CHAPTER 1

**MARKETING: CREATING CUSTOMER VALUE AND ENGAGEMENT**

# PREVIEWING THE CONCEPTS – CHAPTER OBJECTIVES

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

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

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

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

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

**JUST THE BASICS**

# CHAPTER OVERVIEW

Marketing is managing profitable customer relationships.

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

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

Chapter 1 is organized around five steps in the marketing process (see Figure 1.1) – from understanding customer needs, to designing customer-driven marketing strategies and programs, to building customer relationships and capturing value for the firm.

**ANNOTATED CHAPTER NOTES/OUTLINE**

**FIRST STOP**

*Nike’s Customer-Value Driven Marketing: Engaging Customers and Building Brand Community*

The Nike “swoosh” is everywhere! Over the past 50 years, through innovative marketing, Nike has built the ever-present swoosh into one of the world’s best-known brand symbols.

Product innovation has always been a cornerstone of Nike’s success. To build image and market share, the brand lavishly outspent competitors on big-name endorsements, splashy promotional events, and big-budget, in-your-face “Just Do It” ads. Whereas competitors stressed technical performance, Nike built customer engagement and relationships.

Nike marketed a way of life, a genuine passion for sports, a “just-do-it” attitude. Nike’s mission isn’t to “make better gear,” it’s to “connect with and inspire athletes around the world.”

The brand spends a lion’s share of its marketing budget on cutting-edge digital and social media marketing that interacts with customers to build brand engagement and community.

Nike placed first in creating brand “tribes”—large groups of highly engaged users—with the help of social media platforms such as Facebook, Twitter, Instagram, YouTube, and Pinterest.

Nike excels at cross-media campaigns that integrate digital media with traditional tools to connect with customers. An example is Nike’s recent “Risk Everything” World Cup soccer campaign.

By the end of the final World Cup match, the Risk Everything videos had produced 372 million views, 22 million engagements (Likes, comments, shares), and 650,000 uses of #riskeverything.

Nike has also created customer value and brand community through groundbreaking mobile apps and technologies

Thus, Nike delivers customer value well beyond the products it makes. It has built a deep kinship and sense of community with and between the Nike brand and its customers.

**WHAT IS MARKETING?**

A simple definition of marketing is *engaging customers and managing profitable customer relationships.*

Marketing must both attract new customers and grow the current customers.

Every organization must perform marketing functions, not just for-profit companies.

Non-profits (colleges, hospitals, churches, etc.) also must perform marketing.

### Marketing Defined

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

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

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

Use **Key Term** *Marketing* here.

Use **Chapter Objective** **1** here.

### The Marketing Process

Figure 1.1 shows the five-step marketing process.

1. Understand the marketplace and customer needs and wants.
2. Design a customer-driven marketing strategy.
3. Construct a marketing program that delivers superior value.
4. Build profitable relationships and create customer delight.
5. Capture value from customers to create profits and customer quality.

Use **Figure 1.1** here.

In the first four steps, companies work to understand consumers, create customer value, and build strong customer relationships.

In the final step, companies reap the rewards of creating superior customer value. By creating value *for* consumers, they in turn capture value *from* consumers in the form of sales, profits, and long-term customer equity.

UNDERSTANDING THE MARKETPLACE AND CUSTOMER NEEDS

Five core customer and marketplace concepts are critical: (1) *needs, wants, and demands*; (2) *market offerings (products, services, and experiences)*; (3) *value and satisfaction*; (4) *exchanges and relationships*; and (5) *markets*.

Customer Needs, Wants, and Demands

The most basic concept underlying marketing is that of **human needs.**

**Human** needs are states of felt deprivation. They include *physical, social, and individuals* needs. Marketers did not create these needs; they are a basic part of the human makeup.

Wants are the form human needs take as they are shaped by culture and individual personality. An American *needs* food but *wants* a Big Mac.

When backed by buying power, wants become demands.

Outstanding marketing companies go to great lengths to learn and understand their customers’ needs, wants, and demands.

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

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

Market Offerings—Products, Services, and Experiences

Needs and wants are fulfilled through market offerings—some combination of products, services, information, or experiences offered to a market to satisfy a need or want.

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

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

Use **Chapter Objective 2** here.

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

Customer Value and Satisfaction

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

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

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

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

Exchanges and Relationships

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

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

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

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

Markets

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

Marketing means managing markets to bring about profitable customer relationships.

Figure 1.2 shows the main elements in a marketing system.

Use **Figure 1.2** here.

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

**DESIGNING A CUSTOMER-DRIVEN MARKETING STRATEGY**

Marketing management is defined as the art and science of choosing target markets and building profitable relationships with them.

Use **Chapter Objective 3** here.

Use **Key Term** *Marketing Management* here.

