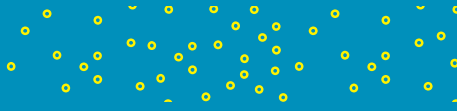


FIFTEENTH EDITION

MARKETING

Roger A. Kerin • Steven W. Hartley



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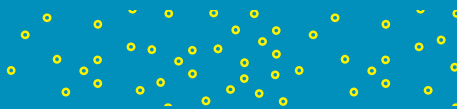
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MARKETING

Chapter 1

Creating Customer Relationships and Value through Marketing

LEARNING OBJECTIVES

After reading this chapter you should be able to:

- LO 1-1** Define marketing and identify the diverse factors that influence marketing actions.
- LO 1-2** Explain how marketing discovers and satisfies consumer needs.
- LO 1-3** Distinguish between marketing mix factors and environmental forces.
- LO 1-4** Explain how organizations build strong customer relationships and customer value through marketing.
- LO 1-5** Describe the characteristics of a market orientation.

At Chobani, Marketing Is All Natural!

Consumers around the globe are demanding healthy products made with natural ingredients. If you are one of those consumers you may have tried Chobani yogurt, a product created to offer you a good value through its nutritious and natural recipes!

The Chobani products you've seen on the shelves are the result of an extraordinary marketing success story. Just a few years ago the U.S. yogurt market was dominated by Dannon and Yoplait. Then Hamdi Ulukaya created Chobani with less sugar and more protein to better match the changing tastes of American consumers. Today Chobani has more than \$2 billion in annual sales and was recently recognized as one of the most innovative companies in the world "for stirring it up in the grocery store."¹

What is the secret to Chobani's success? Read on to hear the rest of the story!

Creating an Exceptional Product

The Chobani website proclaims that one of its guiding values is "better food for more people."² The process starts with milk from local sources and then uses a straining procedure that makes the yogurt extra thick and gives it twice as much protein. Finally, only real fruit and natural sweeteners are added. The recipe is the result of a commitment to a high-quality product. "I was very picky. It took us 18 months to get the recipe right. I knew I had only one shot, and it had to be perfect," says Ulukaya. To produce the yogurt, Ulukaya purchased a closed dairy in a small town in New York using a Small Business Administration loan. He remodeled the facility using sustainability as a theme to reflect a focus on environment and community.³

Connecting with Customers

Chobani had little money for traditional advertising, so it relied on positive word of mouth, with one happy customer telling another about the new style of yogurt. In addition, Chobani used social media such as Twitter and Facebook to connect with consumers and a mobile yogurt food truck called the CHOMobile to hand out free samples to encourage consumers to try Chobani's Greek Yogurt for the first time. One of Chobani's biggest breakthroughs in gaining public awareness was its sponsorship of the U.S. Olympic and Paralympic Teams.

Chobani also pushed for distribution in major grocery chains, rather than smaller niche stores, and encouraged placement of the product in the main dairy cases of the stores, not the specialty or health food sections. Ulukaya was convinced that Americans would really like Greek yogurt if they tried it and that they would try it if they heard about it and could find it easily in their grocery store.⁴



Source: Chobani, LLC

Chobani Today

Chobani continues to monitor changing consumer tastes and offers new products to accommodate them. For example, the company recently introduced a non-dairy, coconut-based yogurt to address the growing consumer interest in plant-based food and a children's line of shakes, pouches, tubes, and bowls called Chobani Gimmies™. The products are designed for new and existing consumers and for new eating occasions.

One way Chobani stays in touch with consumer interests is through its yogurt cafés in New York's SoHo and Tribeca neighborhoods and in Houston. New ideas are continually tested on the

VIDEO 1-1
Chobani Hungry Bear Ad
kerin.tv/15e/v1-1



Located in New York City, Chobani SoHo is the brand's first-of-its-kind retail concept, serving yogurt creations with innovative toppings.

Diane Bondareff/Invision for Chobani/AP Images

menu and the feedback has been so useful that Chobani plans to open similar outlets in Los Angeles, San Francisco, Chicago, and other U.S. cities. Chobani also created the Chobani Food Incubator, which is designed to invest in and cultivate ideas from emerging food entrepreneurs.

Today, Chobani boasts a 54 percent market share of the Greek yogurt segment, which makes up almost 40 percent of the \$8.5 billion yogurt market. Chobani advertising, such as the “Wonderful World of Less,” “Believe in Food,” “No Bad Stuff,” and “Love This Life” campaigns, are featured on the Chobani YouTube channel. The company's success has even led to a Super Bowl ad featuring a 1,400-pound bear in search of a healthy snack!⁵

Chobani, Marketing, and You

Will Hamdi Ulukaya and his Chobani Greek Yogurt continue this fantastic success story—especially with the recent appearance of competing Greek yogurts from Yoplait, Dannon, Zoi, The Greek Gods, and Fage? For Ulukaya, one key factor will be how well Chobani understands and uses marketing—the subject of this book.

WHAT IS MARKETING?

The good news is that you are already a marketing expert! You perform many marketing activities and make marketing-related decisions every day. For example, would you sell more LG Signature 65-inch 4K OLED Rollable TVs at \$24,999 or \$7,999? You answered \$7,999, right? So your experience in shopping gives you some expertise in marketing. As a consumer, you've been involved in thousands of marketing decisions, mostly on the buying and not the selling side. But to test your expertise, answer the “marketing expert” questions posed in [Figure 1-1](#). You'll find the answers within the next several pages.

The bad news is that good marketing isn't always easy. That's why every year thousands of new products fail in the marketplace and then quietly slide into oblivion.

Marketing and Your Career

Marketing affects all individuals, all organizations, all industries, and all countries. This book seeks to teach you marketing concepts, often by having you actually “do marketing”—by putting

Are you a marketing expert? If so, what would you pay for this cutting-edge TV?

Robyn Beck/AFP/Getty Images



FIGURE 1-1
The see-if-you're-really-a-marketing-expert test.

Answer the questions below. The correct answers are given later in the chapter.

1. What is the name of the zero-calorie, no-sugar, naturally sweetened Coke beverage that Coca-Cola has released in some markets? (a) Coca-Cola Life, (b) Coke Zero Sugar, (c) Diet Coke, (d) Coca-Cola Stevia.
2. True or False: The 65-year lifetime value of a loyal auto repair center customer is \$147,000.
3. To be socially responsible Patagonia encourages its customers to do which of the following with its products? (a) repair, (b) trade, (c) recycle, (d) all three.



The chief executive officer of Tesla and SpaceX began building businesses shortly after graduating from college.
John Raoux/AP Images

you in the shoes of a marketing manager facing actual marketing decisions. The book also shows marketing's many applications and how it affects our lives. This knowledge should make you a better consumer and enable you to be a more informed citizen, and it may even help you in your career planning.

Perhaps your future will involve doing sales and marketing for a large organization. Working for a well-known company—Apple, Ford, Facebook, or General Mills—can be personally satisfying and financially rewarding, and you may gain special respect from your friends.

