average \$555 million per year for the rights to broadcast NASCAR events. With everything from NASCAR-branded bacon and its own series of Harlequin romance novels to NASCAR-branded bikinis, the sport is third in licensed merchandise sales, behind only the NFL and the NCAA. NASCAR itself sells \$2 billion in merchandise a year. And marketing studies show that NASCAR's fans are more loyal to the sport's sponsors than fans of any other sport. They are three times more likely to seek out and buy sponsor's products and services than nonfans, and 72 percent of NASCAR fans consciously purchase sponsors' products because of the NASCAR connection.

Just ask Ted Wuebben, a big fan of NASCAR driver Rusty Wallace, whose car is sponsored by Miller beer. "I only drink Miller Lite," he says, "not because it tastes great or it's less filling, but because of Rusty." Or talk to dental hygienist Jenny German, an ardent fan of driver Jeff Gordon. According to one account: "She actively seeks out any product he endorses. She drinks Pepsi instead of Coke, eats Edy's ice cream for dessert, and owns a pair of Ray-Ban sunglasses. 'If they sold underwear with the number 24 on it, I'd have it on,' German says."

Because of such loyal fan relationships, NASCAR has attracted more than 250 big-name sponsors, from Wal-Mart, Home Depot, and Target to Procter & Gamble, UPS, Coca-Cola, and the U.S. Army. In all, corporations spend more than \$1 billion a year for NASCAR sponsorships and promotions. Sprint Nextel is shelling out \$750 million over a span of ten years to be a NASCAR sponsor and to put its name on the Nextel Cup series. "I could pay you \$1 million to try and not run into our name at a NASCAR race and you would lose," says a Nextel spokesperson. Other sponsors eagerly pay up to \$20 million per year to sponsor a top car and to get their corporate colors and logos emblazoned on team uniforms and on the hoods or side panels of team cars. Or they pay \$3 million to \$5 million a year to become the "official" (fill-in-the-blank) of NASCAR racing. Is it worth the price? Office Depot certainly thinks so. It began sponsoring a car when its surveys showed that 44 percent of rival Staples' customers would switch office supply retailers if Office Depot hooked up with NASCAR.

So if you're still thinking of NASCAR as rednecks and moonshine, you'd better think again. NASCAR is a premier marketing organization that knows how to create customer value that translates into deep and lasting customer relationships. "Better than any other sport," says a leading sports marketing executive, "NASCAR listens to its fans and gives them what they want." In turn, fans reward NASCAR and its sponsors with deep loyalty and the promise of lasting profits.¹

Today's successful companies have one thing in common: Like NASCAR, they are strongly customer focused and heavily committed to marketing. These companies share a passion for satisfying customer needs in well-defined target markets. They motivate everyone in the organization to help build lasting customer relationships through superior customer value and satisfaction. As Wal-Mart founder Sam Walton once asserted: "There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else."

What Is Marketing?

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 to keep and grow current customers by delivering satisfaction.

Wal-Mart has become the world's largest retailer, and one of the world's largest companies, by delivering on its promise, "Always low prices. Always!" At Disney theme parks, "imagineers" work wonders in their quest to "make a dream come true today." Dell leads the

personal computer industry by consistently making good on its promise to “be direct.” Dell makes it easy for customers to custom-design their own computers and have them delivered quickly to their doorsteps or desktops. These and other highly successful companies know that if they take care of their customers, market share and profits will follow.

Sound marketing is critical to the success of every organization. Large for-profit firms such as Procter & Gamble, Toyota, Target, Apple, 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. You see the results of marketing in the abundance of products in your nearby shopping mall. You see marketing in the advertisements that fill your TV screen, spice up your magazines, stuff your mailbox, or enliven your Web pages. 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 only as selling and advertising. And no wonder—every day we are bombarded with television commercials, direct-mail offers, sales calls, and Internet 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 and services 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.”² 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.³

Marketing

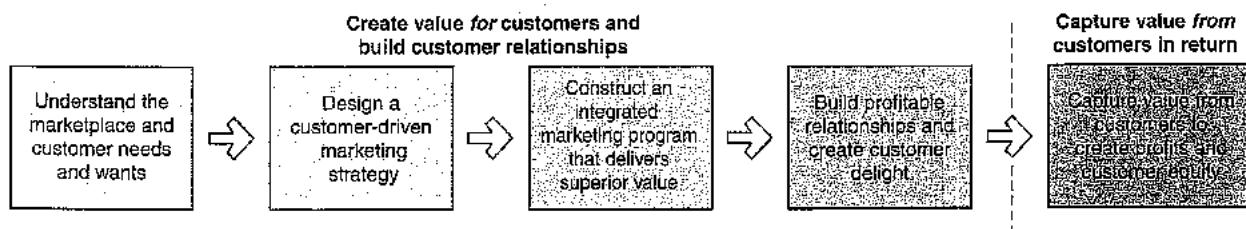
The process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.

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 and the next chapter, we will examine the steps of this simple model of marketing. In this chapter, we will 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’ll look more deeply into the second and third steps—designing marketing strategies and constructing marketing programs.

FIGURE 1.1 A simple model of the marketing process



Understanding the Marketplace and Customer Needs

As a first step, marketers need to understand customer needs and wants and the marketplace within which they operate. We now examine five core customer and marketplace concepts: (1) *needs, wants, and demands*; (2) *marketing 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.

Wants

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

Demands

Human wants that are backed by buying power.

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. These needs were not created by marketers; they are a basic part of the human makeup.

Wants are the form human needs take as they are shaped by culture and individual personality. An American *needs* food but *wants* a Big Mac, french fries, and a soft drink. A person in Mauritius *needs* food but *wants* a mango, rice, lentils, and beans. Wants are shaped by one's society and are described in terms of objects that will satisfy 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, at Southwest Airlines, all senior executives handle bags, check in passengers, and serve as flight attendants once every quarter. Harley-Davidson's chairman regularly mounts his Harley and rides with customers to get feedback and ideas. And at Build-A-Bear, one of the country's fastest-growing retailers, founder and chief executive Maxine Clark visits two or three of her more than 200 stores each week, meeting customers, chatting with employees, and just getting to know the preteens who buy her products. "I'm on a lot of online buddy lists," she says.⁴

Market Offerings—Products, Services, and Experiences

Market offering

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

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.

Consumers' needs and wants are fulfilled through a **market offering**—some combination of products, services, information, or experiences offered to a market to satisfy a need or want. Market offerings are not limited to physical *products*. They also include *services*, activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, airline, hotel, tax preparation, and home repair services. More broadly, market offerings also include other entities, such as *persons, places, organizations, information, and ideas*. For example, beyond promoting its banking services, LaSalle Bank runs ads asking people to donate used or old winter clothing to the Salvation Army. In this case, the "market offering" is helping to keep those who are less fortunate warm.

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.⁵ 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, Walt Disney World is an experience; so is a ride on a Harley-Davidson motorcycle. And you don't just watch a NASCAR race; you immerse yourself in the NASCAR experience. Says A. G. Lafley, CEO of Procter & Gamble, "Consumers want more than attributes and benefits, and even solutions. They want delightful shopping, usage, and service experiences they look forward to, time after time." P&G's Mr. Clean brand "Doesn't ask, 'How can we help to get customers' floors and toilets cleaner?' No, the more inspiring questions is, 'How can we give customers their Saturday mornings back?'"⁶



Market offerings are not limited to physical products. For example, LaSalle Bank runs ads asking people to donate used or old winter clothing to the Salvation Army. In this case, the “marketing offer” is helping to keep those who are less fortunate warm.

