

Principles of **MARKETING**

1

Marketing Creating Customer Value and Engagement

OBJECTIVES OUTLINE

OBJECTIVE 1-1 Define marketing and outline the steps in the marketing process. **See: What Is Marketing?**

OBJECTIVE 1-2 Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts. **See: Understanding the Marketplace and Customer Needs**

OBJECTIVE 1-3 Identify the key elements of a customer value-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy. **See: Designing a Customer Value-Driven Marketing Strategy and Plan**

OBJECTIVE 1-4 Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return. **See: Managing Customer Relationships and Capturing Customer Value**

OBJECTIVE 1-5 Describe the major trends and forces that are changing the marketing landscape in this age of relationships. **See: The Changing Marketing Landscape)**

CHAPTER PREVIEW

This first chapter introduces you to the basic concepts of marketing. We start with the question: What is marketing? Simply put, marketing is engaging customers and managing profitable customer relationships. The aim of marketing is to create value for customers in order to capture value from customers in return. Next we discuss the five steps in the marketing process—from understanding customer needs to designing customer value-driven marketing strategies and integrated marketing programs to building customer relationships and capturing value for the firm. Finally, we discuss the major trends and forces affecting marketing in this new age of digital, mobile, and social media.

Understanding these basic concepts and forming your own ideas about what they really mean to you will provide a solid foundation for all that follows.

Let's start with a good story about marketing in action at Amazon, by far the nation's leading digital marketer. The secret to Amazon's success? It's really no secret at all. Amazon is flat-out customer obsessed. It has a deep-down passion for creating customer value, engagement, and relationships. In return, customers reward Amazon with their buying dollars and loyalty. You'll see this theme of creating customer value in order to capture value in return repeated throughout this chapter and the remainder of the text.

AMAZON: Obsessed with Creating Customer Value, Engagement, and Relationships

When you think of shopping online—or of shopping anywhere, for that matter—chances are good that you think first of Amazon. The online pioneer first opened its virtual doors in 1995, selling books out of founder Jeff Bezos's garage in suburban Seattle. Amazon still

sells books—lots and lots of books. But it now sells just about everything else as well, from electronics, tools, housewares, apparel, and groceries to fashions, loose diamonds, musical instruments, and Maine lobsters. And Amazon has rapidly moved beyond online selling, not just into physical stores but

also into video and music streaming, cloud services, and the Internet of Things. If one company represents where the world is now headed, it's probably Amazon.

From the start, Amazon has grown explosively. Its annual sales have rocketed from a modest \$150 million in 1997 to \$233 billion today. During just the past three years, Amazon's revenues have more than doubled. Last year, the company sold 5 billion items to its more than 100 million Amazon Prime members alone—that's an average of 159 items every second. Currently, Amazon is the nation's second-largest retailer, trailing only Walmart. And as unthinkable as it might have seemed only a few years ago, at its current growth rate, Amazon could overtake even mighty Walmart in as little as four years.

What has made Amazon such an amazing success story? Jeff Bezos puts it in three simple words: "Obsess over customers." To its core, the company is relentlessly customer driven. "The thing that drives everything is creating genuine value for customers," says Bezos. Amazon believes that if it does what's good for customers, profits will follow.

Amazon wants to deliver a special experience to every customer. Most Amazon.com regulars feel a surprisingly strong relationship with the company, especially given the almost complete lack of actual human interaction. Amazon obsesses over making each customer's experience uniquely personal. For example, the Amazon.com site greets customers with their very own home pages, complete with personalized site content and recommendations based on their past purchase and browsing histories and the purchasing patterns of customers with similar profiles. If it has 300 million Prime and non-Prime customers, Amazon reasons, it should have 300 million stores.

Visitors to Amazon.com receive a unique blend of benefits: huge selection, good value, low prices, and convenience. But it's the "discovery" factor that makes the buying experience really special. Once on Amazon.com, you're compelled to stay for a while—looking, learning, and discovering. More than just a place to buy things, Amazon.com has become a kind of online community in which customers can browse for products, research purchase alternatives, and share opinions and reviews with other visitors. In this way, Amazon does much more than just sell goods online. It engages customers and creates direct, personalized customer relationships and satisfying experiences.

From the very start, selection, convenience, and value have been the foundation stones of the Amazon experience. Amazon's primary goal is to help customers get whatever they want in the shortest possible time at the right

price. To create even greater selection and discovery for customers, Amazon allows competing retailers—from mom-and-pop operations to Marks & Spencer—to sell their products on Amazon.com through the Amazon Marketplace, creating a virtual shopping mall of incredible proportions.

Amazon's innovations have made the order and delivery process a breeze. First it was 1-Click ordering that let customers purchase and ship to preset options with just one click. Then Amazon added Dash Buttons—shortcut buttons that let customers quickly reorder favorite products. If there's no smartphone or app handy, customers equipped with an Amazon Echo smart speaker can now voice-shop with a simple command, "Alexa, reorder laundry detergent"—Amazon's artificial intelligence-driven digital assistant will place and ship the order for them. Or easier yet, Amazon's Subscribe & Save system gives customers discounts for setting up automatic repurchase of consumable products. And Amazon Dash Replenishment can even check product levels in cloud-connected devices (think printer cartridges) and place reorders before customers even know they are running low.

As for delivery, no other seller—online or offline—has been more effective than Amazon in getting the goods to its customers fast. As much as it sells products and convenience, Amazon also sells "speed." When the online giant first introduced Amazon Prime more than a decade ago, free 48-hour shipping was unheard of; now it's standard across the industry. So Amazon introduced Amazon Prime Now, delivery within two hours or less. "It's cheap, easy, and insanely fast," says one awestruck customer.

According to the vice president of Amazon Prime Now, her business boils down to two simple questions: "Do you have what I want, and can you get it to me when I need it?" Amazon continues to invest heavily in making the answers to both questions a resounding "yes." To build an even faster and more reliable customer delivery experience, Amazon is rapidly amassing its own fleets of delivery vans, trucks, and Boeing 767 cargo planes that will make it less dependent on third-party shippers such as FedEx, UPS, and the U.S. postal service. It's also actively exploring more futuristic options, such as delivery drones, robots, and driverless vehicles.

In its quest to create the perfect customer experience, Amazon pursues endless innovation. For example, take Amazon Key. For as little as \$199, the Amazon Key kit comes with Amazon's new Cloud Cam and a compatible smart door lock. Once installed, it lets Amazon's delivery people unlock customers' doors and leave packages inside, safely out of the reach of porch pirates or inclement weather. Once a delivery is made, the customer

Amazon's deep-down passion for creating customer value, engagement, and relationships has made it the nation's leading digital retailer and one of the world's most dynamic companies. Amazon has become the model for companies that are obsessively and successfully focused on delivering customer value.

receives a notification along with a short video showing the drop-off.

As Walmart and other store retailers are increasingly invading Amazon's digital domain, the online retailer is now invading their brick-and-mortar worlds. It knows that a complete customer relationship will require merging online and offline selling into the seamless cross-channel shopping experience that today's consumers expect. For example, Amazon's purchase of upscale grocery chain Whole Foods Market has given it a leap forward in grocery retailing and also provides a physical store platform for the selling and more speedy delivery of other kinds of goods. And recently, Amazon announced that it will expand its Amazon Books bookstores and Amazon Go convenience stores, which provide a new twist on convenience by using cameras and sensors to detect what customers take from shelves and let them "just walk out," automatically charging purchases to their accounts.

So what sweeping new customer-pleasing changes can you expect from Amazon in the next 10 years? According to Bezos, that's not the most important question. The more important question is what's not going to change? And at Amazon, that's creating real customer value. "We know that customers want low prices," says Bezos, "and I know that's going to be true 10 years from now. They want fast delivery; they want vast selection. And so...we know the energy we put into [those things] today will still be paying off dividends for our customers 10 years from now."

Thus, Amazon has become the poster child for companies that are obsessively and successfully focused on delivering customer value. "Our customers are loyal to us right up until the second somebody offers them a better service," says Bezos. "And I love that. It's super-motivating for us." He concludes, "When things get complicated, we simplify them by asking, 'What's best for the customer?' We believe that if we do that, things will work out in the long term."¹

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

Customer relationships and value are especially important today. Facing dramatic technological advances and deep economic, social, and environmental challenges, today's customers are reassessing how they engage with brands. New digital, mobile, and social media developments have revolutionized how consumers shop and interact, in turn calling for new marketing strategies and tactics. It's now more important than ever to build strong customer engagement, relationships, and advocacy based on real and enduring customer value.

We'll discuss the exciting new challenges facing both customers and marketers later in the chapter. But first, let's introduce the basics of marketing.

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

What Is Marketing?

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

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

For example, Amazon dominates the online marketplace by creating a world-class online buying experience that helps customers to "find and discover anything they might want to buy online." Facebook has attracted more than 2 billion monthly active web and mobile users worldwide by helping them to "connect and share with the people in their lives." And Starbucks dominates the U.S. out-of-home coffee market by "creating a culture of warmth and belonging, where everyone is welcome."²

Sound marketing is critical to the success of every organization. Large for-profit firms such as Apple, Target, Coca-Cola, Procter & Gamble, and Microsoft use marketing. But so

do not-for-profit organizations, such as colleges, hospitals, museums, symphony orchestras, and even churches.

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

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

Marketing Defined

What *is* marketing? Many people think of marketing as only selling and advertising. We are bombarded every day with TV commercials, online pitches, catalogs, and spiels from salespeople. However, selling and advertising are only the tip of the marketing iceberg.