Start-ups and small businesses also offer marketing careers. Small businesses are the source of the majority of new U.S. jobs. So you might become your own boss by being an entrepreneur and starting your own business.

Shortly after leaving Stanford, Elon Musk, for example, started and sold a web software company called Zip2. With the proceeds from that business he started another business which merged with another and became PayPal. When PayPal was purchased by eBay, Musk founded another venture called SpaceX, which develops and manufactures space launch vehicles and hopes to send a mission to Mars by 2024. Since those initial business start-ups, Musk also started the electric car company Tesla and a solar power company called SolarCity. In addition, he has started a design competition for a high-speed transportation system called Hyperloop, a not-for-profit artificial intelligence company called OpenAI, a neurotechnology company called Neuralink, and a tunnel construction firm called The Boring Company. Perhaps your interest in marketing will lead to new business successes like Musk's!⁶

LO 1-1
Define marketing and identify the diverse factors that influence marketing actions.

Marketing: Delivering Value to Customers

The American Marketing Association represents individuals and organizations involved in the development and practice of marketing worldwide. It defines **marketing** as the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.⁷ This definition shows that marketing is far more than simply advertising or personal selling. It stresses the need to deliver genuine value in the offerings of goods, services, and ideas marketed to customers. Also, notice that an organization's marketing activities should also create value for its partners and for society.

To serve both buyers and sellers, marketing seeks (1) to discover the needs and wants of prospective customers and (2) to satisfy them. These prospective customers include both individuals, buying for themselves and their households, and organizations, buying for their own use (such as manufacturers) or for resale (such as wholesalers and retailers). The key to

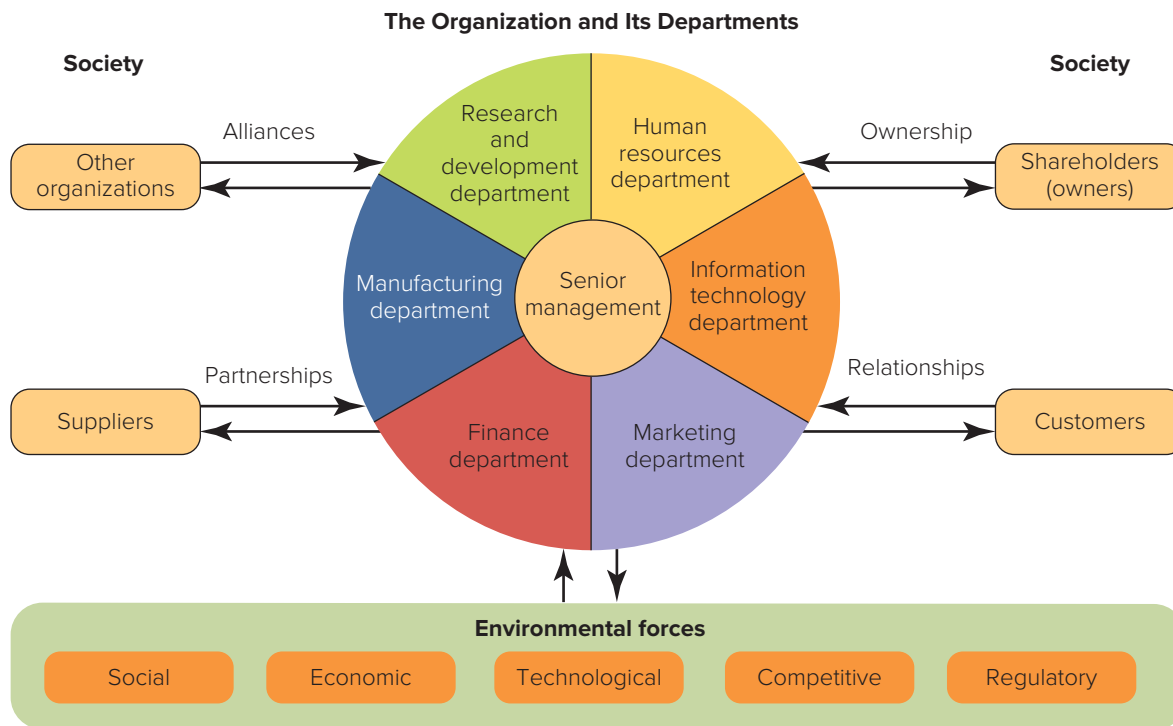


FIGURE 1-2
A marketing department relates to many people, organizations, and forces. Note that the marketing department both *shapes* and *is shaped by* its relationship with these internal and external groups.

achieving these two objectives is the idea of **exchange**, which is the trade of things of value between a buyer and a seller so that each is better off after the trade.⁸

The Diverse Elements Influencing Marketing Actions

Although an organization’s marketing activity focuses on assessing and satisfying consumer needs, countless other people, groups, and forces interact to shape the nature of its actions (see Figure 1-2). Foremost is the organization itself, whose mission and objectives determine what business it is in and what goals it seeks. Within the organization, management is responsible for establishing these goals. The marketing department works closely with a network of other departments and employees to help provide the customer-satisfying products required for the organization to survive and prosper.

Figure 1-2 also shows the key people, groups, and forces outside the organization that influence its marketing activities. The marketing department is responsible for facilitating relationships, partnerships, and alliances with the organization’s customers, its shareholders (or often representatives of nonprofit organizations), its suppliers, and other organizations. Environmental forces involving social, economic, technological, competitive, and regulatory considerations also shape an organization’s marketing actions. Finally, an organization’s marketing decisions are affected by and, in turn, often have an important impact on society as a whole.

The organization must strike a balance among the sometimes differing interests of these groups. For example, it is not possible to simultaneously provide the lowest-priced and highest-quality products to customers and pay the highest prices to suppliers, the highest wages to employees, and the maximum dividends to shareholders.

What Is Needed for Marketing to Occur

For marketing to occur, at least four factors are required: (1) two or more parties (individuals or organizations) with unsatisfied needs, (2) a desire and ability on their part to have their needs satisfied, (3) a way for the parties to communicate, and (4) something to exchange.



Marketing doesn't happen in a vacuum. The text describes the four factors needed to buy a product from Domino's Mix & Match menu.

Source: Domino's IP Holder LLC

Two or More Parties with Unsatisfied Needs Suppose you've developed an unmet need—a desire for a late-night meal after studying for an exam—but you don't yet know that Domino's has a location in your area. Also unknown to you is that Domino's has a special "mix & match" offer for any two or more of its menu items, just waiting to be ordered and picked up or delivered. This is an example of two parties with unmet needs: you, desiring a meal, and your local Domino's owner, needing someone to place an order.

Desire and Ability to Satisfy These Needs Both you and the Domino's owner want to satisfy these unmet needs. Furthermore, you have the money to pay for a purchase and the time to place an order. The Domino's owner has the desire to sell its products but also the ability to do so since the items are easily made and delivered to (or picked up by) you.