Exchange

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

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, the goal is to retain customers and grow their business with the company. 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. 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 product development, research, communication, distribution, pricing, and service are core marketing activities.

Similarly, Hewlett-Packard recognizes that a personal computer is much more than just a collection of wires and electrical components. It's an intensely personal user experience: “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.”⁷

Customer Value and Satisfaction

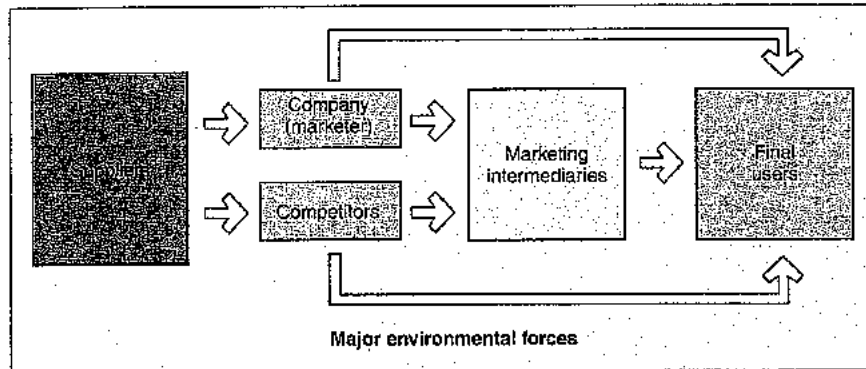
Consumers usually face a broad array of products and services that might satisfy a given need. How do they choose among these many market offerings? Customers form expectations about the value and satisfaction that various market offerings will deliver and buy accordingly. Satisfied customers buy again 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 raise 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

Marketing occurs when people decide to satisfy needs and wants through exchange relationships.

FIGURE 1.2
Elements of a modern
marketing system



Although we normally think of marketing as being carried on by sellers, buyers also carry on marketing. Consumers do marketing when they search for the goods they need at prices they can afford. Company purchasing agents do marketing when they track down sellers and bargain for good terms.

Figure 1.2 shows the main elements in a modern marketing system. In the usual situation, marketing involves serving a market of final consumers in the face of competitors. The company and the competitors send their respective offers and messages to consumers, either directly or through marketing intermediaries. All of the actors in the system are affected by major environmental forces (demographic, economic, physical, technological, political/legal, and social/cultural).

Each party in the system adds value for the next level. All of 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. Wal-Mart cannot fulfill its promise of low prices unless its suppliers provide merchandise at low costs. And Ford cannot deliver high quality to car buyers unless its dealers provide outstanding sales and service.

Designing a Customer-Driven Marketing Strategy

Marketing management

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

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.

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 the next chapter.

Selecting Customers to Serve

The company must first decide *who* 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 stores profitably target affluent professionals; Family Dollar stores profitably target families with more modest means.

Some marketers may even seek *fewer* customers and reduced demand. For example, many power companies have trouble meeting demand during peak usage periods. In these

and other cases of excess demand, companies may practice *demarketing* to reduce the number of customers or to shift their demand temporarily or permanently. For instance, to reduce demand for space on congested expressways in Washington, D.C., the Metropolitan Washington Council of Governments has set up a Web site encouraging commuters to carpool and use mass transit (www.commuterconnections.org).⁸

Thus, marketing managers must decide which customers they want to target and the 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 company's *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs. Saab promises driving performance and excitement: "Born from jets . . . you can learn what it's like to fly without ever leaving the ground." By contrast, Subaru provides safety: "Air bags save lives. All-wheel drive saves air bags. It's what makes a Subaru a Subaru." Propel Fitness Water by Gatorade is "made for bodies in motion." Red Bull energy drink, on the other hand, helps you fight mental and physical fatigue. It captures 70 percent of the energy drink market by promising "It gives you wiilings!"

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.

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Marketing Management Orientations

Marketing management wants to design strategies that will build profitable relationships with target consumers. But what *philosophy* should guide these marketing strategies? What weight should be given to the interests of customers, the organization, and society? 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

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 distribu-

tion. 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

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.

FROM "DUH" TO "AH-HA" IN 8.3 OZ.

Red Bull Energy Drink is a unique combination of Taurine, Glucuronolactone, B-vitamins and other important nutrients. It improves performance, increases endurance and concentration, improves reaction speed and stimulates the metabolism. In short, Red Bull vitalizes both body and mind.

RED BULL GIVES YOU WIILINGS.

Value propositions: Red Bull Energy Drink "vitalizes both body and mind. It Gives You Wiilings."

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.

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.

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.

Marketing concept

The marketing management philosophy that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do.

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 door." But they are often rudely shocked. Buyers may well 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, or something that works 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

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 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 track down prospects and sell them on product 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

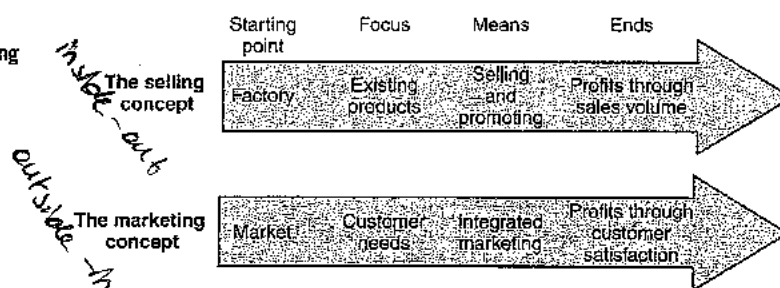
The **marketing concept** holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do. Under the marketing concept, customer focus and value are the *paths* to sales and profits. Instead of a product-centered "make and sell" philosophy, the marketing concept is a customer-centered "sense and respond" philosophy. It views marketing not as "hunting," but as "gardening." 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, Southwest Airlines' colorful CEO, puts it, "We don't have a marketing department; we have a customer department." And in the words of one Ford executive, "If we're not customer driven, our cars won't be either."⁹ 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 cus-

FIGURE 1.3
The 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, personal digital assistants, notebook computers, iPods, and digital cameras? Marketers must often understand customer needs even better than the customers themselves do.

Societal marketing concept

A principle of enlightened marketing that holds that a company should make good marketing decisions by considering consumers' wants, the company's requirements, consumers' long-run interests, and society's long-run interests.

American cheese, and mayonnaise on a buttered bun, delivering 1,420 calories and 102 grams of fat. And McDonald's and Burger King still cook their fried foods in oils that are high in artery-clogging trans fats. Such unhealthy fare, the critics claim, is leading consumers to eat too much of the wrong foods, contributing to a national obesity epidemic. What's more, the products are wrapped in convenient packaging, but this leads to waste and pollution. Thus, in satisfying short-term consumer wants, the highly successful fast-food chains may be harming consumer health and causing environmental problems in the long run.¹⁰

As Figure 1.4 shows, companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, and society's interests. Johnson & Johnson does this well. Its concern for societal interests is summarized in a company document called

tomers 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.