The marketing manager must answer two important questions:

1. What customers will we serve (what’s our target market)?
2. How can we serve these customers best (what’s our value proposition)?

Selecting Customers to Serve

A company must decide *whom* it will serve.

It does this by dividing the market into segments of customers (*market segmentation*) and selecting which segments it will go after (*target marketing*).

Marketing managers know they cannot serve all customers. By trying to do so, they end up not serving any well.

Marketing management is *customer management* and *demand management.*

Choosing a Value Proposition

A company’s *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs. (Facebook helps you “connect and share with the people in your life,” whereas Twitter’s Vine app gives you “the best way to see and share life in motion” through “short, beautiful, looping videos in a simple and fun way for your friends and family to see.”)

Such value propositions *differentiate* one brand from another.

Marketing Management Orientations

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

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

1) The Production Concept

The production concept holds that consumers will favor products that are available and highly affordable.

Management should focus on improving production and distribution efficiency.

2) The Product Concept

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

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

3) The Selling Concept

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

The concept is typically practiced with unsought goods – those that buyers do not normally think of buying, such as insurance or blood donations.

These industries must be good at tracking down prospects and selling them on product benefits.

4) The Marketing Concept

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

Under the marketing concept, customer focus and value are the *paths* to sales and profits.

The job is not to find the right customers for your product but to find the right products for your customers.

The **selling concept** takes an *inside-out* approach, whereas the **marketing concept** uses an *outside-in* perspective. (Figure 1.3)

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

*Customer-driving* marketing involves understanding customer needs even better than customers themselves do and creating products and services that meet existing and latent needs.

5) The Societal Marketing Concept

The societal marketing concept questions whether the pure marketing concept overlooks possible conflicts between consumer *short‑run wants* and consumer *long‑run welfare*.

This has been called Marketing 3.0 or *purpose-driven marketing.*

The societal marketing concept holds that companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, and society’s interests. (Figure 1.4)

Use **Key Terms** *Production Concept, Product Concept, Selling Concept, Marketing Concept,* and *Societal Marketing Concept* here.

Use **Discussion Question** **1-2** here.

Use **Figures 1.3** and **1.4** here.

**PREPARING AN INTEGRATED MARKETING PLAN AND PROGRAM**

The company’s marketing strategy outlines which customers the company will serve and how it will create value for these customers.

Next, the marketer develops an integrated marketing program that will actually deliver the intended value to target customers.

The marketing program consists of the firm’s *marketing mix*, the set of marketing tools the firm uses to implement its marketing strategy.

The marketing mix tools are classified into the *four Ps* of marketing: product, price, place, and promotion.

The firm blends all of these marketing mix tools into a comprehensive *integrated marketing program* that communicates and delivers the intended value to chosen customers.

Use **Linking the Concepts 1** here.

ENGAGING CUSTOMERS AND MANAGING CUSTOMER RELATIONSHIPS

Customer Relationship Management

*Customer relationship management* is the most important concept of modern marketing.

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

It deals with all aspects of acquiring, keeping, and growing customers.

Relationship Building Blocks: Customer Value and Satisfaction

The key to building lasting customer relationships is to create superior customer value and satisfaction.

Customer-Perceived Value. This is the customer’s evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers.

Customers often do not judge values and costs “accurately” or “objectively.”

They act on *perceived* value.

Customer Satisfaction. Customer satisfaction depends on the product’s perceived performance relative to a buyer’s expectations.

If the product’s performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted.

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

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

The purpose of marketing is to generate customer value profitably.

Customer Relationship Levels and Tools

Companies can build customer relationships at many levels.

At one extreme, a company with many low-margin customers may seek to develop *basic relationships* with them.

At the other extreme, in markets with few customers and high margins, sellers want to create *full partnerships* with customers.

Many companies offer *frequency marketing programs* that reward customers who buy frequently or in large amounts.

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

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

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

Use **Video Case** here.

Engaging Customers

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

*Customer Engagement and Today’s Digital and Social Media*

Yesterday’s companies focused on mass marketing to all customers at arm’s length.

Today’s companies are using online, mobile, and social media to refine their targeting and to engage customers more deeply and interactively.

Old marketing involved marketing brands to consumers. The new marketing is customer-engagement marketing.

Customer-engagement marketing goes beyond just selling a brand to consumers. Its goal is to make the brand a meaningful part of consumers’ conversations and lives.

Use **Key Term** *Customer-Engagement Marketing* here.

Use **Discussion Question** **1-3** here.

**Consumer-Generated Marketing.** A growing part of the new consumer dialogue is consumer-generated marketing, by which consumers themselves are playing a bigger role in shaping their own brand experiences and those of others.

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

Consumer-generated marketing, whether invited by marketers or not, will be an increasingly important marketing force.