A Way for the Parties to Communicate The marketing transaction of purchasing a Domino's pizza or one of its other products will never occur unless you are aware the product exists and you know how to make a purchase (at a Domino's location, on Dominos.com, or via a store phone number). Similarly, Domino's won't be able to sell its products unless there's a market of potential buyers nearby. When you receive a coupon on your phone or drive by and see the Domino's store location, this communication barrier between you (the buyer) and the Domino's owner (the seller) is overcome.

Something to Exchange Marketing occurs when the transaction takes place and both the buyer and seller exchange something of value. In this case, you exchange your money (\$5.99) for each item ordered from Domino's Mix & Match menu. Both you and the Domino's owner have gained and also given up something, but you are both better off because each of you has satisfied the other's unmet

needs. You have the opportunity to eat Domino's food items to satisfy your hunger, but you gave up some money to do so; the Domino's owner gave up the pizza, salad, and other items but received money, which will help the owner remain in business. The ethical and regulatory foundations of this exchange process are central to marketing and are discussed in Chapter 4.

LEARNING REVIEW

- 1-1. What is marketing?
- 1-2. Marketing focuses on _____ and _____ consumer needs.
- 1-3. What four factors are needed for marketing to occur?

HOW MARKETING DISCOVERS AND SATISFIES CONSUMER NEEDS

LO 1-2
 Explain how marketing discovers and satisfies consumer needs.

The importance of discovering and satisfying consumer needs in order to develop and offer successful products is so critical to understanding marketing that we look at each of these two steps in detail next. Let's start by asking you to analyze the following three products.

Discovering Consumer Needs

The first objective in marketing is discovering the needs of prospective customers. Marketers often use customer surveys, concept tests, and other forms of marketing research (discussed

For these three products, identify (1) what benefits the product provides buyers and (2) what factors or “showstoppers” might doom the product in the marketplace. Answers are discussed in the text.

(Left): Sean Gallup/Getty Images; (Center): Source: The Coca-Cola Company; (Right): Source: Universal Yums LLC



Smart glasses.



A no-sugar soda.



A subscription service for snacks.

in detail in Chapter 8) to better understand customer ideas. Many firms also use “crowd-sourcing” or “innovation tournaments” to solicit and evaluate ideas from customers. At LEGO Group, for example, ideas that are submitted to LEGO Ideas (www.ideas.lego.com) and receive 10,000 votes from site visitors are considered for possible addition to the product line. LEGO Group products that were discovered through the website (www.ideas.lego.com) include its Voltron robot, its Women of NASA set, its *Big Bang Theory* model, and a set based on the *Minecraft* video game! Sometimes, however, customers may not know or be able to describe what they need and want. Smartphones, connected homes, and electric cars are all examples of this, in which case an accurate long-term prediction of consumer needs is essential.⁹

The Challenge: Meeting Consumer Needs with New Products

While marketers are improving the ways they can generate new product ideas, experts estimate that it takes 3,000 raw ideas to generate one commercial success. Market intelligence agency Mintel estimates that 38,000 new products are introduced worldwide each month. In addition, studies of new-product launches indicate that about 40 percent of the products fail. Robert M. McMath, who has studied more than 110,000 new-product launches, has two key suggestions: (1) focus on what the customer benefit is, and (2) learn from past mistakes.¹⁰

The solution to preventing product failures seems embarrassingly obvious. First, find out what consumers need and want. Second, produce what they need and want, and don’t produce what they don’t need and want. The three products shown previously illustrate just how difficult it is to achieve new-product success, a topic covered in more detail in Chapter 10.

Without reading further, think about the potential benefits to customers and possible “showstoppers”—factors that might doom the product—for each of the three products pictured. Some of the products may come out of your past, and others may be on your horizon. Here’s a quick analysis of the three products:

- *Smart Glasses.* Several years ago Google launched a brand of smart glasses called Google Glass. The new product was head-mounted and similar in appearance to a pair of glasses. In addition, though, the glasses had Internet capabilities, a camera, phone, speaker, microphone, touchpad, and a heads-up display. While the product was popular among technology enthusiasts it did not attract a mass market. Showstoppers included its \$1,500 price tag, a general perception that it looked “nerdy,” and concerns that wearing the device might violate privacy rights. Google discontinued the product, although it has recently reintroduced the concept as an Enterprise Edition for businesses, and other brands such as Focals and Vuzix are offering models that are trying to attract the consumer market!¹¹
- *Coca-Cola Stevia No Sugar.* As consumer preferences have shifted, beverage companies have expanded their offerings to include drinks with less sugar. Soda producers, for example, have offered new products such as Pepsi True and Coca-Cola Life which

VIDEO 1-2
Google Glass
Enterprise Edition
kerin.tv/15e/v1-2

VIDEO 1-3
Coca-Cola Stevia Ad
kerin.tv/15e/v1-3



Studying late at night for an exam and being hungry, you decide to eat a Cool Mint Chocolate Clif Bar. Is this a need or a want? The text discusses the role of marketing in influencing decisions like this one.

Evelyn Nicole Kirksey/
McGraw-Hill Education

are sweetened with sugar and stevia leaf extract. New products are also being developed as the U.S. Food & Drug Administration's new Nutrition Facts label requirements (effective 2020) provide more information about added sugars. Coca-Cola, for example, is testing Coca-Cola Stevia which will be sweetened only with the natural ingredient stevia, rather than the aspartame used in Coke Zero Sugar. A potential showstopper: In the past consumers reported that products with stevia sweetener had a bitter aftertaste. Will Coca-Cola Stevia be different? As always, as a consumer you will be the judge!¹²

- *Universal Yums Subscription.* Approximately 5 million consumers buy brands through subscription services today. Universal Yums hopes to appeal to customers with a selection of snacks from a different country every month. Each delivery also includes a guidebook with trivia, games, and recipes about that month's snacks. The service is available in 3-, 6-, or 12-month options and three sizes. Past boxes have included snacks from Italy, Germany, Thailand, Brazil, the Netherlands, and many other countries! What are potential showstoppers? First, the competition is growing—there are already 400–600 subscription box services in the United States. Second, consumers may tire of receiving new products each month, particularly if they find several brands that meet their needs.¹³

Firms spend billions of dollars annually on marketing and technical research that significantly reduces, but doesn't eliminate, new-product failure. So meeting the changing needs of consumers is a continuing challenge for firms around the world.

Consumer Needs and Consumer Wants Should marketing try to satisfy consumer needs or consumer wants? Marketing tries to do both. Heated debates rage over this question, fueled by the definitions of needs and wants and the amount of freedom given to prospective customers to make their own buying decisions.

A *need* occurs when a person feels deprived of basic necessities such as food, clothing, and shelter. A *want* is a need that is shaped by a person's knowledge, culture, and personality. So if you feel hungry, you have developed a basic need and desire to eat something. Let's say you then want to eat a Cool Mint Chocolate Clif Bar because, based on your past experience, you know it will satisfy your hunger need. Effective marketing, in the form of creating an awareness of good products at fair prices and convenient locations, can clearly shape a person's wants.