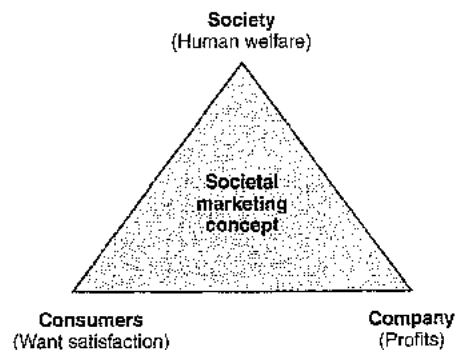
In many cases, however, customers don't know what they want or even what is possible. For example, even 20 years ago, how many consumers would have thought to ask for now-commonplace products such as cell phones, notebook computers, iPods, digital cameras, 24-hour online buying, and satellite navigation 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

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 consumers in the long run? The societal marketing concept holds that marketing strategy should deliver value to customers in a way that maintains or improves both the consumer's and the society's well-being.

Consider the fast-food industry. You may view today's giant fast-food chains as offering tasty and convenient food at reasonable prices. Yet many consumer nutritionists and environmental groups have voiced strong concerns. They point to fast feeders such as Hardee's, who are promoting monster meals such as the Monster Thickburger—two 1/3-pound slabs of Angus beef, four strips of bacon, three slices of

FIGURE 1.4
Three considerations underlying the societal marketing concept



Our Credo

We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers' orders must be serviced promptly and accurately. Our suppliers and distributors must have an opportunity to make a fair profit.

We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfill their family responsibilities.

Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens — support good works and charities and bear our fair share of taxes.

We must encourage civic improvements and better health and education. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholders. Business must make a sound profit.

We must experiment with new ideas. Research must be carried on innovative programs developed and mistakes paid for.

New equipment must be purchased, new facilities provided and new products launched.

Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return.

Johnson & Johnson

■ The societal marketing concept: Johnson & Johnson's Credo stresses putting people before profits. Johnson & Johnson's quick product recall following a tragic Tylenol tampering incident some years ago cost the company \$100 million in earnings but strengthened consumer confidence and loyalty.

"Our Credo," which stresses honesty, integrity, and putting people before profits. Under this credo, Johnson & Johnson would rather take a big loss than ship a bad batch of one of its products.

Consider the tragic tampering case in which eight people died in 1982 from swallowing cyanide-laced capsules of Tylenol, a Johnson & Johnson brand. Although Johnson & Johnson believed that the pills had been altered in only a few stores, not in the factory, it quickly recalled all of its product and launched an information campaign to instruct and reassure consumers. The recall cost the company \$100 million in earnings. In the long run, however, the company's swift recall of Tylenol strengthened consumer confidence and loyalty, and today Tylenol remains one of the nation's leading brands of pain reliever.

Johnson & Johnson management has learned that doing what's right benefits both consumers and the company. Says former CEO Ralph Larsen, "The Credo should not be viewed as some kind of social welfare program . . . it's just plain good business. If we keep trying to do what's right, at the end of the day we believe the marketplace will reward us." Thus, over the years, Johnson & Johnson's dedication to consumers and community service has made it one of America's most-admired companies and one of the most profitable.¹¹

■ Preparing an Integrated Marketing Plan and Program

The company's marketing strategy outlines which customers the company will serve and how it will create value for these customers. Next, the marketer

develops an integrated marketing program that will actually deliver the intended value to target customers. The marketing program 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 offer (price) and how it will make the offer available to target consumers (place). Finally, it must communicate with target customers about the offer and persuade them of its merits (promotion). The firm must blend all of these marketing mix tools 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.

■ Building Customer Relationships

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

Customer Relationship Management

Customer relationship management

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

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.

Customer satisfaction

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

Customer relationship management (CRM) is perhaps the most important concept of modern marketing. Until recently, CRM has been defined narrowly as a customer data management activity. By this definition, it involves managing detailed information about individual customers and carefully managing customer "touch points" in order to maximize customer loyalty. We will discuss this narrower CRM activity in a later chapter dealing with marketing information.

More recently, however, customer relationship management has taken on 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.

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 to give the company a larger share of their business.

PROFITABLE 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.

For example, Toyota Prius hybrid automobile owners gain a number of benefits. The most obvious benefit is fuel efficiency. However, by purchasing a Prius, the owners also may receive some status and image values. Driving a Prius makes owners feel and appear more environmentally responsible. When deciding whether to purchase a Prius, customers will weigh these and other perceived values of owning the car against the money, effort, and psychic costs of acquiring it. Moreover, they will compare the value of owning a Prius against that of owning another hybrid or nonhybrid brand. They will select the brand that gives them the greatest perceived value.

Customers often do not judge product values and costs accurately or objectively. They act on *perceived value*. For example, is the Prius really the most economical choice? In reality, it might take years to save enough in reduced fuel costs to offset the car's higher sticker price. However, Prius buyers perceive that they are getting real value. A recent survey of the ownership experiences of 69,000 new car buyers showed that the Prius was rated as most "delightful" in terms of fuel economy, and that Prius owners perceived more overall value for their money than buyers of any other hybrid car.¹²

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, then delivering *more* than they promise. Delighted customers

FIGURE 1.1 Perceived customer value: When deciding whether to purchase a Prius, customers will weigh its benefits against the benefits of owning another hybrid or non-hybrid brand.

Today, most leading companies are developing customer loyalty and retention programs. Beyond offering consistently high value and satisfaction, marketers can use specific marketing tools to develop stronger bonds with consumers. For example, many companies now 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." Some of these programs can be spectacular. To cater to its very best customers, Neiman Marcus created its InCircle Rewards program:



■ Relationship building tools: Neiman Marcus created its InCircle Rewards program to cater to its very best customers.

InCircle members, who must spend at least \$5,000 a year using their Neiman Marcus credit cards to be eligible, earn points with each purchase—one point for each dollar charged. They then cash in points for anything from a New York lunch experience for two at one of the "Big Apple's hottest eateries" (5,000 points) or a Sony home theater system (25,000 points) to a three-day personalized bullfighting course, including travel to a ranch in Northern Baja for some practical training (50,000 points). For 500,000 points, InCircle members can get a six-night Caribbean cruise, and for 1.5 million points, a Yamaha grand piano. Among the top prizes (for 5 million points!) are a J. Mendel custom-made sable coat valued at \$200,000 and a private concert in the InCircle's home by jazz instrumentalist Chris Botti.¹⁴

Other companies sponsor *club marketing programs* that offer members special benefits and create member communities. For example, Harley-Davidson sponsors the Harley Owners Group (H.O.G.), which gives Harley riders "an organized way to share their passion and show their pride." H.O.G. membership benefits include two magazines (*Hog Tales* and *Enthusiast*), a *H.O.G. 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 over one million members.¹⁵

To build customer relationships, companies can add structural ties as well as financial and social benefits. A business marketer might supply customers with special equipment or online linkages that help them manage their orders, payroll, or inventory. For example, McKesson Corporation, a leading pharmaceutical wholesaler, has set up a Supply Management Online system that helps retail pharmacy customers manage their inventories, order entry, and shelf space. The system also helps McKesson's medical-surgical supply and equipment customers optimize their supply purchasing and materials management operations.¹⁶

The Changing Nature of Customer Relationships

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

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, companies now are targeting fewer, more profitable customers. Called *selective relationship management*, many companies now use customer profitability analysis to weed out losing customers and to target winning ones for pampering. Once they identify profitable customers, firms can create attractive offers and special handling to capture these customers and earn their loyalty.