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

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

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

Partner Relationship Management

Marketers must not only be good at customer relationship management, they must also be good at partner relationship management – working closely with others inside and outside the company to jointly bring more value to customers.

The new thinking is that – no matter what your job is in the company – you must understand marketing and be customer focused.

Marketing channels consist of distributors, retailers, and others who connect the company to its buyers.

The *supply chain* describes a longer channel, stretching from raw materials to components to final products that are carried to final buyers.

Through *supply chain management*, many companies today are strengthening their connections with partners all along the supply chain.

Use **Key Term** *Partnership Relationship Management* here.

**CAPTURING VALUE FROM CUSTOMERS**

The first four steps in the marketing process outlined in Figure 1.1 involve building customer relationships. The final step involves capturing value in return.

By creating superior customer value, the firm creates highly satisfied customers who stay loyal and buy more.

Creating Customer Loyalty and Retention

The aim of customer relationship management is to create not just customer satisfaction, but customer delight.

Companies realize that losing a customer means losing the entire stream of purchases the customer would have made over a lifetime of patronage. This is known as **customer lifetime value**.

Use **Key Term** *Customer Lifetime Value* here.

Growing Share of Customer

Share of customer is defined as the share the company gets of customers purchasing in their product categories. (Thus, banks want to increase “share of wallet.”)

Use **Key Term** *Share of Customer* here.

Building Customer Equity

Companies want not only to create profitable customers, but also to “own” them for life, capture their customer lifetime value, and earn a greater share of their purchases.

What Is Customer Equity?

Customer equity is the total combined customer lifetime values of all of the company’s current and potential customers.

Clearly, the more loyal the firm’s profitable customers, the higher the firm’s customer equity.

Customer equity may be a better measure of a firm’s performance than current sales or market share.

Building the Right Relationships with the Right Customers

Not all customers, not even all loyal customers, are good investments.

Figure 1.5 classifies customers into one of four relationship groups, according to their profitability and projected loyalty.

“Strangers” show low potential profitability and little projected loyalty. The relationship management strategy for these customers is simple: Don’t invest anything in them.

“Butterflies” are potentially profitable but not loyal. The company should use promotional blitzes to attract them, create satisfying and profitable transactions with them, and then cease investing in them until the next time around.

“True friends” are both profitable and loyal. There is a strong fit between their needs and the company’s offerings. The firm wants to make continuous relationship investments to delight these customers and retain and grow them.

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

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

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

Use **Key Term** *Customer Equity* here.

Use **Figure 1.5** here.

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

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

Use **Marketing by the Numbers** here.

THE CHANGING MARKETING LANDSCAPE

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

The Digital Age

More than 3 billion people—42 percent of the world’s population—are now online; 58 percent of all American adults own smartphones.

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

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

***Social Media Marketing***

Nearly 90 percent of all US companies now use social media as part of their marketing mix, and 71 percent believe that social marketing is core to their business.

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

***Mobile Marketing***

Mobile marketing is perhaps the fastest growing digital marketing platform.

Marketers use mobile channels to stimulate immediate buying, make shopping easier, and enrich the brand experience.

Most marketers are still learning how to use them effectively.

**The Changing Economic Environment**

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

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

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

Use **Chapter Objective 5** here.

Use **Key Term** *Digital and social media marketing* here.

Use **Online, Mobile, and Social Media Marketing** here.

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

The Growth of Not-for-Profit Marketing

The nation’s nonprofits face stiff competition for support and membership. Sound marketing can help them to attract membership and support.

Government agencies have shown an increased interest in marketing. Various government agencies are now designing social marketing campaigns.

Rapid Globalization

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

The skillful marketing of European and Asian multinationals has challenged American firms at home.

McDonald’s now serves 70 million customers daily at more than 36,000 restaurants worldwide—some 68 percent of its revenues come from outside the United States.

Today, companies are buying more supplies and components abroad.

Sustainable Marketing—The Call for More Environmental and Social Responsibility

Marketers are being called upon to take greater responsibility for the social and environmental impact of their actions and to develop *sustainable marketing practices*.

Corporate ethics and social responsibility have become hot topics for almost every business.

Forward-looking companies view sustainable marketing as an opportunity to do well by doing good.

Use **Marketing Ethics** here.

**SO, WHAT IS MARKETING? PULLING IT ALL TOGETHER**

Marketing is the process of building profitable customer relationships by creating value for customers and capturing value in return.

The first four steps in the marketing process create value *for* customers.

The final step in the process allows the company to capture value *from* customers.

In building customer and partner relationships, marketers must harness marketing technologies in the new digital age, take advantage of global opportunities, and ensure that they act sustainably in an environmentally and socially responsible way.