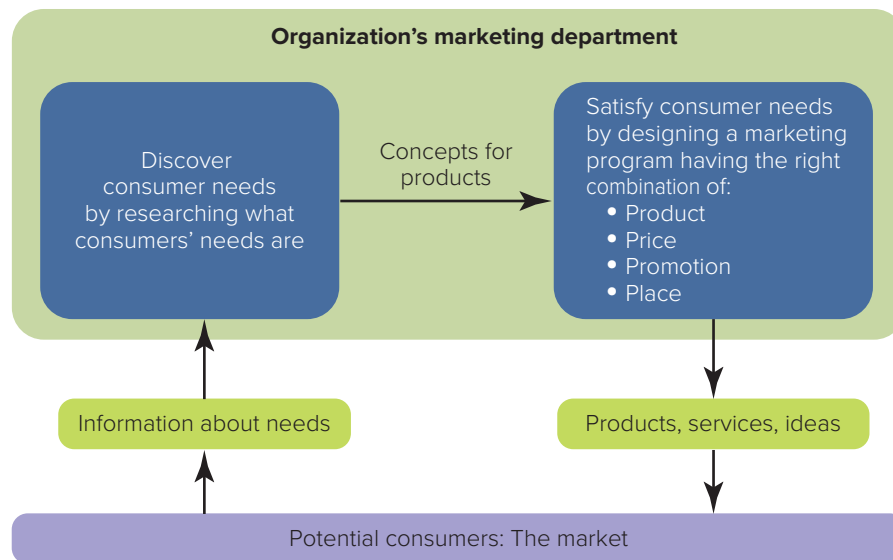
Certainly, marketing tries to influence what we buy. A question then arises: At what point do we want government and society to step in to protect consumers? Most consumers would say they want government to protect them from harmful drugs and unsafe cars but not from candy bars and soft drinks. To protect college students, should government restrict their use of credit cards?¹⁴ Such questions have no clear-cut answers, which is why legal and ethical issues are central to marketing. Because even psychologists and economists still debate the exact meanings of *need* and *want*, we shall use the terms interchangeably throughout the book.

As shown on the left side of [Figure 1-3](#) on the next page, discovering needs involves looking carefully at prospective customers, whether they are children buying M&M's candy, college students buying Chobani Greek Yogurt, or firms buying Xerox color copiers. A principal activity of a firm's marketing department is to scrutinize its consumers to understand what they need and want and the forces that shape those needs and wants.

What a Market Is Potential consumers make up a **market**, which is people with both the desire and the ability to buy a specific offering. All markets ultimately are people. Even when we say a firm bought a Xerox copier, we mean one or several people in the firm decided to buy it. People who are aware of their unmet needs may have the desire to buy the product, but that alone isn't sufficient. People must also have the ability to buy, such as the authority, time, and money. People may even "buy" an idea that results in an action, such as having their blood pressure checked annually or switching to a reusable water bottle.

FIGURE 1-3

Marketing seeks first to discover consumer needs through extensive research. It then seeks to satisfy those needs by successfully implementing a marketing program possessing the right combination of the marketing mix—the four Ps.

**LO 1-3**

Distinguish between marketing mix factors and environmental forces.

Satisfying Consumer Needs

Marketing doesn't stop with the discovery of consumer needs. Because the organization obviously can't satisfy all consumer needs, it must concentrate its efforts on certain needs of a specific group of potential consumers. This is the **target market**—one or more specific groups of potential consumers toward which an organization directs its marketing program.



Firms can affect some environmental forces with breakthrough products such as AI assistants.

Malcolm Haines/Alamy Stock Photo

The Four Ps: Controllable Marketing Mix Factors Having selected its target market consumers, the firm must take steps to satisfy their needs, as shown on the right side of Figure 1-3. Someone in the organization's marketing department, often the marketing manager, must develop a complete marketing program to reach consumers by using a combination of four elements, often called "the four Ps"—a useful shorthand reference to them first published by Professor E. Jerome McCarthy.¹⁵

- **Product.** A good, service, or idea to satisfy the consumer's needs.
- **Price.** What is exchanged for the product.
- **Promotion.** A means of communication between the seller and buyer.
- **Place.** A means of getting the product to the consumer.

We'll define each of the four Ps more carefully later in the book, but for now it's important to remember that they are the elements of the **marketing mix**. These four elements are the controllable factors—product, price, promotion, and place—that can be used by the marketing manager to solve a marketing problem. For example, when a company puts a product on sale, it is changing one element of the marketing mix—namely, the price. The marketing mix elements are called *controllable factors* because they are under the control of the marketing department in an organization. Managing the marketing mix allows an organization to create a cluster of benefits that satisfies customers' needs.¹⁶

The Uncontrollable, Environmental Forces While marketers can control their marketing mix factors, there are forces that are mostly beyond their control (see Figure 1-2). These are the

environmental forces that affect a marketing decision, which consist of social, economic, technological, competitive, and regulatory forces. Examples are what consumers themselves want and need, changing technology, the state of the economy in terms of whether it is expanding or contracting, actions that competitors take, and government restrictions. Covered in detail in Chapter 3, these five forces may serve as accelerators or brakes on marketing, sometimes expanding an organization’s marketing opportunities and at other times restricting them.

Traditionally, many marketing executives have treated these environmental forces as rigid, absolute constraints that are entirely outside their influence. However, recent studies and marketing successes have shown that a forward-looking, action-oriented firm can often affect some environmental forces by achieving technological or competitive breakthroughs, such as Amazon’s AI assistant, Google’s Duplex chatbot, and Alibaba’s AliMe customer service technology.

THE MARKETING PROGRAM: HOW CUSTOMER RELATIONSHIPS ARE BUILT

LO 1-4
 Explain how organizations build strong customer relationships and customer value through marketing.

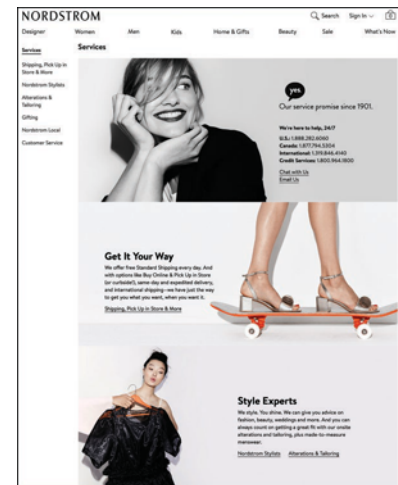
An organization’s marketing program connects it with its customers. To clarify this link, we will first discuss the critically important concepts of customer value, customer relationships, and relationship marketing. Then we will illustrate these concepts using 3M’s marketing program for its Post-it® Flag Highlighter products.