But what should the company do with unprofitable customers? If it can't turn them into profitable ones, it may even want to "fire" customers that are too unreasonable or that cost more to serve than they are worth. For example, banks now routinely assess customer profitability based on such factors as an account's average balances, account activity, services usage, branch visits, and other variables. For most banks, profitable customers with large balances are pampered with premium services, whereas unprofitable, low-balance ones get the cold shoulder. ING DIRECT, however, selects accounts differently. It seeks relationships with customers who don't need or want expensive pampering while firing those who do.¹⁷

Simathak

☑ Selective relationship management: ING DIRECT seeks relationships with customers who don't need or want expensive pampering, routinely "firing" overly demanding customers. The bank lures low-maintenance customers with high interest rates and no fees or minimums. "No Bull!"

ING DIRECT is the fast-food chain of financial services. With a handful of offerings including savings accounts, CDs, and home equity loans, the bank is about as no-frills as it gets. Yet its profits are downright gaudy, soaring more than 200 percent just last year. ING's secret? Selective relationship management. The bank lures low-maintenance customers with high interest rates. Then, to offset that generosity, the bank does 75 percent of its transactions online, avoids amenities, and offers bare-bones service. In fact, ING routinely "fires" overly demanding customers. By ditching clients who are too time consuming, the company has driven its cost per account to a third of the industry average.

CEO Arkadi Kuhlmann explains: "We need to keep expenses down, which doesn't work when customers want a lot of [hand-holding]. If the average customer phone call costs us \$5.25 and the average account revenue is \$12 per month, all it takes is 100,000 misbehaving customers for costs to go through the roof. So when a customer calls too many times or wants too many exceptions to the rule, our sales associate can basically say: Look, this doesn't fit you. You need to go back to your community bank and get the kind of contact you're comfortable with. . . . It's all about finding customers who are comfortable with a self-serve business; we try to get you in and out fast. While this makes for some unhappy customers, [those are the] ones you want out the door anyway."

Relating for the Long Term

Just as companies are being more selective about which customers they choose to serve, they are serving chosen customers in a deeper, more lasting way. Today's companies are going beyond designing strategies to *attract* new customers and create *transactions* with them. They are using customer relationship management to *retain* current customers and build profitable, long-term *relationships* with them. The new view is that marketing is the science and art of finding, retaining, and growing profitable customers.

Why the new emphasis on retaining and growing customers? In the past, growing markets and an upbeat economy meant a plentiful supply of new customers. However, companies today face some new marketing realities. Changing demographics, more sophisticated competitors, and overcapacity in many industries mean that there are fewer customers to go around. Many companies are now fighting for shares of flat or fading markets.

As a result, the costs of attracting new consumers are rising. In fact, on average, it can cost five to ten times as much to attract a new customer as it does to keep a current customer satisfied. For example, one recent study found that it costs a financial services institution \$280 to acquire a new customer but only \$57 to keep one. Given these new realities, companies now go all out to keep profitable customers.¹⁸

Relating Directly

Beyond connecting more deeply with their customers, many companies are also connecting more *directly*. In fact, direct marketing is booming. Consumers can now buy virtually any product without going to a store—by telephone, mail-order catalogs, kiosks, and online. Business purchasing agents routinely shop on the Web for items ranging from standard office supplies to high-priced, high-tech computer equipment.

Some companies sell *only* via direct channels—firms such as Dell, Amazon.com, and GEICO—to name only a few. Other companies use direct connections to supplement their other communications and distribution channels. For example, Sony sells PlayStation consoles and game cartridges through retailers, supported by millions of dollars of mass-media advertising. However, Sony uses its www.PlayStation.com Web site to build relationships with game players of all ages. The site offers information about the latest games, news about events and promotions, game guides and support, and even online forums in which game players can swap tips and stories.

Some marketers have hailed direct marketing as the “marketing model of the next century.” They envision a day when all buying and selling will involve direct connections between companies and their customers. Others, although agreeing that direct marketing will play a growing and important role, see it as just one more way to approach the marketplace. We will take a closer look at the world of direct marketing in Chapter 17.

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.

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, marketing no longer has sole ownership of customer interactions. Every functional area can interact with customers, especially electronically. The new thinking is that every employee must be customer focused. David Packard, late cofounder of Hewlett-Packard, wisely said, “Marketing is far too important to be left only to the marketing department.”¹⁹

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, Procter & Gamble 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.

Partner relationship management

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

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 personal computers 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, Lexus 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.

Beyond managing the supply chain, today's companies are also discovering that they need *strategic* partners if they hope to be effective. In the new, more competitive global environment, going it alone is going out of style. *Strategic alliances* are booming across almost all industries and services. For example, Dell joins forces with software creators such as Oracle and Microsoft to help boost business sales of its servers and their software. And Volkswagen is working jointly with agricultural processing firm Archer Daniels Midland to further develop and utilize biodiesel fuel. Sometimes, even competitors work together for mutual benefit:



Partner relationship management: Time Warner and CBS merged the competing WB and UPN networks into a single, larger one called The CW, which "keeps the best of both networks."

Until recently, Time Warner and CBS ran competing cable networks (WB and UPN, respectively). But both companies struggled to attract enough viewers to make their modest networks profitable. So the two competitors shuttered their individual networks and merged them into a single, larger one, a 50-50 joint venture called CW, which targets the profitable 18-34 age group. The new network will cherry-pick the strongest shows from the old WB and UPN networks—like WB's *Smallville* and *Gilmore Girls* plus UPN's *Veronica Mars* and *America's Next Top Model*. Dubbed by the partners as "the new fifth network," CW should be profitable from the start. "You keep the best of both networks," says a CBS executive. "That's a pretty good way to start a network."²⁰

As Jim Kelly, former CEO at UPS, puts it, "The old adage 'If you can't beat 'em, join 'em,' is being replaced by 'Join 'em and you can't be beat.'"²¹

Capturing Value from Customers

The first four steps in the marketing process 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 just customer satisfaction, but customer delight.²²

Companies are realizing that 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:

Stew Leonard, who operates a highly profitable four-store supermarket in Connecticut and New York, says that 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 250,000 customers each week. This legion of loyal shoppers is largely a result of the store's passionate approach to customer service. Rule #1 at Stew Leonard's—The customer is always right. Rule #2—If the customer is ever wrong, reread Rule #1!²³

Customer lifetime value

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



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 estimates that a single satisfied and loyal customer is worth \$600,000 in lifetime sales. The customer lifetime value of a Taco Bell customer exceeds \$12,000.²⁴ Thus, working to retain and grow customers makes good economic sense. 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 product or service, not just a rational preference. L.L. Bean, long known for its outstanding customer service and high customer loyalty, preaches the following "golden rule": "Sell good merchandise, treat your customers like human beings, and they'll always come back for more." A customer relationships expert agrees: "If you want your customers to be more loyal, you must prove that you have their best interests at heart. Your concern for the customer's welfare must be so strong that it even occasionally trumps (gasp!) your own concern for immediate profits."²⁵

Growing Share of Customer

Beyond simply retaining good customers to capture customer lifetime value, good customer relationship management can help marketers to 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."

Share of customer

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

To increase share of customer, firms can offer greater variety to current customers. Or they can train employees to cross-sell and up-sell in order to market more products and services to existing customers. For example, Amazon.com is highly skilled at leveraging relationships with its 50 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, and an online auction. In addition, based on each customer's purchase history, the company recommends related products that might be of interest. In this way, Amazon.com captures a greater share of each customer's spending budget.