Figure 1.6 shows a model of the marketing process.

Use **Figure 1.6** here.

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

**END OF CHAPTER MATERIAL**

**Discussion and Critical Thinking**

**Discussion Questions**

* 1. Define marketing and outline the steps in the marketing process. (AASCB: Communication)

*Answer:*

*Marketing* as the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return. Figure 1.1 presents a simple, five-step model of the marketing process. In the first four steps, companies work to understand consumers, create customer value, and build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value.

* 1. Describe how the *marketing concept* differs from the other marketing management orientations. (AACSB: Communication; Reflective Thinking)

*Answer:*

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*holds that consumers will favor products that are available and highly affordable, so marketers focus on improving production and distribution efficiency. 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. The *selling concept* holds that consumers will not buy enough of a firm’s products unless it undertakes a large-scale selling and promotion effort. Companies following this philosophy must be good at tracking down prospects and selling them on a product’s benefits.

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 this concept, customer focus and value are the paths to sales and profits. Instead of a product-centered make-and-sell philosophy, the marketing concept is a customer-centered sense-and-respond philosophy. The job is not to find the right customers for your product but to find the right products for your customers. In contrast to the selling concept that takes an *inside-out* perspective, the marketing concept takes an outside-in perspective.

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

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

*Answer:*

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

* 1. When implementing customer relationship management, why might a business desire fewer customers over more customers? Shouldn’t the focus of marketing be to acquire as many customers as possible? (AACSB: Communication; Reflective Thinking)

*Answer:*

In the broadest sense, *customer relationship management* is the process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. Acquiring more customers does not always mean greater profits due to acquisition costs, the costs to satisfy those customers, and the lost revenue when customers do not remain loyal. The aim of customer relationship management is to produce high *customer equity,* the total combined customer lifetime values of all of the company’s customers. The key to building lasting relationships is the creation of superior *customer value* and *satisfaction.* Companies want not only to acquire profitable customers but also build relationships that will keep them and grow “share of customer.” Different types of customers require different customer relationship management strategies. The marketer’s aim is to build the *right relationships* with the *right customers.* In return for creating value *for* targeted customers, the company captures value *from* customers in the form of profits and customer equity.

* 1. Discuss how technology is affecting marketing. (AACSB: Communication)

*Answer:*

The explosive growth in digital technology has fundamentally changed the way we live—how we communicate, share information, access entertainment, and shop. The consumer love affair with digital and mobile technology makes it fertile ground for marketers trying to engage customers. The Internet and rapid advances in digital and social media have taken the marketing world by storm. *Digital and social media marketing* involves using digital marketing tools such as Web sites, social media, mobile ads and apps, online video, email, blogs, and other digital platforms to engage consumers anywhere, anytime via their computers, smartphones, tablets, Internet-ready TVs, and other digital devices. These days, it seems that every company is reaching out to customers with multiple Web sites, newsy Tweets and Facebook pages, viral ads and videos posted on YouTube, rich-media emails, and mobile apps that solve consumer problems and help them shop as well as encourage customer-engagement.

**Critical Thinking Exercises**

* 1. Select three companies competing in the same product or service category. How does each differentiate and position itself and how do they execute these strategies in their marketing mixes? Which competitor is most successful? Which element(s) of the most that competitor’s marketing mix has contributed to its success? (AACSB Communication; Analytic Reasoning)

*Answer:*

Students’ responses will vary depending on the product/service category and companies selected. For variety across students, instructors may want to assign specific product/service categories. All students should discuss what they think each competitor’s value proposition is to differentiate among the others and address the marketing mix elements of product, price, distribution, and promotion.

* 1. Go to a company, organization, or specific brand Web site that has a link to Facebook, Google+, YouTube, Twitter, and/or Pinterest. Click on the links and describe how that company is using social media to market its products or services. Evaluate its effectiveness in creating customer engagement. (AACSB: Communication; Use of IT; Reflective Thinking)

*Answer:*

Students’ examples will vary and instructors may want to assign specific companies or organizations to get a broad array of examples. While some Web sites have links to social media, they don’t seem to have much content or interaction, which may be due to the nature of the product, company, or organization. However, others use social media extensively. For example, the Web site for Philadelphia Cream Cheese has links to Pinterest, Facebook, Twitter, and YouTube. The YouTube site has “How-To Recipe” videos and viewers can subscribe to the site as well as other related sites featured on the page for more interaction with the company/brand. The Pinterest site has hundreds of recipes that have Philadelphia Cream Cheese as an ingredient that get repined by others on the social media site.