Relationship Marketing: Easy to Understand, Hard to Do

Intense competition in today’s fast-paced global markets has prompted many successful U.S. firms to focus on “customer value.” Gaining loyal customers by providing unique value is the essence of successful marketing. What is new is a more careful attempt at understanding how a firm’s customers perceive value and then actually creating and delivering that value to them.¹⁷ **Customer value** is the unique combination of benefits received by targeted buyers that includes quality, convenience, on-time delivery, and both before-sale and after-sale service at a specific price. In addition, firms now actually try to place a dollar value on the purchases of loyal, satisfied customers during their lifetimes. For example, automobile collision repair centers estimate that loyal customers average \$2,350 per repair, return eight times, and provide 50 referrals over 65 years, a value of \$147,000!¹⁸

Research suggests that firms cannot succeed by being all things to all people. Instead, firms seek to build long-term relationships with customers by providing unique value to them. Many successful firms deliver outstanding customer value with one of three value strategies: best price, best product, or best service.¹⁹

Target, Starbucks, and Nordstrom provide customer value using three very different approaches. For their strategies, see the text. (Left) Source: Target Brands, Inc.; (Center) Source: Starbucks Coffee Company; (Right) Source: Nordstrom, Inc.



With the intense competition among U.S. businesses, being seen as “best” is admittedly difficult. Still, the three firms shown in the ads above have achieved great success as reflected in the mission, vision, and values statements they stress and live by:²⁰

- *Best price: Target.* Target uses the brand promise of “Expect More, Pay Less[®]” to “make Target the preferred shopping destination for our guests by delivering outstanding value.”
- *Best product: Starbucks.* Starbucks seeks “to inspire and nurture the human spirit—one person, one cup and one neighborhood at a time.” Its ads remind customers that Starbucks coffee is “perfect.”
- *Best service: Nordstrom.* As a leading fashion specialty retailer, Nordstrom works to “deliver the best possible shopping experience, helping our customers express their style—not just buy fashion.” Nordstrom is “committed to providing our customers with the best possible service—and to improving it every day.”

Remaining among the “best” is a continuing challenge for today’s businesses.

A firm achieves meaningful customer relationships by creating connections with its customers through careful coordination of the product, its price, the way it is promoted, and how it is placed.

The hallmark of developing and maintaining effective customer relationships is today called **relationship marketing**, which links the organization to its individual customers, employees, suppliers, and other partners for their mutual long-term benefit. Relationship marketing involves a personal, ongoing relationship between the organization and its individual customers that begins before the sale and may evolve through different types of relationships after the sale.²¹

Information technology, along with cutting-edge manufacturing and marketing processes, better enable companies to form relationships with customers today. Smart, connected products, now elements of “the Internet of Everything,” help create detailed databases about product usage. Then, using data analytics, or the examination of data to discover relevant patterns, companies can gain insights into how products create value for customers. For example, BMW receives data transmitted by each new vehicle it sells and General Electric collects information sent in by the jet engines it builds to help understand how customers use their products and when service may be needed. The Ritz-Carlton Hotel Company trains each of its employees to observe guest preferences and record them in the guest recognition system. In addition,

Ritz-Carlton hotels use relationship marketing concepts—tailoring the purchase experience to each individual—to create lifelong customers.

Paul Hilton/Bloomberg/Getty Images



the hotel's statement of values, called Gold Standards, guides employees to "build strong relationships and create Ritz-Carlton guests for life," and the website includes a variety of ways for customers to become part of its online community, including a Twitter-based concierge service.²²

The Marketing Program and Market Segments

Effective relationship marketing strategies help marketing managers discover what prospective customers need and convert these ideas into marketable products (see Figure 1-3). These concepts must then be converted into a tangible **marketing program**—a plan that integrates the marketing mix to provide a good, service, or idea to prospective buyers. Ideally, they can be formed into **market segments**, which are relatively homogeneous groups of prospective buyers that (1) have common needs and (2) will respond similarly to a marketing action. This action might be a product feature, a promotion, or a price. As shown in Figure 1-3, in an effective organization this process is continuous: Consumer needs trigger product concepts that are translated into actual products that stimulate further discovery of consumer needs.

LEARNING REVIEW

- 1-4. An organization can't satisfy the needs of all consumers, so it must focus on one or more subgroups, which are its _____.
- 1-5. What are the four marketing mix elements that make up the organization's marketing program?
- 1-6. What are environmental forces?

3M's Strategy and Marketing Program to Help Students Study

"How do college students *really* study?" asked David Windorski, a 3M inventor of Post-it® brand products, when thinking about adding new items to the Post-it® line.²³

To answer this question, Windorski hired a team of four college students. Their task was to observe and question other students about their study behavior, such as how they used their textbooks, took notes, wrote term papers, and reviewed for exams. As part of their research, the team observed that students often highlight a passage and then mark the page with a Post-it® Note or the smaller Post-it® Flag. Windorski realized there was an opportunity to merge the functions of two products—highlighters and Post-it® markers—into one product to help students study!



3M's initial product line of Post-it® Flag Highlighters and Post-it® Flag Pens included variations in color.

Mike Hruby/McGraw-Hill Education

VIDEO 1-4
3M Post-it® Flag Highlighters Ad
kerin.tv/15e/v1-4

Moving from Ideas to Marketable Products After testing several models, Windorski concluded he had to build a highlighter product that would dispense Post-it® Flags because the Post-it® Notes were simply too large to put inside the barrel of a highlighter.

Next, hundreds of the highlighter prototypes with Post-it® Flags inside were produced and given to students—and also office workers—to get their reactions. This research showed that students loved the convenience of the Post-it® Flags in the highlighter. The research also suggested that many people in offices also need immediate access to Post-it® Flags but while writing with pens. So, the Post-it® Flag Pen was born! Students are a potential market for this product, too, but probably a smaller market segment than office workers.

A Marketing Program for the Post-it® Flag Highlighter and Post-it® Flag Pen After several years of research, development, and production engineering, 3M introduced its new products. Figure 1-4 outlines the strategies for each of the four marketing

MARKETING PROGRAM ACTION TO REACH:

MARKETING MIX ELEMENT	COLLEGE STUDENT MARKET SEGMENT	OFFICE WORKER MARKET SEGMENT	RATIONALE FOR MARKETING PROGRAM ACTION
Product strategy	Offer Post-it® Flag Highlighter to help college students in their studying	Offer Post-it® Flag Pen to help office workers in their day-to-day work activities	Listen carefully to the needs and wants of potential customer segments to use 3M technology to introduce a useful, innovative product
Price strategy	Seek retail price of about \$2.99 to \$3.99 for a single Post-it® Flag Highlighter or \$7.99 to \$9.99 for a three-pack	Seek retail price of about \$5.99 to \$7.99 for a two-pack of Post-it® Flag Pens; wholesale prices are lower	Set prices that provide genuine value to the customer segment being targeted
Promotion strategy	Run limited promotion with a TV ad and some ads in college newspapers and then rely on student word-of-mouth messages	Run limited promotion among distributors to get them to stock the product	Increase awareness among potential users who have never heard of this new, innovative 3M product
Place strategy	Distribute Post-it® Flag Highlighters through college bookstores, office supply stores, and mass merchandisers	Distribute Post-it® Flag Pens through office wholesalers and retailers as well as mass merchandisers	Make it easy for prospective buyers to buy at convenient retail outlets (both products) or to get at work (Post-it® Flag Pens only)

FIGURE 1-4
Marketing programs for the launch of two Post-it® brand products targeted at two target market segments.