Building Customer Equity

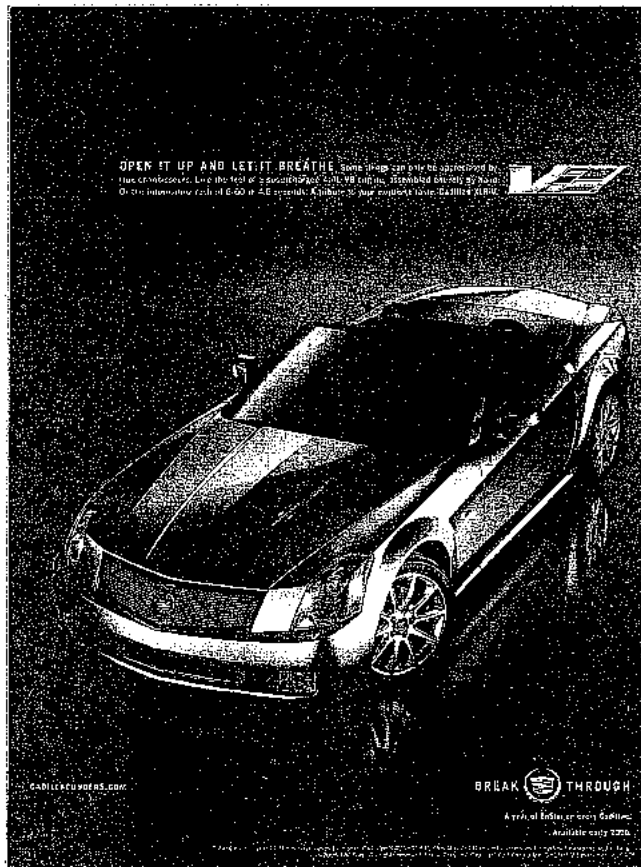
We can now see the importance of not just acquiring customers, but of keeping and growing them as well. One marketing consultant puts it this way: "The only value your company will ever create is the value that comes from customers—the ones you have now and the ones you will have in the future. Without customers, you don't have a business."²⁶ Customer relationship management takes a long-term view. Companies want not only to create profitable customers, but to "own" them for life, capture their customer lifetime value, and earn a greater share of their purchases.

Customer equity

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

What Is Customer Equity?

The ultimate aim of customer relationship management is to produce high *customer equity*.²⁷ Customer equity is the combined discounted customer lifetime values of all of the company's current and potential customers. Clearly, the more loyal the firm's profitable customers, the higher the firm's customer equity. Customer equity may be a better measure of a firm's performance than current sales or market share. Whereas sales and market share reflect the past, customer equity suggests the future. Consider Cadillac:



■ Cadillac is cool again. To increase lifetime value and customer equity, Cadillac's highly successful Break Through ad campaign targets a younger generation of consumer.

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 car. 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. Thus, market share is not the answer. We should care not just about current sales but also about future sales. Customer lifetime value and customer equity are the name of the game. Recognizing this, Cadillac is now making the Caddy cool again by targeting a younger generation of consumers with

new high-performance models and its highly successful Break Through advertising campaign. Sales are up 37 percent over the past four years. More important, the future looks promising.²⁸

Building the Right Relationships with the Right Customers

Companies should manage customer equity carefully. They should view customers as assets that need to be managed and maximized. But not all customers, not even 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? "Up to a point, the choice is obvious: Keep the consistent big spenders and lose the erratic small spenders," says one expert. "But what about the erratic big spenders and the consistent small spenders? It's often unclear whether they should be acquired or retained, and at what cost."²⁹

The company can classify customers according to their potential profitability and manage its relationships with them accordingly. Figure 1.5 classifies customers into one of four relationship groups, according to their profitability and projected loyalty.³⁰ Each group requires a different relationship management strategy. "Strangers" show low 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 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 for 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 use promotional blitzes to attract them, create satisfying and profitable transactions with them, and then cease investing in them until the next time around.

"True friends" are both profitable and loyal. There is a strong fit between their needs and the company's offerings. The firm wants to make continuous relationship investments to delight these customers and nurture, retain, and grow them. It wants to turn true friends into "true believers," 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" (see Real Marketing 1.2).

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*.

FIGURE 1.5

Customer relationship groups

Source: Reprinted by permission of *Harvard Business Review*. Adapted from "Mismanagement of Customer Loyalty" by Werner Reinartz and V. Kumar, July 2002, p. 93. Copyright © by the president and fellows of Harvard College; all rights reserved.

Potential profitability	High profitability	<p>Butterflies</p> <p>Good fit between company's offerings and customer's needs; high profit potential</p>	<p>True Friends</p> <p>Good fit between company's offerings and customer's needs; highest profit potential</p>
	Low profitability	<p>Strangers</p> <p>Little fit between company's offerings and customer's needs; lowest profit potential</p>	<p>Barnacles</p> <p>Limited fit between company's offerings and customer's needs; low profit potential</p>
		Short-term customers	Long-term customers
		Projected loyalty	

The New Marketing Landscape

As the world spins on, dramatic changes are occurring in the marketplace. Richard Love of Hewlett-Packard observes, "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, 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 four major developments: the new digital age, rapid globalization, the call for more ethics and social responsibility, and the growth in not-for-profit marketing.

The New Digital Age

The recent technology boom has created a new digital age. The explosive growth in computer, telecommunications, information, transportation, and other 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 things near and far in the world around us. Where it once took weeks or months to travel across the United States, we can now travel around the globe in only hours or days. Where it once took days or weeks to receive news about important world events, we now see them as they are occurring through live satellite broadcasts. Where it once took weeks to correspond with others in distant places, they are now only moments away by phone or the Internet.

The technology boom has created exciting new ways to learn about and track customers and to create products and services tailored to individual customer needs. Technology is also helping companies to distribute products more efficiently and effectively. And it's helping them to communicate with customers in large groups or one-to-one.

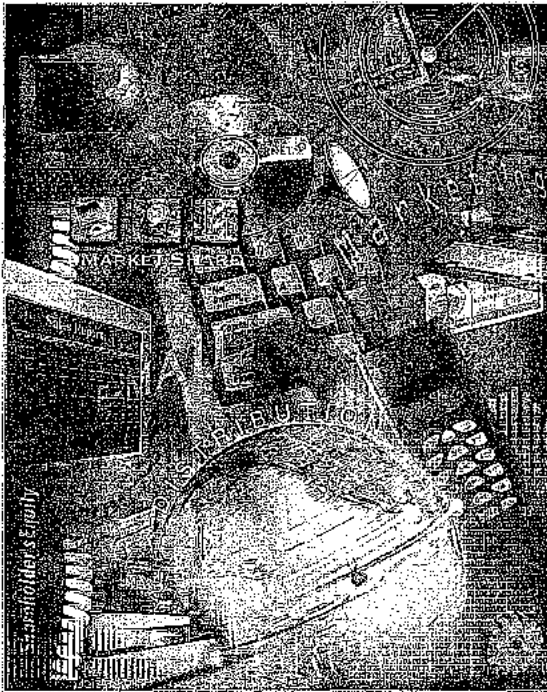
Through videoconferencing, marketing researchers at a company's headquarters in New York can look in on focus groups in Chicago or Paris without ever stepping onto a plane. With only a few clicks of a mouse button, a direct marketer can tap into online data services to learn anything from what car you 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.


Technology has also brought a new wave of communication and advertising tools—ranging from cell phones, iPods, DVRs, Web sites, and interactive TV to video kiosks at airports and shopping malls. Marketers can use these tools to zero in on selected customers with carefully targeted messages. Through the Internet, customers can learn about, design, order, and pay for products and services, without ever leaving home. Then, through the marvels of express delivery, they can receive their purchases in less than 24 hours. From virtual reality displays that test new products to online virtual stores that sell them, the technology boom is affecting every aspect of marketing.