* 1. In a small group, create a presentation about careers in marketing. Search the Internet for information regarding the different career options available in marketing and the skills, education, and experience necessary to advance in the field of marketing. Then select a company and describe the marketing career opportunities available there. (AACSB: Communication; Use of IT; Reflective Thinking)

*Answer:*

Students’ responses will vary. There are several useful sources on the Internet that result by searching “marketing careers.” For example, “Marketing Careers” (http://marketing.about.com/od/careersinmarketing/u/marketingcareers.htm), “Careers-in-Marketing (www.careers-in-marketing.com/), and searching “marketing” at the Bureau of Labor Statistics (www.bls.gov/home.htm) provide significant information.

Search results also feature several companies with marketing opportunities. For example, marketing opportunities at Nike can be found at http://jobs.nike.com/careers/marketing-jobs, and opportunities at Target can be found at https://corporate.target.com/careers/career-areas/advertising-and-marketing. Instructors may what to assign specific companies or organizations to groups to get a broad selection of opportunities to present to others.

**Online, Mobile, and Social Media Marketing: Do Us A Flavor**

Two Lay’s chip flavors – Cheesy Garlic Bread and Kettle Cooked Wasabi Ginger –were created by consumers as part of Frito-Lay’s wildly successful “Do Us A Flavor” marketing campaign (www.dousaflavor.com). Launched in July 2012 in a pop-up shop in New York’s Times Square, the event took on new dimensions in 2015 by incorporating real-time marketing. In response to interesting tweets during the 3-month-long submission period, digital shop Deep Focus produced twenty 1-minute YouTube clips featuring two potato puppets named Marvin and Duncan (also known as the Taste Spuds). Google has now developed the “Flavorcast Heat Map” showing trending ingredients for each state, and consumers can see state-vs-state contests in the Flavor Showdown Gallery on the Web site. Consumers submit their flavor’s name, up to three ingredients, and a chip style. They can also vote online at the Web site or via social media, and finalists’ flavors are developed and shipped to stores a few months later, where they can be purchased and then voted upon. The creator of the winning flavor receives $1 million. But Lay’s is the big winner of this campaign. The first contest’s goal was 1.2 million submissions but Lay’s received 3.8 million submissions, 22.5 million Facebook visits a week, and a 12 percent increase in sales.

* 1. Some have argued that real-time marketing success is luck-based, whereas responsive marketing is more strategy-based. Research these two concepts and support or refute this statement. (AACSB: Communication; Reflective Thinking)

*Answer:*

Some real-time marketing is luck-based because it responds to occurrences that cannot be known ahead of time, such as Arby’s tweeting, “Hey @Pharrell, can we have our hat back? #GRAMMYs” when Pharrell Williams wore a hat that looked like the one on the Arby’s logo (see http://adage.com/article/media/real-time-marketing-2014/296261/). But real-time marketing can be planned, as in the Do Us A Flavor campaign. Although the YouTube video clips were in response to something posted in social media, Frito-Lay planned ahead to create the clips and built the campaign around the two potato characters.

For a discussion on the similarities and differences between real-time and responsive marketing, see http://contentmarketinginstitute.com/2015/04/real-time-marketing-wont-work/. In short, responsive marketing is planned, and real-time marketing is part of it. While there is some luck involved in real-time marketing, responsive marketing prepares marketers to take advantage of opportunities for real-time marketing as they arise.

* 1. Select a brand in a different product category and create a responsive campaign that incorporates online, mobile, and social media to create customer engagement. How would you measure the success of your campaign? (AACSB: Communication; Reflective Thinking)

*Answer:*

Students’ responses will vary. The elements of the campaign will influence the success measures, but students will likely say number of submissions (if a contest is part of the campaign), social media measures, such as Facebook “Likes” or number of Twitter tweets and followers, number of page views, and so on. Sales will likely be a success measure.

**Marketing Ethics: Extreme Baby Monitoring**

Every parent’s fear when they put an infant to sleep is Sudden Infant Death Syndrome (SIDS)—the sudden unexplainable death of an otherwise healthy baby. In the United States, about 2,000 infants die each year of SIDS, the third leading cause of infant death. For $199, parents can buy monitors that track babies’ vital signs, such as respiration, heart rate, skin temperature, sleeping position, and quality of sleep. The Mimo Smart Baby Monitor is a cute clip-on turtle that attaches to a special organic cotton onesie, and the Owlet Baby Monitor is a smart sock that looks like a little toeless boot. If parents don’t want to attach these devices on their little ones, they can opt for the SafeToSleep Breathing Monitor sheet with a built in monitor. All of these devices stream data to parents’ smart phones. Manufacturers of these devices promote them to parents for “your baby’s health” or “gives you that extra assurance” to protect against SIDS. However, several government agencies such as the Food and Drug Administration, the Consumer Product Safety Commission, the Center for Disease Control, and the National Institute of Health as well as the American Academy of Pediatrics all agree that these devices cannot protect a baby from SIDS. But fear sells, and most of these manufacturers cannot keep up with the demand for their products.