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

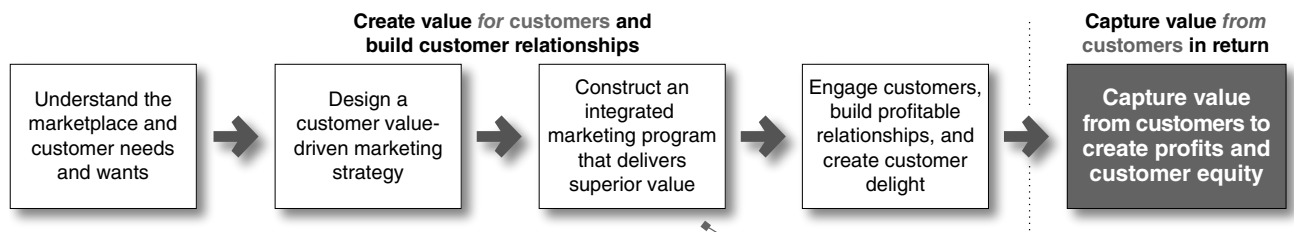
Broadly defined, marketing is a social and managerial process by which individuals and organizations obtain what they need and want through creating and exchanging value with others. In a narrower business context, marketing involves building profitable, value-laden exchange relationships with customers.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

Marketing

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

The Marketing Process

● **Figure 1.1** presents a simple, five-step model of the marketing process for creating and capturing customer value. In the first four steps, companies work to understand consumers, create customer value, and build strong customer relationships. In the final step,



● **FIGURE 1.1**
The Marketing Process:
Creating and Capturing
Customer Value

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

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

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

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

Understanding the Marketplace and Customer Needs

OBJECTIVE 1-2 Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.

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

Customer Needs, Wants, and Demands

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

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

Companies go to great lengths to learn about and understand customer needs, wants, and demands. They conduct consumer research, analyze mountains of customer data, and observe customers as they shop and interact, offline and online. People at all levels of the company—including top management—stay close to customers. For example, Amazon founder and CEO Jeff Bezos still has a customer-facing email address that helps him to identify customer concerns. "I see most of those emails," says Bezos, "and I forward them, some of them—the ones that catch my eye." Similarly, to see up close what their customers experience, Airbnb's CEO Brian Chesky and his co-founder Joe Gebbia regularly stay at the company's host locations. When Airbnb first listed rentals back in 2009, Chesky and Gebbia personally visited all of their New York hosts, staying with them, writing reviews, and making sure they lived up to the company's lofty vision. Such personal visits help the pair to shape new customer solutions based on real user experience.⁵

Market Offerings—Products, Services, and Experiences

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

More broadly, market offerings also include other entities, such as persons, places, organizations, information, ideas, and causes. For example, to market the cause of suicide prevention, rapper Logic worked with the National Suicide Prevention Lifeline (NSPL)

Needs

States of felt deprivation.

Wants

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

Demands

Human wants that are backed by buying power.

Market offerings

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

Marketing myopia

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

to create a seven-minute online public service video embedded with his song “1-800-273-8255,” the NSPL phone number. The results of this lone song and video were staggering. On the day the song and video were released, calls to the Lifeline shot up more than 25 percent, and Google searches for the number doubled. In the following months, visits to the NSPL website increased more than 30 percent.⁶

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

Smart marketers look beyond the attributes of the products and services they sell. By orchestrating several services and products, they create brand experiences for consumers. For example, Walt Disney World Resort doesn’t offer just amusement park rides, it uses its famed Disney magic to create carefully orchestrated guest experiences that make dreams come true (see Real Marketing 1.1). ● And Apple’s highly successful retail stores don’t just sell the company’s products. They create an engaging Apple brand experience:⁸

Apple’s retail stores are very seductive places, where “life-feels-good” experiences abound. The store design is clean, simple, and just oozing with style—much like an Apple iPad or a feather-weight MacBook Air. The bustling stores feel more like community centers than retail outlets, with crowds of customers sampling the goods and buzzing excitedly about all things Apple. The stores encourage a lot of purchasing, to be sure. But they also encourage lingering, with tables full of fully functioning Macs, iPads, iPhones, and Apple Watches sitting out for visitors to try and dozens of laid-back Apple employees close at hand to answer questions and cater to every whim. The stores offer expert technical assistance at the Genius Bar and a full schedule of workshops where customers at all experience levels can learn about their Apple devices and explore their creative sides. You don’t just visit an Apple store—you experience it in a way that no other consumer electronics company can match. As one Apple retail executive explains, “I don’t want to be sold to when I walk into a store. Don’t sell! No! Because that’s a turn-off. Build an amazing brand experience, and then [sales] will just naturally happen.” And sales certainly do happen at Apple stores. Apples 506 retail stores in 24 countries attract more than 1 million customers daily and generate the highest sales per square foot of any U.S. retailer.

Customer Value and Satisfaction

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

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

Exchanges and Relationships

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

Exchange

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

Real Marketing 1.1

The Walt Disney World Resort: Making Magical Moments

Each year, more than 50 million people flock to The Walt Disney World Resort, making it the world's number one tourist attraction. On a single busy day, more than 300,000 eager guests might drop by to visit with Mickey and his friends at one of the resort's four major theme parks—the Magic Kingdom, Epcot, Disney's Hollywood Studios, and Disney's Animal Kingdom.

What brings so many people to The Walt Disney World Resort? Part of the answer lies in the resort's many attractions. Disney World is a true fantasyland—more than 40 square miles (as big as San Francisco) brimming with thrill-a-minute attractions such as Expedition Everest, Twilight Zone Tower of Terror, Space Mountain, Soarin', Toy Story Mania, Pirates of the Caribbean, Kilimanjaro Safaris, and Millennium Falcon: Smugglers Run. But Disney World doesn't offer just amusement park rides. The real "Disney Magic" lies in how the resort turns park visits into carefully orchestrated experiences that make dreams come true.

The Walt Disney World Resort is obsessed with making all aspects of every customer's visit memorable. In an increasingly rude, mismanaged, and mundane world, Disney World offers warmth, order, and magical moments. From the moment visitors purchase tickets to the moment they leave the resort, Disney goes to extremes to create experiences that make Disney World "the most magical place on earth."

Each park, attraction, restaurant, and hotel forms part of an enchanted world, with every nuance carefully dreamed up by Disney "Imagineers." On Epcot Center's Test Track, for example, visitors don't just zoom around a track. They become GM test engineers taking a concept vehicle through rigorous testing procedures. At the Be Our Guest dining room in the Magic Kingdom, patrons don't just eat a meal. They experience French-inspired food inside Beast's castle, a place where it's

always snowing gently outside, the suits of armor talk, and the magic rose glitters in a corner of the forbidden west wing.

Employees at all levels of Disney World—from executives in the corner office to the person scooping ice cream on Main Street in the Magic Kingdom—are carefully trained in how to do the hard work of helping people have fun. They learn that they are in the entertainment business and that they are "cast members" whose job is to be enthusiastic, knowledgeable, and professional in serving Disney's "guests." Each cast member, they learn, plays a vital role in the Disney World "show," whether it's as a "security host" (police), "transportation host" (driver), "custodial host" (street cleaner), or "food and beverage host" (restaurant worker).

Before they can receive their "theme costumes" and go "on stage," cast members learn how to deal effectively with guests. In a course called "Traditions," they learn the Disney language, history, and culture. They are taught to be enthusiastic, helpful, and *always* friendly. They learn to do good deeds, such as offering to take pictures of guests so that the whole family can be in the picture. They are taught never to say "I don't know" or "It's not my job." When a guest asks a question—whether it's "Where the nearest restroom?" or "What are the names of Snow White's seven dwarves?"—they need to know the answer. If they see a piece of trash on the ground, they must pick it up.

Disney trains cast members to connect with guests on a personal level to make them feel special. Cast members proactively seek out opportunities to turn the mundane into magical. For example, a cast member who notices a child's disappointment might hand out a FastPass ride voucher, confer a coveted special-edition Disney pin, or connect the family to just the right Disney character at just the right moment. One Disney loyalist recalls just such a special personal experience:

"I was three and I swear Cinderella was waving [to me] from the castle and my brother yelled, 'Cinderella, my sister wants to meet you!' Minutes later, I was whisked away to meet Cinderella in a private meet and greet."

Cast members now get a lot of help from technology in making personal connections. For example, Disney World guests wear RFID-embedded wristbands called MagicBands that serve as everything from room keys and park passes to payment methods. Combined with the cloud-based MyMagic+ system, these MagicBands also let cast members identify guests individually, greeting them by name and even recognizing celebratory occasions such as birthdays, anniversaries, or reunions. The MagicBands let Disney customize guest experiences in other ways as well. For instance, as guests stroll around the resort, they might see their names appear on a nearby screen with a message like "Samantha! It's a small world after all." Photos on park rides might suddenly pop up on their My Disney Experience apps. The MagicBands even let guests engage with ride experiences while waiting in line, creating details that later become part of displays on the ride itself.

Thus, you don't visit The Walt Disney World Resort just to ride some rides. Instead, you visit to be part of a carefully choreographed experience—a magical world of wonder where dreams come true. Disney has become so highly regarded for its ability to deliver customer experiences that many leading corporations have sent managers to Disney Institute to "discover the method behind the magic." As one avid Disney World fan puts it, "Walking down Main Street and seeing Cinderella's castle for the first time always makes my heart jump.... No matter what I'm going through... suddenly the world is filled with magic and wonder and possibilities all over again and I feel a wave of happiness flow over me and a smile creep back onto my face easily, not forced or painted on. A real, true smile."⁹

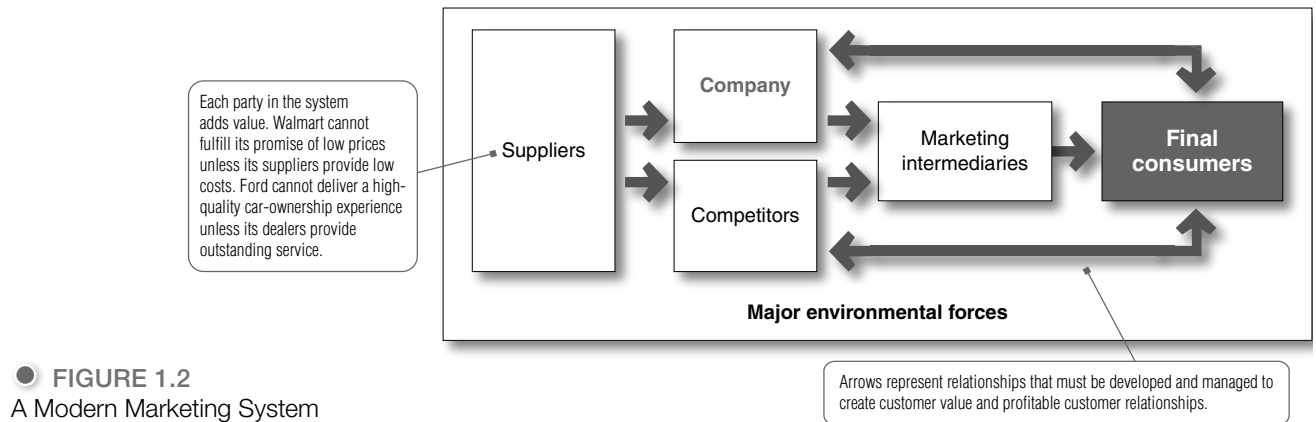
Marketing consists of actions taken to create, maintain, and grow desirable exchange relationships with target audiences involving a product, service, idea, or other object. Companies want to build strong relationships by consistently delivering superior customer value. We will expand on the important concept of managing customer relationships later in the chapter.