Perhaps the most dramatic new technology is the Internet.

Today, the Internet links individuals and businesses of all types to each other and to information all around the world. It allows anytime, anywhere connections to information, entertainment, and communication. Companies are using the Internet to build closer relationships with customers and marketing partners. Beyond competing in traditional marketplaces, they now have access to exciting new marketplaces.

The Internet has now become a truly a global phenomenon. The number of Internet users worldwide is expected to reach 1.8 billion by 2010.³¹ This growing and diverse Internet population means that all kinds of people are now going to the Web for information and to buy products and services.



 Technology has brought a new wave of marketing tools.

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.

Real Marketing

1.3 "The customer is always right." Right? After all, that slogan has become the guiding principle of most successful marketing firms. But these days, more and more marketers are discovering a new truth: Some customers can be way, way wrong—as in unprofitable. Increasingly, these companies are taking special care of their profitable customers while shunning those they lose money on.

Consider Best Buy, the nation's leading consumer electronics retailer. Since its humble beginnings in 1966 as a small Minnesota home and car stereo chain, Best Buy has transformed itself into a profitable 941-store, \$30-billion megaretailer. Today's Best Buy stores are huge, warehouse-like emporiums featuring a treasure trove of goods—from consumer electronics, home office equipment, and appliances to software, CDs, and DVDs—all at low discount prices.

Despite the company's success, however, Best Buy now faces storm clouds on the horizon. Wal-Mart, the world's largest retailer, and Dell, the largest computer maker, are rapidly encroaching on Best Buy's profitable consumer electronics turf. A decade ago, neither of these competitors even appeared on the list of top consumer electronics retailers. By last year, however, Wal-Mart had shot up to the number two position, with \$20 billion in consumer electronics sales versus Best Buy's \$30 billion. Dell was in fourth place but rising quickly. Best Buy CEO Brad Anderson fears that Best Buy could end up in what retailers call the "unprofitable middle," unable to compete against Wal-Mart's massive buying power for price-sensitive store shoppers or against Dell's direct model for more affluent online customers.

To better differentiate itself in this more crowded marketplace, Best Buy has rolled out a new strategy designed to better identify and serve its best customers. The strategy draws on the research of consultant Larry Selden, a Columbia University business professor. Selden argues that a company should see itself as a portfolio of customers, not product lines. His research has identified two basic types of customers: angels and demons. Angel customers are profitable,



Best Buy's customer-centricity strategy: Serve the angel customers while exorcizing the demons. Stores targeting upper-income "Barrys" steer them into the Magnolia Home Theater Center, a comfy store within a store that mimics media rooms popular with home theater fans.

whereas demon customers may actually cost a company more to serve than it makes from them. In fact, Selden claims, serving the demons often wipes out the profits earned by serving the angels.

Following this logic, Best Buy assigned a task force to analyze its customers' purchasing habits. Sure enough, the analysts found a host of angels—some 20 percent of Best Buy's customers who produced the bulk of its profits. According to the *Wall Street Journal*: "Best Buy's angels are customers who boost profits at the consumer-electronics giant by snapping up high-definition televisions, portable electronics, and newly released DVDs without waiting for markdowns or rebates."

The task force also found demons: "The [demons are Best Buy's] worst customers . . . the underground of bargain-hungry shoppers intent on wringing every nickel of savings out of the big retailer. They buy products, apply for rebates, return the purchases, then buy them back at returned-merchandise discounts. They load up on 'loss leaders,' severely discounted merchandise designed to boost store traffic, then

These days, it's hard to find a company that doesn't use the Web in a significant way. 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. The Internet also spawned an entirely new breed of "click-only" companies—the so-called "dot-coms." Today, online consumer buying is growing at a healthy rate. Some 65 percent of American online users now use the Internet to shop.³² Business-to-business e-commerce is also booming. It seems that almost every business has set up shop on the Web. Giants such as GE, Siemens, Microsoft, Dell, and many others have moved quickly to exploit the B-to-B power of the Internet.

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

flip the goods at a profit on eBay. They slap down rock-bottom price quotes from Web sites and demand that Best Buy make good on its lowest-price pledge." CEO Anderson learned that these demon customers could account for up to 100 million of Best Buy's 500 million customer visits each year. "They can wreak enormous economic havoc," he says.

So, after deciding that the customer was *not* always right, Anderson set out to ditch the demon customers. Best Buy started testing a "Customer Centricity" strategy in 100 of its stores. It began by combing through these stores' sales records and customer databases to distinguish between good and bad customers. To attract the angels, the stores began stocking more merchandise and offering better service to them. For example, the stores set up digital photo centers and a "Geek Squad," which offers one-on-one in-store or at-home computer assistance to high-value buyers. It established a Reward Zone loyalty program, in which regular customers can earn points toward discounts on future purchases. To discourage the demons, it removed them from its marketing lists, reduced the promotions and other sales tactics that tended to attract them, and installed a 15 percent restocking fee.

However, Best Buy didn't stop there. Customer analysis revealed that its best customers fell into five groups: "Barrys," high-income men; "Jills," suburban moms; "Buzzes," male technology enthusiasts; "Rays," young family men on a budget; and small business owners. The company instructed each Customer Centricity store to analyze the customers in its market area and to align its product and service mix to reflect the make-up of these customers. Further, it trained store clerks in the art of serving the angels and exorcising the demons.

Store clerks receive hours of training in identifying desirable customers according to their shopping preferences and behavior. [At one store targeting upper-income Barrys.] . . . blue-shirted sales clerks prowl the DVD aisles looking for promising candidates. The goal is to steer them into [the store's Magnolia Home Theater Center, a store within a store that features premium home-theater systems and knowledgeable, no-pressure home-theater consultants.] Unlike the television sections at most Best Buy stores, the [center] has easy chairs, a leather couch, and a basket of popcorn to mimic the media rooms popular with home-theater fans. At stores popular with young Buzzes, Best Buy is setting up videogame areas with leather chairs and game players hooked to mammoth, plasma-screen televisions. The games are conveniently

stacked outside the playing area, the glitzy new TVs a short stroll away.

Will Best Buy's new strategy work? Anderson realizes that his unconventional strategy is risky and that Best Buy must be careful. For one thing, tailoring store formats to fit local customers is expensive—the costs in the test stores have been about 1 percent to 2 percent higher. Moreover, shunning customers—good or bad—can be very risky. "The most dangerous image I can think of is a retailer that wants to fire customers," he notes—before letting them go, Best Buy first tries to turn its bad customers into profitable ones. "The trickiest challenge may be to deter bad customers without turning off good ones," observes an industry analyst.

However, early results show the Customer Centricity test stores have "clobbered" the traditional Best Buy stores—with many posting sales gains more than triple those of stores with conventional formats. Since rolling out the new strategy two years ago, sales have climbed 26 percent and profits have surged 43 percent. "Growing our company through customer centricity continues to be our top priority," says Anderson.

So, is the customer always right? Not necessarily. Although this might hold true for a company's best customers, it simply doesn't apply to others. As one marketer put it, "The customer is always right, but they aren't all the right customers." Best Buy knows that the goal is to develop the best customer portfolio, one built on the right relationships with the right customers. As one store manager puts it: "The biggest thing now is to build better relationships with [our best] customers."