* 1. Is it right for marketers to play on parents’ fear to sell products that experts conclude are not necessary or effective? (AACSB: Communication; Ethical Reasoning; Reflective Thinking)

*Answer:*

Students’ responses will vary. Some may argue that these companies are offering a value proposition of peace of mind to parents and the belief that they may have some power over the dreaded SIDS. Perhaps if parents are alerted immediately when a baby stops breathing, they may be able to do something about it before it is too late.

* 1. Discuss other examples of marketers using emotion to sell products. Are they ethical? (AACSB: Communication; Ethical Reasoning)

*Answer:*

Students’ opinions will vary. Fear can be subtle and include the fear of being rejected. Many health and beauty aids are sold using this appeal. For example, some people fear being rejected by family, friends, and even the family dog if they have bad breath, so Scope comes to the rescue. Fear isn’t the only emotion that sells. Sadness is effective in getting donors for St. Jude’s Hospital or support the Humane Society. Axe plays on men’s desires to be attractive to women, promoting its products as a “chick magnet.”

**Marketing by the Numbers: What’s a Customer Worth?**

How much are you worth to a given company if you continue to purchase its brand for the rest of your life? Many marketers are grappling with that question, but it’s not easy to determine how much a customer is worth to a company over his or her lifetime. Calculating customer lifetime value can be very complicated. Intuitively, however, it can be a fairly simple net present value calculation, which incorporates the concept of the time value of money. To determine a basic customer lifetime value, each stream of profit (C, the net cash flow after costs are subtracted) is discounted back to its present value (PV) and then summed. The basic equation for calculating net present value (NPV) is:

\mbox{NPV} = \sum_{t=0}^{N} \frac{C_t}{(1+r)^{t}}

Where,

*t* - time of the cash flow

*N* - total customer lifetime

*r* - discount rate

*Ct* - net cash flow (the profit) at time *t* (The initial cost of acquiring a customer would be a negative net cash flow at time 0.)

NPV can be calculated easily on most financial calculators or by using one of the calculators available on the Internet, such as the one found at www.investopedia.com/calculator/NetPresentValue.aspx.

* 1. Assume that a customer shops at a local grocery store spending an average of $200 a week, resulting a retailer profit of $10 each week from this customer. Assuming the shopper visits the store all 52 weeks of the year, calculate the customer lifetime value if this shopper remains loyal over a 10-year lifespan. Also assume a 5 percent annual interest rate and no initial cost to acquire the customer. (AACSB Communication; Analytic Reasoning)

*Answer:*

This customer yields $520 per year in profits for this retailer ($10 x 52 weeks = $520 per year). Over a 10-year life-span of shopping at this store, with a 5 percent annual interest rate and no initial cost to acquire this customer, this customer is worth $4,015.30 in profits (calculated from www.investopedia.com/calculator/netpresentvalue.aspx). Students can also calculate lifetime value using a financial calculator (NPV function) or sum the present value of each cash flow: Lifetime value = $520/(1 + 0.05)1 + $520/(1 + 0.05)2 + $520/(1 + 0.05)3 + …. $520/(1 + 0.05)10 = $4,011.43. Differences are due to rounding.

* 1. Describe ways marketers can increase the lifetime value of a customer. (AACSB Communication; Reflective Thinking)

*Answer:*

One obvious way is to take actions to ensure the customer remains loyal, such as initiating a loyalty program. That way the customer will generate profits for the company over a longer period of time. Another way is to encourage customers to spend more with the business by offering different types of value. For example, a grocery retailer could offer other services to customers, such as florist and dry cleaning services. Reducing costs, such as installing self-checkouts, can also increase the profit generated by each customer. Finally, the retailer can encourage and reward customers for influencing others to become loyal customers.

**Video Case Teaching Notes**

**Video Case Chapter 1 – Eskimo Joe’s**

**Video Summary**

Since 1975, Eskimo Joe’s has been a popular watering hole in Stillwater, Oklahoma. Through word of mouth and a popular logo spread via T-shirts, it rapidly became a favorite place to grab a beer for students at Oklahoma State. But what started as a basic beer joint has grown into something much more.

When the drinking age changed from 18 to 21 in the 1980s, Eskimo Joe’s had to decide how it would move forward. That challenge helped the company to recognize that its product is much more than just a cold mug of beer. Instead, people flocked to Eskimo Joe’s for the fun atmosphere and customer-friendly service. This realization led to an expansion into different businesses that have now spread the Eskimo Joe’s logo all over the planet.

After viewing the video featuring Eskimo Joe’s, answer the following questions:

**Questions**

* 1. Describe Eskimo Joe’s market offering?
  2. What is Eskimo Joe’s value proposition? How does its value proposition relate to its market offering?
  3. How does Eskimo Joe build long-term customer relationships?