Welcome to the most recent generation of Post-it® Flag Highlighters: the Post-it® Flag + Highlighter & Pen. The cap contains the Post-it® Flags.

McGraw-Hill Education

mix elements in 3M’s program to market its Post-it® Flag Highlighters and Post-it® Flag Pens. Although similar, we can compare the marketing program for each of the two products:

- *Post-it® Flag Highlighter.* The target market shown in the orange column in Figure 1-4 is mainly college students, so 3M’s initial challenge was to build student awareness of a product that they didn’t know existed. The company used a mix of print ads in college newspapers and a TV ad and then relied on word-of-mouth advertising—students telling their friends about how great the product is. Gaining distribution in college bookstores was also critical. Plus, 3M charged a price to distributors that it hoped would give a reasonable bookstore price to students and an acceptable profit to distributors and 3M.
- *Post-it® Flag Pen.* The primary target market shown in the green column in Figure 1-4 is people working in offices. The Post-it® Flag Pens are mainly business products—bought by the purchasing department in an organization and stocked as office supplies for employees to use. So the marketing program for Post-it® Flag Pens emphasizes gaining distribution in outlets used by an organization’s purchasing department.

How well did these new 3M products do in the marketplace? They have done so well that 3M bestowed a prestigious award on David Windorski and his team. And in what must be considered any inventor’s dream come true, Oprah Winfrey invited Windorski to appear on her TV show and thanked him in person. She told Windorski and her audience that the Post-it® Flag Highlighter is changing the way she does things at home and at work. “David, I know you never thought this would happen when you were in your 3M lab . . . but I want you to take a bow before America for the invention of this . . . (highlighter). It’s the most incredible invention,” she said.²⁴ The success of the Post-it® Flag Highlighter and the Post-it® Flag Pen encouraged Windorski to continue to conduct

research about how the products were used. Feedback suggested there was another opportunity in the market: A 3-in-1 combination that has a highlighter on one end, a pen on the other, and 3M Post-it® Flags in the removable cap. The latest in the family of 3M product innovations is shown in the photo!

HOW MARKETING BECAME SO IMPORTANT

LO 1-5
Describe the characteristics of a market orientation.

To understand why marketing is a driving force in the modern global economy, let us look at (1) the evolution of the market orientation, (2) ethics and social responsibility in marketing, and (3) the breadth and depth of marketing activities.

Evolution toward a Market Orientation

Many American manufacturers have experienced four distinct stages in the life of their firms.²⁵ The first stage, the *production era*, covers the early years of the United States up until the 1920s. Goods were comparatively scarce and buyers were willing to accept virtually any goods that were available and make do with them.²⁶ In the *sales era* from the 1920s to the 1960s, manufacturers found they could produce more goods than buyers could consume. Competition grew. Firms hired more salespeople to find new buyers. This sales era continued into the 1960s for many American firms.

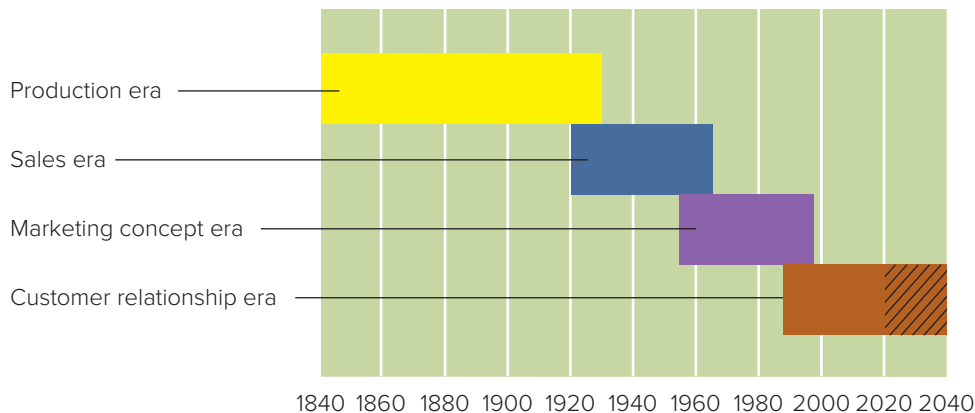
Starting in the late 1950s, marketing became the motivating force among many American firms and the *marketing concept era* dawned. The **marketing concept** is the idea that an organization should (1) strive to satisfy the needs of consumers while also (2) trying to achieve the organization’s goals. General Electric probably launched the marketing concept and its focus on consumers when its 1952 annual report stated: “The concept introduces . . . marketing . . . at the beginning rather than the end of the production cycle and integrates marketing into each phase of the business.”²⁷

Firms such as Southwest Airlines, Marriott, and Facebook have achieved great success by putting a huge effort into implementing the marketing concept, giving their firms what has been called a *market orientation*. An organization that has a **market orientation** focuses its efforts on (1) continuously collecting information about customers’ needs, (2) sharing this information across departments, and (3) using it to create customer value.²⁸ The *customer relationship era*, the brown bar in Figure 1-5, started in the 1980s and continues today as firms continuously seek to satisfy the high expectations of customers.

Focusing on Customer Relationship Management

A recent focus in the customer relationship era has been the advent of digital marketing, in which organizations and their customers develop relationships through applications (apps) and social media websites such as Instagram, Facebook, Twitter, and YouTube, among others.

FIGURE 1-5
Four different orientations in the history of American business. Today’s customer relationship era focuses on satisfying the high expectations of customers.





Trader Joe's is consistently ranked as one of America's favorite supermarket chains. This reflects the company's focus on providing a great customer experience, as described in the text.