Markets

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

Market

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



● **FIGURE 1.2**
A Modern Marketing System

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

Although we normally think of marketing as being carried out by sellers, buyers also carry out marketing. Consumers do marketing when they search for products, interact with companies to obtain information, and make their purchases. In fact, today's digital technologies, from websites and smartphone apps to the explosion of social media, have empowered consumers and made marketing a truly two-way affair. Thus, in addition to customer relationship management, today's marketers must also deal effectively with *customer-managed relationships*. Marketers are no longer asking only "How can we influence our customers?" but also "How can our customers influence us?" and even "How can our customers influence each other?"

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

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

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

Designing a Customer Value–Driven Marketing Strategy and Plan

OBJECTIVE 1-3 Identify the key elements of a customer value–driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.

Customer Value–Driven Marketing Strategy

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

To design a winning marketing strategy, the marketing manager must answer two important questions: What customers will we serve (what's our target market)? and How can we serve these customers best (what's our value proposition)? We will discuss these

Marketing management

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

marketing strategy concepts briefly here and then look at them in more detail in Chapters 2 and 7.

Selecting Customers to Serve

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

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

Choosing a Value Proposition

The company must also decide how it will serve targeted customers—how it will differentiate and position itself in the marketplace. A brand's value proposition is the set of benefits or values it promises to deliver to consumers to satisfy their needs. JetBlue promises to put "You Above All" by bringing "humanity back to travel." By contrast, Spirit Airlines gives you "Bare Fare" pricing: "Less Money. More Go." Amazon's Echo smart speaker is "Always ready, connected, and fast. Just ask." ● By contrast, the Sonos One with Amazon Alexa is "The smart speaker for music lovers." It gives you all the advantages of Alexa but with high-quality Sonos sound.

Such value propositions differentiate one brand from another. They answer the customer's question: "Why should I buy your brand rather than a competitor's?" Companies must design strong value propositions that give them the greatest advantage in their target markets.

Marketing Management Orientations

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

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

Production concept

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

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

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

Product concept

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

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.

Product quality and improvement are important parts of most marketing strategies. However, focusing only on the company's products can also lead to marketing myopia. For example, some manufacturers believe that if they can "build a better mousetrap, the world will beat a path to their doors." But they are often rudely shocked. Buyers may be looking for a better solution to a mouse problem but not necessarily for a better mousetrap.

Selling concept

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

Marketing concept

A philosophy in which achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do.

The better solution might be a chemical spray, an exterminating service, a house cat, or something else that suits their needs even better than a mousetrap. Furthermore, a better mousetrap will not sell unless the manufacturer designs, packages, and prices it attractively; places it in convenient distribution channels; brings it to the attention of people who need it; and convinces buyers that it is a better product.

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

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

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

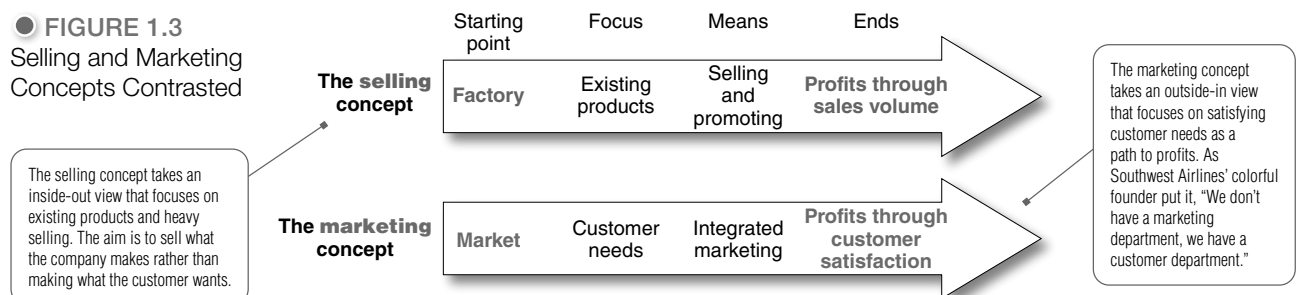
● **Figure 1.3** contrasts the selling concept and the marketing concept. The selling concept takes an inside-out perspective. It starts with the factory, focuses on the company's existing products, and calls for heavy selling and promotion to obtain profitable sales. It focuses primarily on customer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

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

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

In many cases, however, customers don't know what they want or even what is possible. As Henry Ford supposedly remarked, "If I'd asked people what they wanted, they would have said faster horses." For example, even 20 years ago, how many consumers would have thought to ask for now-commonplace products such as tablet computers, smartphones, digital cameras, 24-hour online buying, digital video and music streaming, and all-electric vehicles? Such situations call for *customer-driving* marketing—understanding customer needs even better than customers themselves do and creating products and services that meet both existing and latent needs, now and in

● **FIGURE 1.3**
Selling and Marketing
Concepts Contrasted



Societal marketing concept

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

the future. As legendary Apple cofounder Steve Jobs once said, "Our job is to figure out what [consumers are] going to want before they do Our task is to read things that are not yet on the page."¹⁰

The Societal Marketing Concept. The **societal marketing concept** questions whether the pure marketing concept overlooks possible conflicts between consumer short-run wants and consumer long-run welfare. Is a firm that satisfies the immediate needs and wants of target markets always doing what's best for 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.

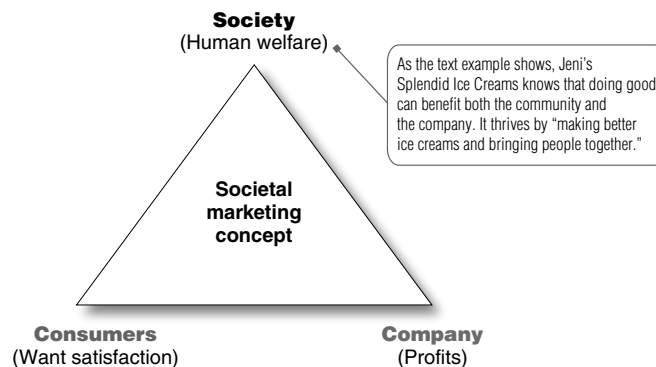
Even more broadly, many leading business and marketing thinkers are now preaching the concept of *shared value*, which recognizes that societal needs, not just economic needs, define markets.¹¹ The concept of shared value focuses on creating economic value in a way that also creates value for society. A growing number of companies known for their hard-nosed approaches to business—such as Google, IBM, Johnson & Johnson, Unilever, and Walmart—are rethinking the interactions between society and corporate performance. They are concerned not just with short-term economic gains but with the well-being of their customers, the depletion of natural resources needed by their businesses, the welfare of key suppliers, and the economic well-being of the communities in which they operate.

As **Figure 1.4** shows, companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, and society's interests. Small but fast-growing Jeni's Splendid Ice Creams operates this way:¹²

Jeni's Splendid Ice Creams makes and sells really good artisan ice cream in its own scoop shops, with exotic flavors such as Goat Cheese with Red Cherries, Wildberry Lavender, and Riesling Poached Pear sorbet. But Jeni's does more than just make and sell ice cream. It also dedicates itself to a deeply felt mission of "making better ice creams and bringing people together. That's what gets us out of bed in the morning and keeps us up late at night." Jeni's follows what it calls a "fellowship model"—making great ice creams for communities, by communities. ● Signs in Jeni's shops proudly proclaim: "Ice creams created in fellowship with growers, makers, and producers from around the world all for the love of you."

To achieve this ambitious mission, Jeni's sources its ingredients carefully, using whole fruits and vegetables, milk from local grass-grazed cows, and wildflower honey from nearby farms, along with fair-trade vanilla and bean-to-bar direct trade chocolate. Jeni's believes in "buying directly and paying fairly for the ingredients, in having minimal impact on the environment, and in building and shaping community." It also works to involve its local communities. "Each time we open a store...we spend time in the neighborhoods; we want residents and visitors to be our partners. We think of our company as a community." Thanks to its societal mission, Jeni's is thriving. In 15 years, the business has grown from a pint-sized local operation to 34 scoop shops in 10 cities, all with devoted followings. You'll also find Jeni's in more 3,000 grocery stores, suggesting that doing good can benefit both the community and the company.

● **FIGURE 1.4**
Three Considerations Underlying the
Societal Marketing Concept



Preparing an Integrated Marketing Plan and Program

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

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

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

Managing Customer Relationships and Capturing Customer Value

OBJECTIVE 1-4 Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return.

Engaging Customers and Managing Customer Relationships

The first three steps in the marketing process—understanding the marketplace and customer needs, designing a customer value-driven marketing strategy, and constructing a marketing program—all lead up to the fourth and most important step: engaging customers and managing profitable customer relationships. We first discuss the basics of customer relationship management. Then we examine how companies go about engaging customers on a deeper level in this age of digital and social marketing.

Customer Relationship Management

Customer relationship management is perhaps the most important concept of modern marketing. In the broadest sense, **customer relationship management** is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. It deals with all aspects of acquiring, engaging, and growing customers.