**Company Case Teaching Notes**

Cases appropriate for this chapter include:

* Case 1, FedEx: Making Every Customer Experience Outstanding.

From the time FedEx opened for business over 40 years ago, the company strategy has been built on a foundation of obsessive customer focus.

* Case 4, Campbell’s: Watching What You Eat.

Through extensive marketing research, Campbell’s maintains its customer focus.

* Alibaba: The World’s Largest E-Tailer Is Not Amazon.

Alibaba is on track to hit $700 billion in annual revenues within two years by providing everything customers need and desire.

**MyMarketingLab**

If assigned by your instructor, complete these writing sections from your Assignments in the MyLab.

1-18. Compare and contrast needs, wants, and demands. Which one(s) can marketers influence? (AACSB: Communication; Reflective Thinking)

1-19.  Is it fair to single out specific products for restrictions such as when New York City proposed size cap on soft drinks? Discuss this argument from all sides of this issue: government, soft drink marketers, and consumers. (AACSB: Written and Oral Communication; Reflective Thinking)

### GREAT IDEAS

**Barriers to Effective Learning**

For most students, this will be their first introduction to marketing and all its ramifications. To most of them, marketing is nothing more than selling and/or advertising, and this gets reinforced daily when they see “marketing” job ads that are really sales positions. It helps to get students talking about what marketing is, and to give examples of what they think is really good marketing. Try to bring in contemporary examples that the students can relate to.

Building relationships can sometimes be easy to understand in a business-to-business transaction, but it can be much more difficult to comprehend in consumer businesses. Use examples such as Amazon.com that do a wonderful job of developing one-on-one relationships with millions of customers through their tracking of customer purchases and analysis of these purchases to recommend additional items. Ask students to discuss how they feel about the companies they buy from. Have any developed relationships with them that have made them loyal to the brand or store?

Societal marketing is something that can be a little unclear to students. Why should fast food chains, for instance, be responsible for the nation’s obesity (just one very topical discussion point)? Understanding how one should balance the need for profits with what some might consider “soft” issues can be difficult at times. And that can be made even more difficult among the politically astute students, as they can easily lead the class into a left versus right discussion on individual versus corporate versus governmental responsibility. Try to not let that happen, instead focusing on how companies can actually increase their revenue and profits by showing that they care about their customers and their communities. Newman’s Own is a brand that could be discussed, as most profits are donated to charities, and the company has moved strongly into ensuring a sustainable environment.

Traditional-age undergraduates have spent their entire lives with technology, and so some of them can actually snicker when the discussion turns to how technology has changed business in general and marketing more specifically. A discussion of the difficulties of connecting to consumers without the Internet is warranted. How would the students approach a one-on-one relationship with millions of customers if they didn’t have social media (Facebook or Twitter), email, or the Internet?

At this stage, students are very apprehensive about the course. When they walked into class, they thought they might learn about selling and advertising, and now they’ve discovered that there is much more to marketing than just those two subjects. Ease their minds and make them look forward to learning more by talking about how much fun it is to be the center of the company and to know more about customers than any other functional area in the company. Emphasizing that marketing combines both the analytical and the creative can also ease some tension. The accounting and finance majors will find that there is something in it to suit their more analytical frame of reference, and the artists and designers who hope to become fashion mavens can also rest assured that although they will need to understand the more logical areas of the subject, their intuition can still reign supreme.

**Student Projects**

1. What does the term “marketing” mean to you? Think about an automobile you would like to have (realistically) when you graduate. Write about how each phase of the marketing process is addressed by that vehicle.
2. Why is it important to truly understand the customer? Make a list of 10 “wants” that you have. What would have to occur to move each of these from “wants” to “needs?”
3. Not everyone can be part of your market. Go take a look at CBS online ([www.cbs.com](http://www.cbs.com)). Who would you say is their market? Why?
4. Review the five alternative concepts under which organizations design and carry out their marketing strategies. Now, take a look at one of the auto dealers in your town. Which one of these five concepts do you believe they are typically employing? Why?
5. Think of a product or retailer to which you are loyal. What has caused this loyalty? What could a competing product/retailer do to break this loyalty?

**Small Group Assignment**

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

How has Nike managed to create such intense customer loyalty?

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

Each group should then share its findings with the class.

**Individual Assignment**

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

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

**Think-Pair-Share**

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

1. Do marketers create needs?
2. What is British-based Lush’s value proposition (under the Societal Marketing Concept)?
3. How is marketing different from selling?
4. What are two companies with which you have an emotional bond? Describe that bond.