Lannis Waters/ZUMA Press/Newscom

pects of an organization and its offering. This internal response includes both the direct and indirect contacts of the customer with the company. Direct contacts include the customer's contacts with the seller through buying, using, and obtaining services. Indirect contacts most often involve unplanned "touches" with the company through word-of-mouth comments from other customers, reviewers, and news reports. In terms of outstanding customer experience, Trader Joe's is high on the list. Not surprisingly, it is ranked as one of America's favorite supermarket chains.³¹

What makes the customer experience at Trader Joe's unique? The reasons include:

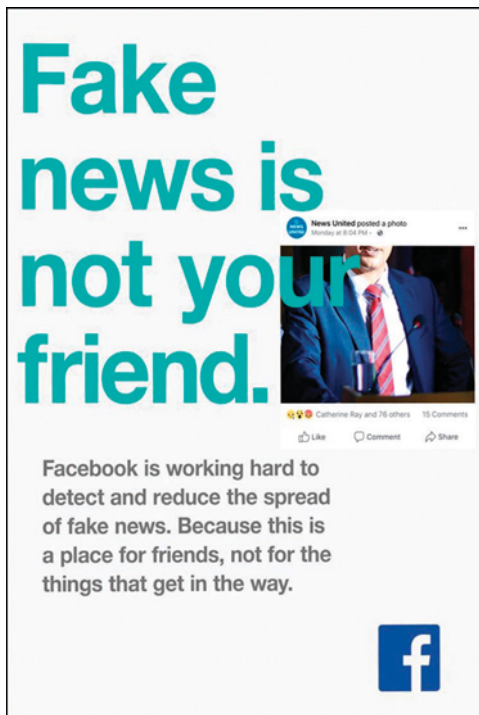
- Setting low prices, made possible by offering its own brands rather than well-known national ones.
- Offering unusual, affordable products, like Organic Bolivia Yanaloma Small Lot Coffee and Trader Ming's Mandarin Orange Chicken, not available from other retailers.
- Encouraging employee "engagement" to help customers, like actually walking them to where the roasted chestnuts are—rather than saying "aisle five."

This commitment to providing an exceptional customer experience is what gives Trader Joe's its high rankings. It is also the reason why Trader Joe's doesn't authorize or sell its products online. According to a company spokesperson, "The store is our brand and our products work best when they're sold as part of the overall customer experience *within* the store. Part of that customer experience is the value we are committed to providing customers, each and every time they shop our stores—great products of the highest quality at great prices."³²

Ethics and Social Responsibility in Marketing: Balancing the Interests of Different Groups

Today, the standards of marketing practice have shifted from an emphasis on producers' interests to consumers' interests. Guidelines for ethical and socially responsible behavior can help managers balance consumer, organizational, and societal interests.

Ethics Many marketing issues are not specifically addressed by existing laws and regulations. Should information about a firm's customers be sold to other organizations? Should online advertising that reaches young children be restricted? Should consumers be on their own to assess the safety or authenticity of a product? These questions raise difficult ethical issues. Many companies, industries, and professional associations have developed codes of ethics, policies, and guidelines to assist managers. Facebook, for example, is changing its view on its responsibilities related to misinformation and is "working hard to detect and reduce the spread of fake news."



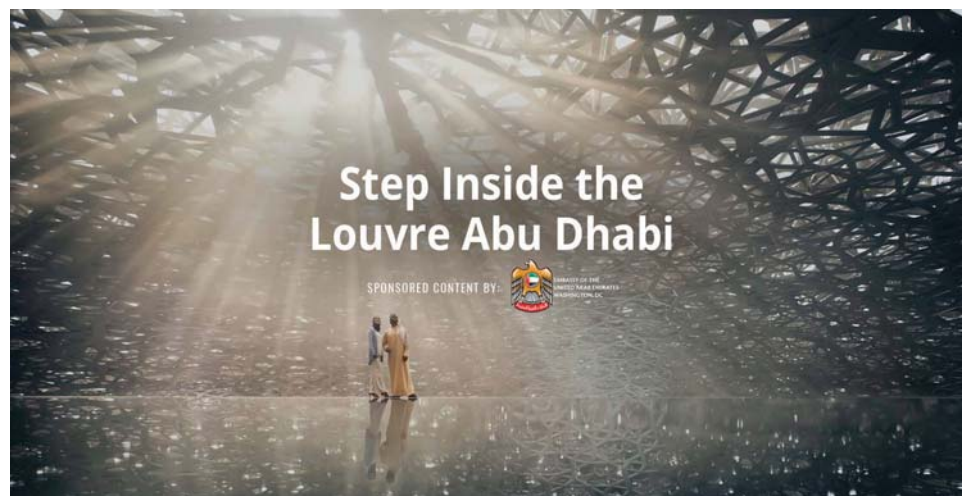
Facebook's ads acknowledge the social impact of fake news and describe the company's efforts to detect and reduce its presence on the social network.

Source: Facebook, Inc.



Strategies in marketing art museums can include new "satellite" museums such as this one for the Louvre in Abu Dhabi . . .

Source: Louvre Abu Dhabi



Social Responsibility While many ethical issues involve only the buyer and seller, others involve society as a whole. For example, suppose you have the oil in your car changed at a local oil change center. Is this just a transaction between you and the service center? Not quite! The used oil and oil filter have potential to contaminate the environment if they are not recycled, and contamination represents a cost to society in terms of lost use of landfill space or eventual cleanup of the discarded waste products. To reduce the social cost of individual purchases today, many organizations use a variety of strategies that range from pure philanthropy, to environmentally friendly and sustainable practices, to creating "shared" value.³³ These strategies illustrate the issue of *social responsibility*, the idea that organizations are accountable to a larger society.

The well-being of society at large should also be recognized in an organization's marketing decisions. In fact, some marketing experts stress the **societal marketing concept**, the view that organizations should satisfy the needs of consumers in a way that provides for society's well-being. For example, Patagonia's Worn Wear program encourages its customers to repair, trade, and eventually recycle all of its products. Patagonia says, "One of the most responsible things we can do as a company is to make high-quality stuff that lasts for years and can be repaired, so you don't have to buy more of it."³⁴

The Breadth and Depth of Marketing

Marketing today affects every person and organization. To understand this, let's analyze (1) who markets, (2) what is marketed, (3) who buys and uses what is marketed, (4) who benefits from these marketing activities, and (5) how consumers benefit.

Who Markets? Every organization markets. It's obvious that business firms involved in manufacturing (Patagonia), retailing (Trader Joe's), and providing services (Marriott) market their offerings. And nonprofit organizations such as museums (the Louvre), your local hospital or college, places (cities, states, countries), and even special causes (Race for the Cure) also engage in marketing. Finally, individuals such as political candidates often use marketing to gain voter attention and preference.

What Is Marketed? Goods, services, and ideas are marketed. *Goods* are physical objects, such as toothpaste, smartphones, or automobiles, that satisfy consumer needs. *Services* are intangible items such as airline trips, financial advice, or art museums. *Ideas* are thoughts about concepts, actions, or causes.



... or using an app to take an interactive tour of Russia's State Hermitage Museum.