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

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

To some consumers, value might mean sensible products at affordable prices. To other consumers, however, value might mean paying more to get more. ● For example, a luxurious Patek Philippe costs a small fortune, ranging in price from \$20,000 to \$500,000. But to those who own one, a Patek is a great value.¹³

Listen up here, because I'm about to tell you why a certain watch costing \$20,000, or even \$500,000, isn't actually expensive but is in fact a tremendous value. Every Patek Philippe watch is handmade by Swiss watchmakers from the finest materials and can take more than a year to make. Still not convinced? Beyond keeping precise time, Patek Philippe watches are also good investments. They carry high prices but retain or even increase their value

Customer relationship management

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

Customer-perceived value

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

over time. Many models achieve a kind of cult status that makes them the most coveted timepieces on the planet.

But more important than just a means of telling time or a good investment is the sentimental and emotional value of possessing a Patek Philippe. Says the company's president: "This is about passion. I mean—it really is a dream. Nobody needs a Patek." These watches are unique possessions steeped in precious memories, making them treasured family assets. According to the company, "The purchase of a Patek Philippe is often related to a personal event—a professional success, a marriage, or the birth of a child—and offering it as a gift is the most eloquent expression of love or affection." A Patek Philippe watch is made not to last just one lifetime but many. Says one ad: "You never actually own a Patek Philippe. You merely look after it for the next generation." That makes it a real bargain, even at twice the price.

Customer satisfaction

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

Customer satisfaction depends on the product's perceived performance relative to a buyer's expectations. If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted.

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

For companies interested in delighting customers, exceptional value and service become part of the overall company culture. For example, L.L.Bean—the iconic American outdoor apparel and equipment retailer—was founded on the principle that keeping customers satisfied is the key to building lasting relationships.¹⁴

Year after year, L.L.Bean lands in the top 10 of virtually every list of top service companies, including J.D. Power's most recent list of "customer service champions." The customer-service culture runs deep at L.L.Bean. More than 100 years ago, Leon Leonwood Bean founded the company on a philosophy of complete customer satisfaction, expressed in the following guarantee: "I do not consider a sale complete until [the] goods are worn out and the customer [is] still satisfied." ● To this day, customers can return any item, no questions asked, up to a year after purchase.

The company's customer-service philosophy is perhaps best summed up in founder L.L.'s answer to the question "What is a customer?" His answer still forms the backbone of the company's values: "A customer is the most important person ever in this company—in person or by mail. A customer is not dependent on us, we are dependent on him. A customer is not an interruption of our work, he is the purpose of it. We are not doing a favor by serving him, he is doing us a favor by giving us the opportunity to do so. A customer is not someone to argue or match wits with. Nobody ever won an argument with a customer. A customer is a person who brings us his wants. It is our job to handle them profitably to him and to ourselves." Adds former L.L.Bean CEO Leon Gorman: "A lot of people have fancy things to say about customer service, but it's just a day-in, day-out, ongoing, never-ending, persevering, compassionate kind of activity."

Other companies that have become legendary for customer delight and their service heroics include Amazon.com, Chick-fil-A, Nordstrom department stores, and JetBlue Airways. However, a company does not necessarily need to have over-the-top service to create customer delight. For example, no-frills grocery chain ALDI has highly satisfied customers, even though they have to bag their own groceries. ALDI's everyday very low pricing on good-quality products delights customers and keeps them coming back. Thus, customers don't need to be wowed. Customer satisfaction comes not just from service heroics but from how well a company delivers on its basic value proposition and helps customers solve their buying problems.

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

Customer Relationship Levels and Tools. Companies can build customer relationships at many levels, depending on the nature of the target market. At one extreme, a company with many low-margin customers may seek to develop basic relationships with

them. For example, P&G's Tide detergent does not phone or call on all of its consumers to get to know them personally. Instead, Tide creates engagement and relationships through product experiences, brand-building advertising, websites, and social media. At the other extreme, in markets with few customers and high margins, sellers want to create full partnerships with key customers. For example, P&G sales representatives work closely with Walmart, Kroger, and other large retailers that sell Tide. In between these two extremes, other levels of customer relationships are appropriate.

Beyond offering consistently high value and satisfaction, marketers can use specific marketing tools to develop stronger bonds with customers. For example, many companies offer frequency marketing programs that reward customers who buy frequently or in large amounts. Airlines offer frequent-flier programs, hotels give room upgrades to frequent guests, and supermarkets give patronage discounts to "very important customers."

Today, almost every brand has a loyalty rewards program. Such programs can enhance and strengthen a customer's brand experience. ● For example, membership in Uber Rewards gives loyal customers points for Uber rides and Uber Eats that can be converted to redeemable Uber Cash—the more you use Uber the more you benefit. Higher Uber Rewards membership levels—from blue to gold, platinum, or diamond—earn perks such as priority from Uber support agents, flexible cancellations, locked-in pricing between favorite points, priority airport pickups, access to highly rated drivers, and complimentary upgrades at no extra cost. Similarly, depending on how much they spend per year, members of Nordstrom's Nordy Club earn points plus perks such as early access to sales, personal bonus points days, free basic alterations, free curbside pickup, and members-only access to new brand launches, beauty and style workshops, and exclusive invite-only experiences. A personalized dashboard on the Nordstrom app lets customers interact easily with their Nordy program. "Our loyalty program is our opportunity to not only thank customers for shopping with us but to serve them in a more personalized way," says Nordstrom's vice president of retention and loyalty.¹⁵

Significant changes are occurring in the nature of customer-brand relationships. Today's digital technologies—the internet and the surge in online, mobile, and social media—have profoundly changed the ways that people relate to one another. In turn, these events have had a huge impact on how companies and brands connect with customers and how customers connect with and influence each other's brand behaviors.

Customer Engagement and Today's Digital, Mobile, and Social Media

The digital age has spawned a dazzling set of new customer relationship-building tools, from websites, online ads and videos, mobile ads and apps, and blogs to online communities and the major social media, such as Facebook, Twitter, Instagram, YouTube, and Snapchat.

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.

The burgeoning internet and social media have given a huge boost to customer-engagement marketing. Today's consumers are better informed, more connected, and more empowered than ever before. Newly empowered consumers have more information about brands, and they have a wealth of digital platforms for airing and sharing their brand views with others. Thus, marketers are now embracing not only customer relationship management but also *customer-managed relationships*, in which customers connect with companies and with each other to help forge and share their own brand experiences. Beyond building brand loyalty and purchasing, marketers want to create **customer brand advocacy**, by which satisfied customers initiate favorable interactions with others about a brand.

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 combine their mass-media marketing efforts with a rich mix of online, mobile,

Customer-engagement marketing

Making the brand a meaningful part of consumers' conversations and lives by fostering direct and continuous customer involvement in shaping brand conversations, experiences, and community.

Customer brand advocacy

Actions by which satisfied customers initiate favorable interactions with others about a brand.

and social media marketing that promotes brand-consumer engagement, brand conversations, and brand advocacy among customers.

For example, companies post their latest ads and videos on social media sites, hoping they'll go viral. They maintain an extensive presence on Facebook, Instagram, Twitter, Snapchat, YouTube, LinkedIn and other social media to start conversations with and between customers, address customer service issues, research customer reactions, and drive traffic to relevant articles, web and mobile marketing sites, contests, videos, and other brand activities. They launch their own blogs, mobile apps, brand microsites, and consumer-generated review systems, all with the aim of engaging customers on a more personal, interactive level. Skilled use of social media can get consumers involved with a brand, talking about it, and advocating it to others.

The key to engagement marketing is to find ways to enter targeted consumers' conversations with engaging and relevant brand messages. Simply posting a humorous video, creating a social media page, or hosting a blog isn't enough. Successful engagement marketing means making relevant and genuine contributions to targeted consumers' lives and interactions. Consider Bark, the subscription service that sends subscribers monthly BarkBoxes packed with toys and treats for their dogs.¹⁶

● Bark sells BarkBox subscriptions to dog lovers. But rather than using intrusive, hard-sell product pitches, Bark interacts with customers in humorous ways about their favorite mutual topic—"the weird dogs we live with and the funny things they do." Bark was founded by dog lovers, so the brand relates easily to its audience of people who are "just like us, total weirdos about their dogs." The brand's marketers use social media to share original comedic videos and relatable stories that entertain dog lovers more than they hawk BarkBox subscriptions. "We start conversations about dogs and form relationships with people around dogs in general," says a Bark content creator. "And 85 percent of our content doesn't even mention BarkBox specifically." Bark strives to make real connections. "Whether we're telling a fart joke or sharing a sentimental story of a pug puppy that looks like a meatball, we have to have an air of authenticity," says Bark's head marketer.

Bark's relational approach has engaged a substantial following, with 600,000 subscribers to its delivery service and more than 4 million fans on Facebook and Instagram. One recent video featuring a viral rap about being a dog mom on Mother's Day drew 42 million views. Customers also help with Bark's marketing, regularly posting photos and videos of their dogs eagerly tearing open their monthly BarkBoxes. And the brand's first major TV spot, aired late last year, was largely inspired by user-produced content posted on social media feeds. "Yes, we're trying to sell you something," says the marketer, "but even if you don't want it, we're making sure the content is still valuable to your time."

Consumer-Generated Marketing

One form of customer-engagement marketing is **consumer-generated marketing**, by which consumers themselves play roles in shaping their own brand experiences and those of others. This might happen through uninvited consumer-to-consumer exchanges in social media, blogs, online review sites, and other digital forums. But increasingly, companies themselves are inviting consumers to play a more active role in shaping products and brand content.