Sources: Quotes and extracts from Gary McWilliams, "Analyzing Customers, Best Buy Decides Not All Are Welcome," *Wall Street Journal*, November 8, 2004, p. A1; "Gunning for the Best Buy," *Knight Ridder Tribune Business News*, May 28, 2006, p. 1; and Shirley A. Lazo, "Let's Go Shopping," *Barron's*, June 26, 2006, p. 28. Additional information from Laura Heller, "At Crossroads, Best Buy Charges Ahead with Customer Centricity," *DSN Retailing Today*, January 10, 2005, p. 13; Joshua Freed, "The Customer Is Always Right? Not Anymore," July 5, 2004, accessed at www.sigate.com; Laura Heller, "Doing to Demographics What's Never Been Done Before," *DSN Retailing Today*, September 6, 2004, p. 44; Matthew Boyle, "Best Buy's Giant Gamble," *Fortune*, April 3, 2006, pp. 69–75; "Best Buy Co., Inc.," *Hoover's Company Records*, April 15, 2006, p. 10209; and www.bestbuy.com, November 2006.

Rapid Globalization

As they are redefining their relationships with customers and partners, marketers are also taking a fresh look at the ways in which they connect with the broader world around them. 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. A neighborhood florist buys its flowers from Mexican nurseries, while a large U.S. electronics manufacturer competes in its home markets with giant Japanese 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.

■ Many U.S. companies have developed truly global operations. Coca-Cola offers more than 400 different brands in more than 200 countries including BPM energy drink in Ireland, bitter Mare Rosso in Spain, Sprite Ice Cube in Belgium, Fanta in Chile, and NaturAqua in Hungary.



American firms have been challenged at home by the skillful marketing of European and Asian multinationals. Companies such as Toyota, Siemens, Nestlé, Sony, 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. Coca-Cola offers a mind-boggling 400 different brands in more than 200 countries. Even MTV has joined the elite of global brands, delivering localized versions of its pulse-thumping fare to teens in 419 million homes in 164 countries around the globe.³³

Today, companies are not only trying to sell more of their locally produced goods in international markets, they also are buying more supplies and components abroad. For example, Isaac Mizrahi, one of America's top fashion designers, may choose cloth woven from Australian wool with designs printed in Italy. He will design a dress and e-mail the drawing to a Hong Kong agent, who will place the order with a Chinese factory. Finished dresses will be airfreighted to New York, where they will be redistributed to department and specialty stores around the country.

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.

The Call for More Ethics and Social Responsibility

Marketers are reexamining their relationships with social values and responsibilities and with the very Earth that sustains us. As the worldwide consumerism and environmentalism movements mature, today's marketers are being called upon to take greater responsibility for the social and environmental impact of their actions. 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.

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 socially

responsible actions as an opportunity to do well by doing good. They seek ways to profit by serving the best long-run interests of their customers and communities.

Some companies—such as Patagonia, Ben & Jerry's, Honest Tea, and others—are practicing "caring capitalism," setting themselves apart by being civic-minded and responsible. They are building 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.³⁴ We will revisit the topic of marketing and social responsibility in greater detail in Chapter 20.

The Growth of Not-for-Profit Marketing

In the past, marketing has been most widely applied in the for-profit business sector. In recent years, however, 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 more than 1.2 million nonprofits face stiff competition for support and membership.³⁵ Sound marketing can help them to attract membership and support. Consider the marketing efforts of the San Francisco Zoo:

The San Francisco Zoological Society aggressively markets the zoo's attractions to what might be its most important customer segment—children of all ages. It starts with a well-designed "product." The expanded Children's Zoo is specially designed to encourage parent-child interaction and discussions about living together with animals. The zoo provides close-up encounters with critters ranging from companion animals and livestock to the wildlife in our backyards and beyond. Children can groom livestock or collect eggs at the Family Farm, peer through microscopes in the Insect Zoo, crawl through a child-sized burrow at the Meerkats and Prairie Dogs exhibit, and lots more. To get the story out, attract visitors, and raise funds, the zoo sponsors innovative

advertising, an informative Web site, and exciting family events. The most popular event is the annual ZooFest for Kids. "Bring your children, parents, grandparents, and friends to participate in the San Francisco Zoo's most popular annual family fundraiser—ZooFest for Kids!" the zoo invites. "Get your face painted, enjoy up-close encounters with animals, eat yummy treats, and much, much more." ZooFest planners market the event to local businesses, which supply food and entertainment. The event usually nets about \$50,000, money that goes to support the Zoo's conservation and education programs. "With music in the air and tables heaped high with food," notes one observer, "ZooFest for Kids [has] a magic about it befitting the beginning of Summer"—magic created by good marketing.³⁶



Not-for-profit marketing: The San Francisco Zoological Society aggressively markets the zoo's attractions to what might be its most important customer segment—children of all ages.

Similarly, private colleges, facing declining enrollments and rising costs, are using marketing to compete for students and funds. Many performing arts groups—even the Lyric Opera Company of Chicago, which has seasonal sellouts—face huge operating deficits that they must cover by more aggressive donor marketing. Finally, many long-standing not-for-profit organizations—the YMCA, the Salvation Army, the Girl Scouts—have lost members and are now modernizing their missions and "products" to attract more members and donors.³⁷

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 to 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 against those of its competitors, and lift its image. In all, the U.S. Government is the nation's 27th largest advertiser, with an annual advertising budget of more than \$1.2 billion.³⁸

So, What Is Marketing? Pulling It All Together

At the start of this chapter, Figure 1.1 presented a simple model of the marketing process. Now that we've discussed all of the steps in the process, Figure 1.6 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 targeted customers?" (differentiation and positioning). Here, the marketer outlines a value proposition that spells out what values the company will deliver in order to win target customers.

With its marketing strategy decided, the company now constructs an integrated marketing program—consisting of a blend of the four marketing mix elements, or 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 consumers 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 the 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 will buy again. This helps the company to 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 1.6 provides a good roadmap to future chapters of the text. Chapters 1 and 2 introduce the marketing process, with a focus on building customer relationships and capturing value from customers. Chapters 3, 4, 5, and 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 deciding on a value proposition (differentiation and positioning). Chapters 8 through 17 discuss the marketing mix variables, one by one. Chapter 18