# Classroom Exercise/Homework Assignment

Five core customer and marketplace concepts are critical to success: (1) *needs, wants, and demands*; (2) *market offerings (products, services, and experiences)*; (3) *value and satisfaction*; (4) *exchanges and relationships*; and (5) *markets*.

Take a look at Sea Ray boats ([www.searay.com](http://www.searay.com)). Answer the following questions:

1. What needs, wants, and/or demands is Sea Ray attempting to fill?
2. Describe their marketing offers.
3. How are they providing value?
4. Describe the relationships they have with their customers.
5. What are their markets?

# Classroom Management Strategies

The first chapter of this textbook sets the stage for the rest of the content. It outlines the major topics and principles that will be discussed in each of the following chapters, and gives students a good grounding in what to expect in their journey into the world of marketing.

First classes are always difficult, both for the instructor and for the students. Therefore, using examples students can easily relate to is always a good idea when starting out.

In reviewing the material in class, a good way to break it down follows. This assumes a typical one-hour structure; if the class is longer, you can work through the Marketing Application in class. If shorter, you can either break the chapter over two sessions, or shorten each topic’s allotted discussion time.

1. Ten minutes should be spent on discussing what marketing really is. Many students will come into class thinking they are going to be learning all about advertising, or all about selling. Ask students to talk about what they think marketing is, and to use examples of what they’ve encountered in their own lives.

2. Ten minutes can also be spent on the second major topic of the chapter, understanding the marketplace and consumer needs. Discussing the differences of needs, wants, and demands, and how they relate to marketing, can greatly enhance the students’ understanding of the basis of marketing. Also included in this section are the notions of market offerings, satisfaction, and relationships. You can discuss the various ways companies develop relationships with their customers. Using Nike, the company discussed in the opening pages of the chapter, can really help the students understand that a company with thousands of customers can still easily develop relationships with each and every one of them.

3. Another 10 minutes can be spent on designing customer-driven marketing strategies. Many students will still not understand how needs, wants, and demands can drive companies’ product development, but this section of the chapter will help them see it a little more clearly.

4. Preparing a marketing plan and program can be covered in 5 minutes. This section shows how everything they learn in marketing will be pulled together, but it is too soon in the semester to be spending a lot of time on the topic.

5. Customer relationships are the heart of the chapter and the entire text. Spend 15 minutes discussing this topic, and use examples that the students will appreciate. Discussing the difference in the relationships they have with their hairdresser or barber and that of [www.amazon.com](http://www.amazon.com) or another one of the Internet merchants can drive home the importance of holding on to good customers. Students will also be well aware of frequency marketing programs, and examples of those will also be beneficial.

6. The final 10 minutes can be spent discussing the future of marketing and the development of customer relationships. Spend time talking about the recent economic meltdown and how it has impacted business. Next, remember that the majority of students will never have known an era without the Internet. Asking them how they would have developed relationships with their customers without the assistance of technology is always a good way to get a discussion started on how marketing programs are developed. Then you can talk about how the advent of email and the Internet has opened the entire world for even a small retailer, as well as raised some ethical issues, such as marketing American culture to the entire world, regardless of the mores and cultures of other societies.

If time permits, revisit the question of “what is marketing?” The students should now have a greater appreciation of the science behind marketing, as well as the creativity necessary to develop successful marketing programs.

**PROFESSORS ON THE GO**

**Marketing: Creating and Capturing Customer Value**

**Key Concepts**

Needs, wants, and demands

Market offerings

Customer value and satisfaction

* Copy or clip three advertisements from newspapers or magazines. What customer needs are the advertisers trying to meet?
* Many people have purchased products through Amazon.com. Certainly, the product purchased is important, but describe the complete market offering of Amazon.com. What services, information, or experiences are included?
* This chapter discusses the concepts of customer value and satisfaction. Building on this knowledge, is it logical to assume that if you increase the perceived customer value for a product that there is a corresponding increase in customer satisfaction? Under what conditions might this not occur?

**Key Concepts**

Choosing a value proposition

Marketing management orientations

* Contrast the following marketing management orientations: “The Selling Concept” and “The Marketing Concept.” Can you name a market or market category where “The Selling Concept” is still the most popular marketing management orientation?
* How is your college positioned in the marketplace?

**Key Concepts**

Relating to customers

Relating to partners

Creating customer loyalty and retention

* Customer loyalty and retention programs are important in building customer relationships and customer equity. Discuss why a national grocery chain such as Safeway or Kroger would choose a “club” program over a “frequency” program.
* “Today, most marketers realize that they don’t want to connect with just *any* customers.” Do you agree with this statement? Why? Which company would be more likely to follow this creed, Sephora or Chanel?
* Think of a product or brand that you buy over and over. What might your customer lifetime value be, assuming the product or brand continues to delight you?