Some companies ask consumers for new product and service ideas. For example, Oreo recently ran a #MyOreoCreation contest asking fans to come up with new flavor ideas. Three finalist flavors hit the stores for two months before fans voted online for a winner, who received \$500,000. As another example, at the My Starbucks Idea site, Starbucks collects ideas from customers on new products, store changes, and just about anything else that might make their Starbucks experience better. "You know better than anyone else what you want from Starbucks," says the company at the website. "So tell us. What's your Starbucks idea? Revolutionary or simple—we want to hear it." The site invites customers to share their ideas, vote on and discuss the ideas of others, and see which ideas Starbucks has implemented.¹⁷

Other companies invite consumers to play a role in shaping ads and social media content. For example, all-electric carmaker Tesla held a fan-made ad contest, with three winning "charmingly low-budget" commercials selected from 10 finalists by public voting (via Twitter likes). Tesla posted the finalist ads online simultaneously with the launch of its Model 3 sedan, drawing millions of views and sparking interactions among dedicated Tesla fans. ● One top-three winner: "Sonja's Super Quick Tesla

Consumer-generated marketing

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

Fan Video” by YouTuber Sonja Jasansky of Minnesota, a super-quick and ultra-quirky video highlighting Tesla specifications and debunking common misconceptions.¹⁸

Despite the successes, however, harnessing consumer-generated content can be a time-consuming and costly process, and companies may find it difficult to mine even a little gold from all the content submitted. Moreover, because consumers have so much control over social media content, inviting their input can sometimes backfire. As a classic example, McDonald’s famously launched a Twitter campaign using the hashtag #McDStories, hoping that it would inspire heartwarming stories about Happy Meals. Instead, the effort was hijacked by Twitter users, who turned the hashtag into a “bashtag” by posting less-than-appetizing messages about their bad experiences with the fast-food chain. McDonald’s pulled the campaign within only two hours, but the hashtag was still churning weeks, even months later.¹⁹

As consumers become more connected and empowered and as the boom in digital and social media continues, consumer brand engagement—whether invited by marketers or not—will be an increasingly important marketing force. Through a profusion of consumer-generated videos, shared reviews, mobile apps, blogs, and websites, consumers are playing a growing role in shaping their own and other consumers’ brand experiences. Brands must embrace this increased consumer empowerment and master the digital and social media relationship tools.

Partner Relationship Management

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

Traditionally, marketers have been charged with understanding customers and representing customer needs to different company departments. However, in today’s more connected world, every functional area in the organization can interact with customers. Rather than letting each department go its own way, firms must link all departments in the cause of creating customer value.

Marketers must also partner with suppliers, channel partners, and others outside the company. 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, companies today are strengthening their connections with partners all along the supply chain. They know that their fortunes rest on how well their entire supply chain performs against competitors’ supply chains.

Partner relationship management

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

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

Capturing Value from Customers

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

Creating Customer Loyalty and Retention

Good customer relationship management creates customer satisfaction. In turn, satisfied customers remain loyal and talk favorably to others about the company and its products. Studies show big differences in the loyalty between satisfied and dissatisfied customers. Even slight dissatisfaction can create an enormous drop in loyalty. Thus, the aim of customer relationship management is to create not only customer satisfaction but also customer delight.

Keeping customers loyal makes good economic sense. Loyal customers spend more and stay around longer. Research also shows that it’s five times cheaper to keep an old

Customer lifetime value

The value of the entire stream of purchases a customer makes over a lifetime of patronage.

customer than acquire a new one. Conversely, customer defections can be costly. Losing a customer means losing more than a single sale. It means losing the entire stream of purchases that the customer would make over a lifetime of patronage. For example, here is a classic illustration of **customer lifetime value**.²⁰

Stew Leonard, who operates a highly profitable seven-store supermarket in Connecticut, New Jersey, and New York, once said that he saw \$50,000 flying out of his store every time he saw a sulking customer. Why? Because his average customer spent about \$100 a week, shopped 50 weeks a year, and remained in the area for about 10 years. If this customer had an unhappy experience and switched to another supermarket, Stew Leonard's lost \$50,000 in lifetime revenue. The loss could be much greater if the disappointed customer shared the bad experience with other customers and caused them to defect.

To keep customers coming back, Stew Leonard's has created what has been called the "Disneyland of Dairy Stores," complete with costumed characters, scheduled entertainment, a petting zoo, and animatronics throughout the store. From its humble beginnings as a small dairy store in 1969, Stew Leonard's has grown at an amazing pace. It's built 30 additions onto the original store, which now serves more than 300,000 customers each week. ● This legion of loyal shoppers is largely a result of the store's passionate approach to customer service. "Rule #1: The customer is always right. Rule #2: If the customer is ever wrong, reread rule #1."

Stew Leonard's is not alone in assessing customer lifetime value. Lexus, for example, estimates that a single satisfied and loyal customer is worth more than \$600,000 in lifetime sales, and the estimated lifetime value of a Starbucks customer is more than \$14,000.²¹ In fact, a company can lose money on a specific transaction but still benefit greatly from a long-term relationship. This means that companies must aim high in building customer relationships. Customer delight creates an emotional relationship with a brand, not just a rational preference. And that relationship keeps customers coming back.

Growing Share of Customer

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

To increase share of customer, firms can offer greater variety to current customers. Or they can create programs to cross-sell and up-sell to market more products and services to existing customers. For example, Amazon is highly skilled at leveraging relationships with its more than 310 million customers worldwide to increase its share of each customer's spending budget.²²

Once they log onto Amazon.com, customers often buy more than they intend, and Amazon does all it can to help make that happen. The online giant continues to broaden its merchandise assortment, carrying hundreds of millions of products and creating an ideal spot for one-stop shopping. And based on each customer's purchase and search history, the company recommends related products that might be of interest. This recommendation system influences some 35 percent of all sales. Amazon's ingenious Amazon Prime and Amazon Prime Now shipping programs have also helped boost its share of customers' wallets. According to one analyst, the Amazon Prime "converts casual shoppers, who gorge on the gratification of having purchases reliably appear two days [or even two hours] after the order, into Amazon addicts." And that's just online. To dig even deeper into customers' wallets, Amazon is now expanding rapidly to the brick-and-mortar world, opening physical stores to sell everything from groceries to consumer electronics.

Building Customer Equity

We can now see the importance of not only acquiring customers but also keeping and growing them. The value of a company comes from the value of its current and future customers. Customer relationship management takes a long-term view. Companies want to not only create profitable customers but also "own" them for life, earn a greater share of their purchases, and capture their customer lifetime value.

Share of customer

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

Customer equity

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

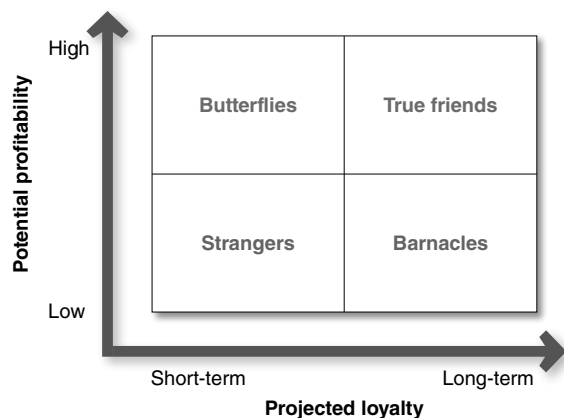
What Is Customer Equity? The ultimate aim of customer relationship management is to produce high customer equity.²³ **Customer equity** is the total combined customer lifetime values of all of the company's current and potential customers. As such, it's a measure of the future value of the company's customer base. Clearly, the more loyal the firm's profitable customers, the higher its customer equity. Customer equity may be a better measure of a firm's performance than current sales or market share. Whereas sales and market share reflect the past and present, customer equity suggests the future. Consider Cadillac:²⁴

In the 1970s and 1980s, Cadillac had some of the most loyal customers in the industry. To an entire generation of car buyers, the name Cadillac defined "The Standard of the World." Cadillac's share of the luxury car market reached a whopping 51 percent in 1976, and based on market share and sales, the brand's future looked rosy. However, measures of customer equity would have painted a bleaker picture. Cadillac customers were getting older (average age 60), and average customer lifetime value was falling. Many Cadillac buyers were on their last cars. Thus, although Cadillac's market share was good, its customer equity was not.

Compare this with BMW. Its more youthful and vigorous image didn't win BMW the early market share war. However, it did win BMW younger customers (average age about 40) with higher customer lifetime values. The result: In the years that followed, BMW's market share and profits soared while Cadillac's fortunes eroded badly. BMW overtook Cadillac in the 1980s. In the years that followed, Cadillac struggled to make the Caddy cool again with edgier, high-performance designs that target a younger generation of consumers. More recently, the brand has emphasized marketing pitches based on performance and design, attributes that position it more effectively against the likes of BMW and Audi. ● It is focusing on high-design luxury SUVs and crossovers, and GM recently announced that "Cadillac will lead the company to an all-electric future" with its first fully electric vehicle. As a result, although it still lags other luxury brands, Cadillac's share of the luxury car market has rebounded modestly in recent years. The moral: Marketers should care not just about current sales and market share. Customer lifetime value and customer equity are the name of the game.

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

The company can classify customers according to their potential profitability and manage its relationships with them accordingly. ● **Figure 1.5** classifies customers into one of four relationship groups, according to their profitability and projected loyalty.²⁵ Each group requires a different relationship management strategy. *Strangers* show low potential profitability and little projected loyalty. There is little fit between the company's offerings and their needs. The relationship management strategy for these customers is simple: Don't invest anything in them; make money on every transaction.



● **FIGURE 1.5**
Customer Relationship Groups

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

turn true friends into true believers, who come back regularly and tell others about their good experiences with the company.

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

For example, Best Buy offers an attractive returns policy but has found that a small segment of customers abuses this policy. So it uses an outside firm, Retail Equation, to track and score individual customer returns behavior. The system is designed to identify the 1 percent of shoppers whose behavior suggests returns fraud or abuse. A shopper who exceeds a certain score is informed that future returns will be denied, even if it means losing the customer. "You could do things that are inside the posted rules, but if you are violating the intent of the rules, like every item you're purchasing you're using and then returning, then at a certain point you become not a profitable customer for [Best Buy]," says a Retail Equation executive.²⁶

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

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

The Changing Marketing Landscape

OBJECTIVE 1-5 Describe the major trends and forces that are changing the marketing landscape in this age of relationships.

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

In this section, we examine the major trends and forces that are changing the marketing landscape and challenging marketing strategy. We look at four major developments: the digital age, the growth of not-for-profit marketing, rapid globalization, and the call for sustainable marketing practices.