Source: Hermitage Museum

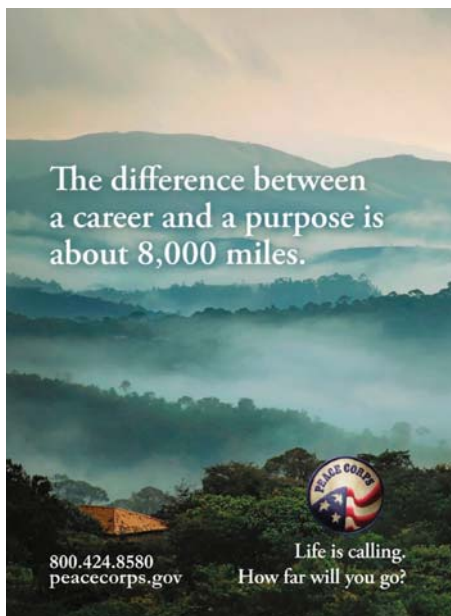
In this book, goods, services, and ideas are all considered “products” that are marketed. So a **product** is a good, service, or idea consisting of a bundle of tangible and intangible attributes that satisfies consumers’ needs and is received in exchange for money or something else of value.

Services like those offered by art museums, hospitals, and sports teams are relying more heavily on effective marketing. For example, financial pressures have caused art museums to innovate to market their unique services—the viewing of works of art by visitors—to increase revenues. This often involves levels of creativity unthinkable several decades ago.

This creativity ranges from establishing a global brand identity by launching overseas museums to offering sit-at-home video tours. France’s Louvre, home to the *Mona Lisa* painting, opened a new satellite museum in Abu Dhabi, housed in a striking domed building.³⁵ Russia’s world-class, 1,000-room State Hermitage Museum wanted to find a way to market itself to potential first-time visitors. So it developed a free app to guide visitors through the museum and provide information about events and exhibits.

Ideas are most often marketed by nonprofit organizations or the government. So The Nature Conservancy markets the cause of protecting the environment. Charities market the idea that it’s worthwhile for you to donate your time or money. The Peace Corps markets to recruit qualified volunteers. And state governments in Arizona and Florida market taking a warm, sunny winter vacation in their states.

Who Buys and Uses What Is Marketed? Both individuals and organizations buy and use products that are marketed. **Ultimate consumers** are the people who use the products and services purchased for a household. In contrast, **organizational buyers** are those manufacturers, wholesalers, retailers, service companies, nonprofit organizations, and government agencies that buy products and services for their own use or for resale. Although the terms *consumers*, *buyers*, and *customers* are sometimes used for both ultimate consumers and organizations, there is no consistency on this. In this book you will be able to tell from the example whether the buyers are ultimate consumers, organizations, or both.



Marketing the idea of volunteering for the Peace Corps can benefit society.

Source: Peace Corps

Who Benefits? In our free-enterprise society, there are three specific groups that benefit from effective marketing: consumers who buy, organizations that sell, and society as a whole. True competition between products and services in the marketplace ensures that consumers can find value from the best products, the lowest prices, or exceptional service. Providing choices leads to the consumer satisfaction and quality of life that we expect from our economic system.

Organizations that provide need-satisfying products with effective marketing programs—for example, Amazon, Apple, and L’Oréal—have blossomed. But competition creates problems for ineffective competitors, including the many retailers such as Payless ShoeSource, Brookstone, Sears, and Toys “R” Us that recently filed for bankruptcy.

Finally, effective marketing benefits society.³⁶ It enhances competition, which both improves the quality of products and services and lowers their prices. This makes countries more competitive in world markets and provides jobs and a higher standard of living for their citizens.

How Do Consumers Benefit? Marketing creates **utility**, the benefits or customer value received by users of the product. This utility is the result of the marketing exchange process and the way society benefits from marketing. There are four different utilities: form, place, time, and possession. The production of the product or service constitutes *form utility*. *Place utility* means having the offering available where consumers need it, whereas *time utility* means having it available when needed. *Possession*

utility is the value of making an item easy to purchase through the provision of credit cards or financial arrangements. Marketing creates its utilities by bridging space (place utility) and hours (time utility) to provide products (form utility) for consumers to own and use (possession utility).

LEARNING REVIEW

- 1-7.** What are the two key characteristics of the marketing concept?
- 1-8.** What is the difference between ultimate consumers and organizational buyers?

LEARNING OBJECTIVES REVIEW

LO 1-1 *Define marketing and identify the diverse factors that influence marketing actions.*

Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. This definition relates to two primary goals of marketing: (a) discovering the needs of prospective customers and (b) satisfying them. Achieving these two goals also involves the four marketing mix factors largely controlled by the organization and the five environmental forces that are generally outside its control.

LO 1-2 *Explain how marketing discovers and satisfies consumer needs.*

The first objective in marketing is discovering the needs and wants of consumers who are prospective buyers and customers. This is not easy because consumers may not always know or be able to describe what they need and want. A need occurs when a person feels deprived of basic necessities such as food, clothing, and shelter. A want is a need that is shaped by a person's knowledge, culture, and personality. Effective marketing can clearly shape a person's wants and tries to influence what he or she buys. The second objective in marketing is satisfying the needs of targeted consumers. Because an organization obviously can't satisfy all consumer needs, it must concentrate its efforts on certain needs of a specific group of potential consumers or target market—one or more specific groups of potential consumers toward which an organization directs its marketing program. It then selects its target market segment(s), which is a relatively homogeneous group of prospective buyers that (1) have common needs and (2) will respond similarly to a marketing action. Finally, the organization

develops a set of marketing actions in the form of a unique marketing program to reach them.

LO 1-3 *Distinguish between marketing mix factors and environmental forces.*

Four elements in a marketing program designed to satisfy customer needs are product, price, promotion, and place. These elements are called the marketing mix, the four Ps, or the marketer's controllable variables. The marketing mix also provides a clear customer value proposition—a cluster of benefits that an offering satisfies. Environmental forces, also called uncontrollable variables, are largely beyond the organization's control. These include social, economic, technological, competitive, and regulatory forces.

LO 1-4 *Explain how organizations build strong customer relationships and customer value through marketing.*

The essence of successful marketing is to provide sufficient value to gain loyal, long-term customers. Customer value is the unique combination of benefits received by targeted buyers that usually includes quality, price, convenience, on-time delivery, and both before-sale and after-sale service. Marketers do this by using one of three value strategies: best price, best product, or best service.

LO 1-5 *Describe the characteristics of a market orientation.*

Many firms have achieved great success by putting huge effort into implementing the marketing concept—the idea that an organization should (1) strive to satisfy the needs of consumers while also (2) trying to achieve the organization's goals. Implementing the marketing concept creates a market orientation. An organization that has a market orientation focuses its efforts on (1) continuously collecting information about customers' needs, (2) sharing this information across departments, and (3) using it to create customer value.

LEARNING REVIEW ANSWERS

1-1 What is marketing?

Answer: Marketing is the activity for creating, communicating, delivering, and exchanging offerings that benefit customers, the organization, its stakeholders, and society at large.

1-2 Marketing focuses on _____ and _____ consumer needs.

Answer: discovering; satisfying

1-3 What four factors are needed for marketing to occur?

Answer: The four factors are: (1) two or more parties (individuals or organizations) with unsatisfied needs; (2) a desire and ability on their part to have their needs satisfied; (3) a way for the parties to communicate; and (4) something to exchange.