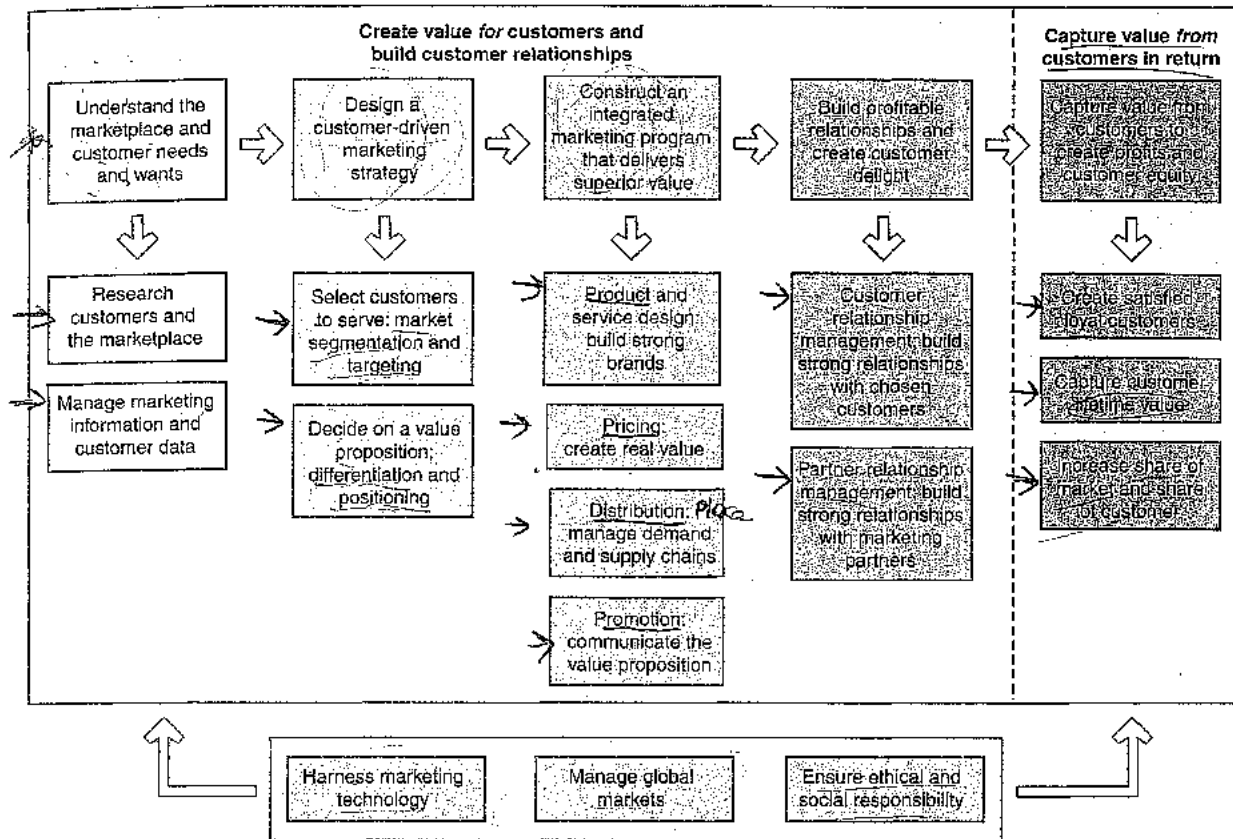


FIGURE 1.6 An expanded model of the marketing process

sums up customer-driven marketing strategy and creating competitive advantage in the marketplace. Then, the final two chapters examine special marketing considerations: global marketing and marketing ethics and social responsibility.

Reviewing the Concepts

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 profitable customer relationships. Marketing seeks to attract new customers by promising superior value and to keep and grow current customers by delivering satisfaction. Marketing operates within a dynamic global environment that can quickly make yesterday's winning strategies obsolete. To be successful, companies must be strongly market focused.

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

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.

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

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 that delivers customer value and satisfaction, resulting in long-term exchange relationships with customers.

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

To design a winning marketing strategy, the company must first decide *who* 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 the 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 are the keys to both achieving the company's goals and fulfilling its responsibilities.

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

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 to 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*.

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

As the world spins on, dramatic changes are occurring in the marketing arena. The boom in computer, telecommunications, information, transportation, and other technologies has created exciting new ways to learn about and track customers and to create products and services tailored to individual customer needs.

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 upon to take greater responsibility for the social and environmental impact of their actions. Finally, in the past, marketing has been most widely applied in the for-profit business sector. In recent years, however, 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.

Reviewing the Key Terms

Customer equity 21	Demands 6	Marketing management 8	Product concept 10
Customer lifetime value 20	Exchange 7	Marketing myopia 6	Production concept 9
Customer perceived value 13	Internet 23	Market offering 6	Selling concept 10
Customer relationship management 13	Market 7	Needs 6	Share of customer 20
Customer satisfaction 13	Marketing 5	Partner relationship management 18	Societal marketing concept 11
	Marketing concept 10		Wants 6

Discussing the Concepts

- You can define marketing and its functions in many ways. In your own words, explain marketing to someone who has not yet read this chapter.
- What is the difference between a need, a want, and a demand? Describe the need versus the want for the following products: Gatorade, Nike, iPod.
- What are the five different marketing management orientations? Which orientation do you believe your college follows when marketing its undergraduate program?
- Customer value is consumers' evaluation of the difference between total benefits and total costs. When a consumer orders a T-shirt from an online retailer such as *landsend.com*, what are the total benefits and total costs?
- What is customer equity? How can a company increase its customer equity?
- How has the Internet changed consumers? Marketers?

Applying the Concepts

1. When companies have close competitors, they try to choose value propositions that will differentiate them from others in the market. Choose three fast-food restaurants and describe their value propositions. Are they strongly differentiating themselves?
2. What are the four customer relationship groups? Is there a way marketers can move a Stranger to a True Friend? Explain how Apple and BMW would move their Strangers to True Friends.
3. A cell phone company spends \$148.50 in total costs to acquire a new user. On average, this new user spends \$60 a month for calling and related services, and the cell phone company generates an 18 percent profit margin in each of the 25 months that the user is expected to stay with the service. What is the Customer Lifetime Value of this user to the cell phone company?

Focus on Technology

Visit www.oddcast.com and you will find animated characters that interact with customers on various linked sponsor Web sites. The characters, referred to as VHosts, help customers navigate the site and find important information. A VHost can be set up to speak any one of 64 languages and to have a variety of facial characteristics, skin tones, and hair styles. More than 5,000 companies currently use Oddcast's technology, including major brands such as ESPN, L'Oreal, and NBC.

1. What is the appeal of the VHost for a marketer?
2. What might be a concern for the marketer?
3. After visiting the site, as a consumer, what are your thoughts regarding the VHosts?
4. What specific target markets might benefit most from a VHost?

Focus on Ethics

In this digital age, marketers have more thorough data and can use the data for very precise market targeting. In fact, the United States military has developed a database of millions of high school and college students for recruiting. With the database, the military can more effectively target potential recruits. In addition to names and addresses, the data for each young person includes such things as favorite subjects, grade point averages, and consumer purchases. Currently, more than 100 groups, including the American Civil Liberties Union and Rock the Vote are demanding that the database be abandoned and that the military not continue to collect this information for marketing purposes.

1. Do you think the military has a right to improve its recruiting through a more elaborate database of their potential "customers"?
2. Do you think the database is an invasion of privacy?
3. How else might the military improve its recruiting?

See: "Military Database of Potential Recruits Rankles Privacy Groups," *Advertising Age*, October 31, 2005, p. 9.

Video Case Dunkin' Donuts

For more than 50 years, Dunkin' Donuts has offered customers throughout the United States, and around the world, a consistent experience—the same donuts, the same coffee, the same store décor—each time a customer drops in. Although the chain now offers iced coffee, breakfast sandwiches, smoothies, gourmet cookies, and Dunkin' Dawgs in addition to the old standbys, devoted customers argue that it's the coffee that sets Dunkin' Donuts apart. To keep customers coming back, the chain still relies on the recipe that founder Bill Rosenberg crafted more than 50 years ago.

The company is so concerned about offering a consistent, high-quality cup of coffee that managers in Dunkin' Donut's "Tree-to-Cup" program monitor the progress of its coffee beans from the farm to the

restaurant. The result? Dunkin' Donuts sells more cups of coffee than any other retailer in the United States—30 cups a second, nearly one billion cups each year. Building on that success, the company plans to more than triple its current number of stores, amassing 15,000 franchises by the year 2015.

After viewing the video featuring Dunkin' Donuts, answer the following questions about managing profitable customer relationships.

1. How does Dunkin' Donuts build long-term customer relationships?
2. What is Dunkin' Donuts' value proposition?
3. How is Dunkin' Donuts growing its share of customers?