The Digital Age: Online, Mobile, and Social Media Marketing

The explosive growth in digital technology has fundamentally changed the way we live—how we communicate, share information, access entertainment, and shop. Welcome to the age of the **Internet of Things (IoT)**, a global environment where everything and everyone is digitally connected to everything and everyone else. More than 4 billion people—55 percent of the world's population—are now online; almost 80 percent of all American adults own smartphones. These numbers will only grow as digital technology rockets into the future.²⁷

Most consumers are totally smitten with all things digital. For example, according to one study, 71 percent of Americans keep their mobile phone next to them when they sleep; 3 percent sleep with phone in hand. Six in 10 young adults in the United States use primarily online streaming services to watch TV, and 85 percent of U.S. adults get their news via mobile devices. Importantly to marketers, 79 percent of smartphone users have made a purchase online using a mobile device, and an estimated 80 percent of shoppers have used a phone in stores to look up product reviews or compare prices as they shop.²⁸

The consumer love affair with digital and mobile technology makes it fertile ground for marketers trying to engage customers. So it's no surprise that 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 websites, 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 of Things (IoT)

A global environment where everything and everyone is digitally connected to everything and everyone else.

Digital and social media marketing

Using digital marketing tools such as websites, social media, mobile apps and ads, online video, email, and blogs to engage consumers anywhere, at any time, via their digital devices.

internet-ready TVs, and other digital devices. These days, almost every company is reaching out to customers with multiple websites, newsy tweets and Facebook pages, Instagram posts and Snapchat stories, viral ads and videos posted on YouTube, rich-media emails, and mobile apps that solve consumer problems and help them shop.

At the most basic level, marketers set up company and brand websites that provide information and promote the company's products. Many companies also set up online brand community sites, where customers can congregate and exchange brand-related interests and information. For example, beauty products retailer Sephora's Beauty Insider Community—"the world's largest beauty forum"—is a thriving online community where customers can ask questions, share ideas and reviews, post photos, and get beauty advice and inspiration from other enthusiasts. ● And the Fitbit Community section on the Fitbit app serves as a social hub for more 700,000 of the brand's enthusiasts. It's a place where Fitbit fans can share inspiration, updates, and milestones with fellow users; join any of 40 topic-specific groups of like-minded people; learn about local Fitbit events; and read brand-related news and expert content hand-picked for them. "Social engagement has proven to be a key motivator," says Fitbit. The community "makes it easier for you to engage with your friends and meet new people who are passionate about the same things you are."²⁹

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

Social Media Marketing

It's hard to find a brand website, or even a traditional media ad, that doesn't feature links to the brand's Facebook, Instagram, Twitter, YouTube, Snapchat, Pinterest, LinkedIn, or other social media sites. Social media provide exciting opportunities to extend customer engagement and get people talking about a brand.

Some social media are huge—Facebook has more than 2.3 *billion* active monthly users, Instagram more than 1 billion, Twitter more than 326 million, and Snapchat 186 million. Reddit, the online social news community, has 330 million users from 185 countries. But smaller, more focused social media sites are also thriving, such as CafeMom, an online community that reaches 75 million moms monthly who exchange advice, entertainment, and commiseration at the community's online, Facebook, Twitter, Pinterest, YouTube, and mobile sites. Even tiny sites can attract active audiences, such as Newgrounds.com for gamers, programmers, and illustrators or Ravelry.com for knitters and crocheters.³⁰

Online social media provide a digital home where people can connect and share important information and moments in their lives. As a result, they offer an ideal platform for real-time marketing, by which marketers can engage consumers in the moment by linking brands to important trending topics, real-world events, causes, personal occasions, or other happenings in consumers' lives. Candy maker Mars did this with its award-winning Snickers Hungerithm social media campaign, which monitored the "mood" of the internet and offered real-time price discounts to consumers when the internet was "angry" (see Real Marketing 1.2).

Using social media might involve something as simple as a contest or promotion to garner Facebook Likes, tweets, Instagram regrams, or YouTube postings. But more often these days, brands create large-scale, carefully integrated social media programs. For example, energy drink maker Red Bull uses a broad mix of social media to connect and inspire its enthusiastic fan base. It now has more than 50 million followers on Facebook, 2 million on Twitter, and 8 million on Instagram. Red Bull's high-energy social media pages hardly mention the company's products at all. Instead, they promote Red Bull's pedal-to-the-metal lifestyle and provide a place where fans can connect with the brand and each other to share their common interests in extreme sports, music, and entertainment. More than just an energy drink maker, "Red Bull is now a top brand for sporting activities and action shots," says an analyst, "and users follow them on social for their adrenaline-filled feed."³¹

Mobile Marketing

Mobile marketing is perhaps the fastest-growing digital marketing platform. Smartphones are ever present, always on, finely targeted, and highly personal. This makes them ideal for engaging customers anytime, anywhere as they move through the buying process. For example, Starbucks customers can use their mobile devices for everything from finding

Real Marketing 1.2

Snickers Hungerithm: Engaging Customers in Real Time

Mars is the world's number-one candy maker, and its flagship brand—Snickers—is the world's number-one candy brand. Snickers has long been positioned on its “Snickers satisfies” promise—on the stomach-filling, energy-packed properties of the popular chocolate-covered bar crammed with nougat, caramel, and peanuts. For the past several years, Mars has extended the Snickers positioning with its award-winning and fun “You’re not you when you’re hungry” campaign. The campaign features wacky ads and other executions in which people become someone else and behave badly when they are hungry. Once they eat a Snickers, however, they become themselves again.

The “You’re not you when you’re hungry” campaign taps into a universal appeal: hunger. The positioning is as powerful for women as for men; for older generations as for younger ones; for office workers, factory workers, or students; in the United States or Australia or even Russia (Snickers’ second-largest market). And the appeal is immediate—hunger pops up regularly throughout the day, triggered by needs both physical and emotional.

Candy is an impulse category. On any given purchase occasion, consumers are presented with dozens, even hundreds, of options. So if Snickers wants to be the brand people reach for, it needs to be top-of-mind when the mood strikes. With this in mind, Snickers recently launched an innovative marketing campaign in Australia—called “Hungerithm”—that played off both the immediacy of its “You’re not you” hunger appeal and the real-time capabilities of social and mobile media.

Building on the notion that people get cranky when they are hungry, Snickers developed an algorithm—or “Hungerithm”—that gauged the public’s general irritability real-time by monitoring social media chatter. Built with the help of MIT and Google, Hungerithm analyzed some 14,000 social media posts a day across platforms such as Twitter, Facebook, and YouTube. It looked at 3,000 commonly used words and phrases, even interpreting slang and sarcasm, to take what one analyst called “a virtual fist-shaking temperature of the internet”—ranging from “Annoyed,” “On Edge,” or “Irritable” to “Losing It” or even “Full Meltdown.” Snickers then linked the public mood in real time with the price of Snickers at 7-Eleven stores. The angrier the internet got (suggesting the hungrier people were), the lower the price of Snickers at the local 7-Eleven. At the angriest level during the campaign, the price of Snickers dropped by 82 percent.

Mars introduced the Hungerithm campaign with a barrage of TV spots, online videos, and social media posts. “The Internet can be an angry place,” said the first Hungerithm promotion. “But what if that’s just because we’re hungry?” The conclusion: “Angry internet = cheaper Snickers. Now, when the weather’s crappy, you’ll get cheaper Snickers. Political scandal? Cheaper Snickers. Meteor strike? Definitely cheaper Snickers.”

The digital- and mobile-driven Hungerithm campaign targeted people at peak mood-producing moments and places—traffic jams, bad weather, high-profile sports events, or polarizing political shenanigans. It responded in real time with Facebook and Twitter posts addressing breaking political, social, and

entertainment news. Mobile-fed coupons let consumers lock in the Snickers price of the moment and directed them to the nearest 7-Eleven.

The real-time design of Hungerithm was for real. The promotion updated every 10 minutes—144 times a day. The Hungerithm website kept a constant posting of the price and mood indicators, and Snickers partnered with two of Australia’s top morning TV shows to give regular price and mood updates. Following the Hungerithm “index” became somewhat of a national pastime in Australia, engaging consumers at a high level.

The Hungerithm campaign produced stunning results. Snickers sales jumped 67 percent during the promotion, with a 1,740 percent increase in Facebook traffic and a 120 percent leap in Snickers mentions on Twitter. The campaign was so successful that Snickers quickly rolled it out in other global markets. In the United States, Hungerithm now runs during the holiday shopping season. “The holidays can be a stressful time for everyone, and the internet reflects the mood of the season,” says the brand director for Snickers. “Hungerithm offers a fun way to navigate this time of year with Snickers, offering that moment of satisfaction when you need it most.”

Price cutting can be risky. But in the case of Hungerithm, Snickers strategically linked its price discounts to the essence of the brand, creating valuable consumer engagement. According to Mars’s chief marketing officer, “Hungerithm hit the exact digital sweet spot we were going for. [It] managed to create a real-life connection to the product that captured everyone’s attention and imagination.”³²

the nearest Starbucks and learning about new products to placing and paying for orders, perhaps through the coffee merchant’s artificial intelligence-powered, voice-activated My Starbucks Barista virtual assistant.

Four out of five smartphone users use their phones to shop—browsing product information through apps or the mobile web, making price comparisons, reading online product reviews, and making purchases from home, from work, or in stores. More than 40 percent of all online purchases are now made from mobile devices. As a result, to reach mobile shoppers, mobile advertising is surging and now accounts for more than two-thirds of all digital ad spending.³³

Marketers use mobile channels to stimulate immediate buying, make shopping easier, enrich the brand experience, reach on-the-go consumers, or all of these. ● For example, Taco Bell uses mobile advertising to reach consumers at what it calls mobile “moments that matter.”³⁴

As part of its ongoing push to promote Taco Bell for breakfast, the chain uses carefully targeted mobile advertising to reach consumers just as they are starting their day. It targets mobile ads

based on specific behaviors such as which apps consumers use first in the morning, their favorite news apps, or what time of day they've looked at a breakfast recipe. "We're weaving into morning behaviors," says a Taco Bell marketer. Taco Bell also targets mobile ads geographically using navigation and traffic apps such as Google's Waze to zero in on specific customer locations, even providing step-by-step directions to nearby stores. In these ways, Taco Bell can customize mobile ads according to each customer's actions, experiences, and environment. In marketing its breakfasts, says the marketer, mobile lets Taco Bell be "present on experiences that consumers turn to when they first open their eyes in the morning."

Online, social media, and mobile marketing are having a huge impact on customer engagement. The key is to blend digital approaches with traditional marketing to create a smoothly integrated marketing strategy and mix. We will examine digital, mobile, and social media marketing throughout the text—they touch almost every area of marketing strategy and tactics. Then, after we've covered the marketing basics, we'll look more deeply into digital and direct marketing in Chapter 17.

Big Data and Artificial Intelligence (AI)

With the explosion in digital technologies, marketers can now amass mountains of data. They are tapping information sources ranging from customer transactions to real-time data flowing from website and social media monitoring, connected Internet of Things (IoT) devices, and many others. Brands can use such *big data* to gain deep customer insights, personalize marketing offers, and improve customer engagements and service.

To make sense of all this big data and use it to benefit their brands and customers, marketers are turning to ever-more-advanced marketing analytics. For example, *artificial intelligence (AI)* has burst onto the marketing scene. AI involves machines that think and learn in a way that looks and feels human but with a lot more analytical capacity. Marketers can use AI to analyze data at lightning speed and apply the insights to engage customers in real time and help them through the buying process.

AI-empowered applications include everything from customer-service chat bots and virtual assistants like Amazon Echo's Alexa or Apple's Siri to IBM's almost-human AI supercomputer Watson. For example, one medicine maker recently used Watson to shape personalized mobile ads to individual allergy medication customers based on real-time weather data and pollen counts in their areas. We will discuss the fascinating developments in big data and artificial intelligence more deeply in Chapter 4.

The Growth of Not-for-Profit Marketing

In recent years, marketing has also become a major part of the strategies of many not-for-profit organizations, such as colleges, hospitals, museums, zoos, symphony orchestras, foundations, and even churches. The nation's not-for-profits face stiff competition for support and membership. Sound marketing can help them attract membership, funds, and support.

● For example, not-for-profit St. Jude Children's Research Hospital has a special mission: "Finding cures. Saving children." It directly serves some 7,500 patients each year plus countless thousands more through its affiliations and clinical trials in places across the country and around the world. Families never receive a bill from St. Jude, for treatment, travel, housing, or food. To accomplish this mission, St. Jude raises the funds for its \$2 million-plus daily operating budget through powerhouse marketing.³⁵ Fundraising efforts include everything from public service announcements, celebrity endorsements, corporate partnerships, and an extensive online presence to events such as Trike-a-thons, Math-a-thons, an Up 'Til Dawn student challenge, and the St. Jude Dream Home Giveaway. St. Jude works with more than 70 corporate partners such as Target, Domino's, Williams-Sonoma, Regal Cinemas, and Expedia that participate in its annual Thanks and Giving campaign, which asks consumers to "give thanks for the healthy kids in your life, and give to those who are not." The result is a pervasive brand that brings in more than \$1.3 billion each year from private donors—ranging from pre-schoolers and professionals to eighth-graders and 80-year-olds.

Government agencies have also shown an increased interest in marketing. For example, the U.S. military has a marketing plan to attract recruits to its different services, and various government agencies are now designing social marketing campaigns to encourage energy conservation and concern for the environment or discourage smoking, illegal drug

use, and obesity. Even the once-stodgy U.S. Postal Service has developed innovative marketing to sell commemorative stamps, promote its Priority Mail services, and lift its image as a contemporary and competitive organization. In all, the U.S. government is the nation's 46th largest advertiser.³⁶

Rapid Globalization

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

American firms have been challenged at home by the skillful marketing of European and Asian multinationals. Companies such as Toyota, Nestlé, and Samsung have often outperformed their U.S. competitors in American markets. Similarly, U.S. companies in a wide range of industries have developed truly global operations, making and selling their products worldwide. Quintessentially American McDonald's now serves 69 million customers daily in more than 36,000 local restaurants in more than 100 countries worldwide—75 percent of its corporate revenues come from outside the United States. Similarly, Nike markets in 190 countries, with non-U.S. sales accounting for 58 percent of its worldwide sales.³⁷ Today, companies are not just selling more of their locally produced goods in international markets; they are also sourcing more supplies and components abroad and developing new products for specific markets around the world.

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

Sustainable Marketing: The Call for More Environmental and Social Responsibility

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

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

Some companies, such as Patagonia, Timberland, Ben & Jerry's, Warby Parker, and others, practice caring capitalism, setting themselves apart by being civic minded and responsible. They build social and environmental responsibility into their company value and mission statements. ● For example, Warby Parker—the highly successful online marketer of low-priced prescription glasses—sells "eyewear with a purpose".³⁸

Warby Parker was founded with a lofty objective: "to offer designer eyewear at a revolutionary price while leading the way for socially conscious businesses." For starters, by cutting out distributors, designing its own glasses in-house, and engaging customers directly online, the company sells high-quality eyewear at very low prices. Buying glasses from Warby Parker "should leave you happy and good-looking, with money in your pocket."

But beyond bringing value to its customers, Warby Parker has a broader social mission. It notes that nearly one billion people worldwide who need glasses lack access to them. To help fix that problem, Warby Parker's Buy a Pair, Give a Pair program promises that for every pair of glasses

it sells, another pair will be distributed to someone in need. So far, more than 5 million pairs of glasses have been distributed through the program. “We believe that everyone has the right to see,” says the company. Beyond being socially admirable, Warby Parker’s Buy a Pair, Give a Pair program also makes good economic sense, for both the company and its customers. After only eight years, the company has grown to more than \$320 million in annual sales. “Companies can do good in the world while still being profitable,” says Warby Parker co-founder Neil Blumenthal. “Good eyewear, good outcome.”

Sustainable marketing presents both opportunities and challenges for marketers.

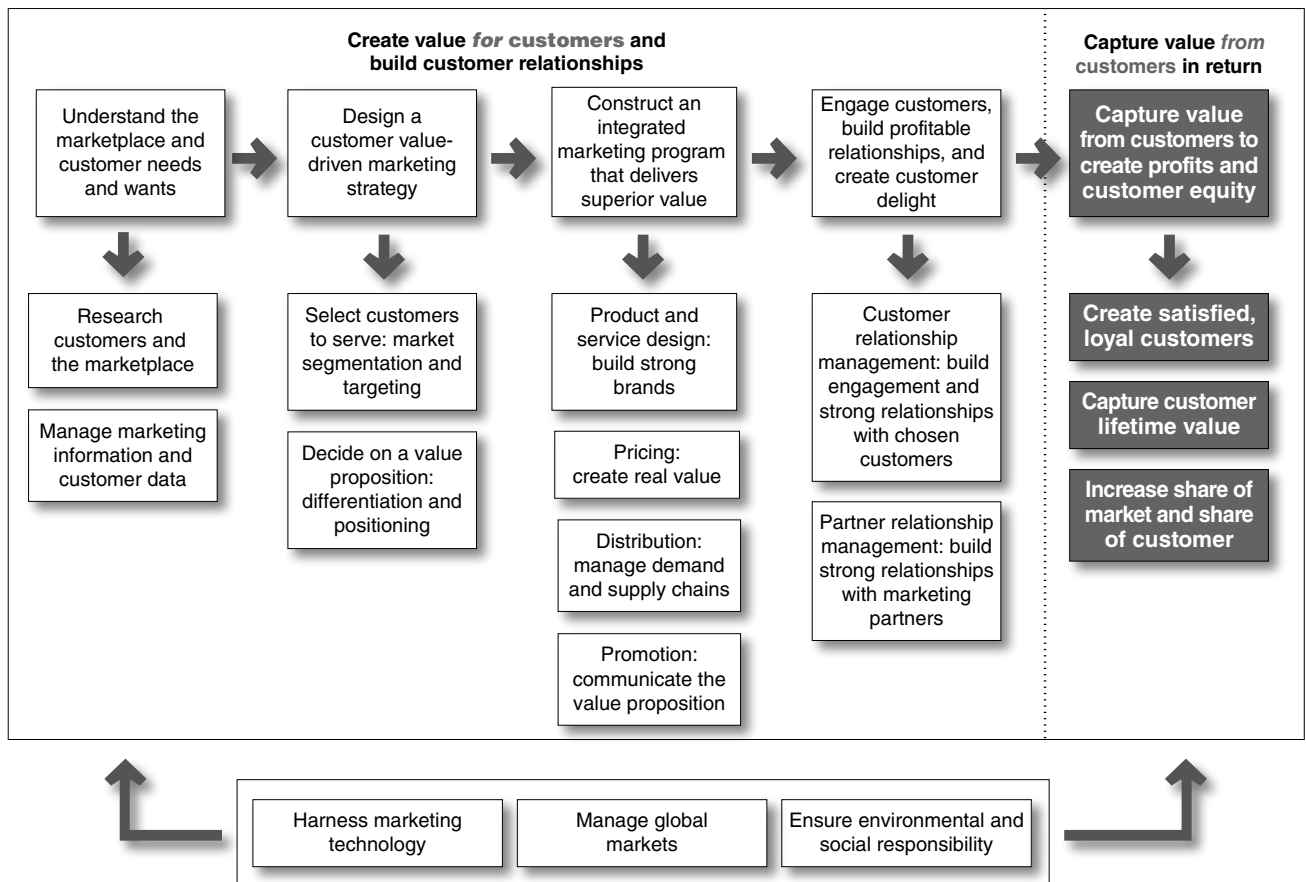
So, What Is Marketing? Pulling It All Together

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

At the start of this chapter, Figure 1.1 presented a simple model of the marketing process. Now that we’ve discussed all the steps in the process,

● **Figure 1.6** presents an expanded model that will help you pull it all together. What is marketing? Simply put, marketing is the process of engaging customers and building profitable customer relationships by creating value for customers and capturing value in return.

● **FIGURE 1.6**
An Expanded Model of the Marketing Process



This expanded version of Figure 1 at the beginning of the chapter provides a good road map for the rest of the text. The underlying concept of the entire text is that marketing creates value for customers in order to capture value from customers in return.

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

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

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

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

Finally, in the face of today’s changing marketing landscape, companies must consider three additional factors. In building customer and partner relationships, they 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 provides a good road map to future chapters of this text. Chapters 1 and 2 introduce the marketing process, with a focus on building customer relationships and capturing value from customers. Chapters 3 through 6 address the first step of the marketing process—understanding the marketing environment, managing marketing information, and understanding consumer and business buyer behavior. In Chapter 7, we look more deeply into the two major marketing strategy decisions: selecting which customers to serve (segmentation and targeting) and determining a value proposition (differentiation and positioning). Chapters 8 through 17 discuss the marketing mix variables one by one.

Developing Skills for Your Career

Marketing is an exciting, fast-changing discipline that offers a wide range of rewarding careers. See Appendix 3: Careers in Marketing to see if one of these careers is right for you. But even if you’re not planning a career in marketing or business, the lessons you learn in this course will help you in whatever career to choose and in your life more generally. You will acquire and apply many of the skills that employers have identified as critical to success in the workplace, which will contribute to your employability.

In studying this text, you’ll sharpen your *critical-thinking* and *problem-solving* skills as you learn about and assess marketing strategies and issues. You’ll expand your *persuasive communication* skills as you study and report on how marketers create advertising, digital, social media, and other promotional campaigns that engage consumers and create brand relationships. You’ll see how *technology and marketing analytics* are dramatically reshaping

the marketing world and even apply some of these technologies in completing your own analyses of marketing problems. You'll learn the importance of *collaboration and teamwork* as you see how marketers work closely with others on their marketing teams and with managers in other company areas to develop overall organizational strategies and tactics. And you'll learn more about *business ethics and social responsibility*, from sections in the very first chapter through the final chapter on sustainable marketing.

During the course, your professors will help you to improve your critical thinking, analytical, communication, presentation, and teamwork skills through meaningful assignments, perhaps from the end-of-chapter exercises, cases, or appendixes in this text. Finally, beyond business applications, you'll see that marketing applies to your life more generally. For the rest of your life, you will be marketing yourself to others. In fact, a favorite tactic of some employers during job interviews is to give you this challenge: "Pretend you are a product and market yourself to me." After taking this course and studying this text, you should have ready answers.

Reviewing and Extending the Concepts

Objectives Review

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

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

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

OBJECTIVE 1-2 Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.

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

wants, and demands; market offerings (products, services, and experiences); value and satisfaction; exchange and relationships; and markets. Companies address needs, wants, and demands by putting forth a value proposition, a set of benefits that they promise to consumers to satisfy their needs. The value proposition is fulfilled through a market offering, which delivers customer value and satisfaction, resulting in long-term exchange relationships with customers.

OBJECTIVE 1-3 Identify the key elements of a customer value-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.

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

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

OBJECTIVE 1-4 Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return.

Broadly defined, *customer relationship management* is the process of engaging customers and building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. *Customer-engagement marketing* aims to make a brand a meaningful part of consumers' conversations and lives through direct and continuous customer involvement in shaping brand conversations, experiences, and community. The aim of customer relationship management and customer engagement is to produce high *customer equity*, the total combined customer lifetime values of all the company's customers. The key to building lasting relationships is the creation of superior *customer value* and *satisfaction*. In return for creating value for targeted customers, the company captures value from customers in the form of profits and customer equity.

OBJECTIVE 1-5 Describe the major trends and forces that are changing the marketing landscape in this age of relationships.

Dramatic changes are occurring in marketing. The digital age has created exciting new ways to learn about, engage, and

relate to individual customers. As a result, advances in digital, social, and mobile media have taken the marketing world by storm. Online, mobile, and social media marketing offer exciting opportunities to target customers more selectively and engage them more deeply. And today's big data and improved marketing analytics, such as artificial intelligence, are enhancing how marketers learn about and interact with customers. The key is to blend the new digital technologies and approaches with traditional marketing to create a smoothly integrated marketing strategy and mix.

In recent years, marketing has become a major part of the strategies for many not-for-profit organizations, such as colleges, hospitals, museums, zoos, symphony orchestras, foundations, and even churches. Also, in an increasingly smaller world, many marketers are now connected globally with their customers, marketing partners, and competitors. Finally, today's marketers are also reexamining their sustainability responsibilities. Marketers are being called on to take greater responsibility for the social and environmental impacts of their actions.

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

Key Terms

OBJECTIVE 1-1

Marketing

OBJECTIVE 1-2

Needs

Wants

Demands

Market offerings

Marketing myopia

Exchange

Market

OBJECTIVE 1-3

Marketing management

Production concept

Product concept

Selling concept

Marketing concept

Societal marketing concept

OBJECTIVE 1-4

Customer relationship management

Customer-perceived value

Customer satisfaction

Customer-engagement marketing

Customer brand advocacy

Consumer-generated marketing

Partner relationship management

Customer lifetime value

Share of customer

Customer equity

OBJECTIVE 1-5

Internet of Things (IoT)

Digital and social media marketing

Discussion Questions

- 1-1** What are the paths to profits under the marketing concept? (AACSB: Written and Oral Communication)
- 1-2** What is a market offering? Give a recent example of a market offering that has satisfied your need or want. (AACSB: Written and Oral Communication; Reflective Thinking)
- 1-3** Identify the two important questions a marketing manager must answer to design a winning marketing strategy. Briefly describe why the answer to each question is important. (AACSB: Written and Oral Communication; Reflective Thinking)

- 1-4** What is consumer-generated marketing? What are the challenges associated with consumer-generated marketing? (AACSB: Written and Oral Communication; Reflective Thinking)
- 1-5** What are the outcomes of creating superior customer value? Why should companies pay attention to these outcomes? (AACSB: Written and Oral Communication; Reflective Thinking)
- 1-6** Explain the growing importance of digital and social media marketing. (AACSB: Written and Oral Communication; Reflective Thinking)

Critical Thinking Exercises

- 1-7** Describe how a brand like GORE-TEX that follows the pure marketing concept might transform its marketing strategy

if it shifted to the societal marketing concept. (AACSB: Written and Oral Communication; Analytical Thinking)

- 1-8** Your manager sets a goal for your office: 100 percent satisfaction from 100 percent of customers. How would you communicate with your manager about the limitations of this goal? Describe why firms might use different relationship management strategies for customers with different potential profitability and loyalty. (AACSB: Written and Oral Communication; Information Technology; Reflective Thinking)
- 1-9** Visit the Clorox website at www.clorox.com. Scroll to the bottom of the page and notice how Clorox is currently

connecting with customers on social media platforms including Facebook, Twitter, Pinterest, YouTube, and Instagram. Click on one or more of the platforms to view ways in which the Clorox Company is building and maintaining customer linkages while illustrating value and providing information behind the brand. Evaluate the Clorox Company's effectiveness in creating customer engagement through its web and social media sites. (AACSB: Written and Oral Communication; Information Technology; Reflective Thinking)

APPLICATIONS AND CASES

Online, Mobile, and Social Media Marketing *Fionamania*

Fiona, a young hippo who was born prematurely and survived, lives in the Cincinnati Zoo's Africa exhibit. Fiona became a star when the zoo's communication director and her team started posting every move she made from the day she was born prematurely. She became a symbol of resilience and positivity, earning millions of fans and engaging the not-for-profit zoo's visitors and potential donors. Today, videos of Fiona twirling around the internet gain millions of views, she has had her own seven-episode reality show on Facebook, people on Twitter even follow her flatulence, and she has inspired everything from a children's book to beer and ice cream flavors. People are invested in Fiona's story.

- 1-10** Go to www.facebook.com/cincinnatiatzo and find posts that feature Fiona the hippo. How does the zoo's communications team engage with Fiona's fans? (AACSB: Written and Oral Communication; Reflective Thinking)
- 1-11** What can other not-for-profit marketers learn from the Cincinnati Zoo's use of social media to generate interest in Fiona? How does it fit with the Cincinnati Zoo's overall social media strategy? (AACSB: Written and Oral Communication; Use of IT; Reflective Thinking)

Marketing Ethics *Patagonia—Saving Our Home Planet*

Companies are increasingly building social and environmental responsibility into their company value and mission statements. More than 500 American companies have signed the UN Global Compact, a commitment to standards that improve human rights, protect the environment, and advance societal goals. Outdoor clothing and gear company Patagonia has grown its business profitably for more than 45 years while advocating for public lands, environmental activism, and sustainable supply chains. Its founding mission was to "build the best product, cause no unnecessary harm, and use business to inspire and implement solutions to the environmental crisis." Recently, Patagonia changed its mission to "Patagonia is in business to save our home planet." To ensure movement toward this mission, the company prepared for a full year in advance of publicly announcing the shift. Patagonia recently announced that it would give the \$10 million it gained from a federal tax cut to fight for environmental causes that were threatened by the tax cut,

including regenerative agriculture, politics, and protected lands. It has also used its brand marketing to endorse specific political candidates who support sound environmental policies.

- 1-12** Patagonia's mission realignment and its focus on counteracting the causes of global warming may seem more appropriate for a nonprofit organization than for a business. How might Patagonia's new mission affect its reputation among consumers who rely on it to make and market the best products? (AACSB: Written and Oral Communication; Ethical Understanding and Reasoning)
- 1-13** How should a public firm that wants to engage in corporate social responsibility in a way that might sacrifice short-term profitability explain this decision to shareholders? (AACSB: Written and Oral Communication; Ethical Understanding and Reasoning)

Marketing by the Numbers *Gillette Trying to Shave Off Competition*

Gillette, Procter & Gamble's powerhouse razor brand, is experiencing challenges from consumer trends and upstart digital competitors. Gillette and close competitor Schick have focused on product innovation and higher prices. Indeed, their cartridges first contained two blades, then three, and now five. Razors now have swiveling balls that let the blades

pivot, some vibrate, and Gillette recently applied for a patent for a razor that heats up. And with each addition, prices have increased accordingly. Even though Gillette produces excellent products that garnered \$1.5 billion in sales last year, it faces threats posed by the continuing consumer trend of "beardedness," such as the "scruff" or "stubble" look that's

not going away soon. Online direct-to-consumer upstarts like Dollar Shave Club (now owned by Unilever), Harry's, and 800Razor.com are also eating away at Gillette's sales. And when Gillette's patent expired on its Mach3 razor, rival Schick came out with a less expensive compatible refill blade cartridge. Although still capturing more than 50 percent market share in the men's grooming market, Gillette's market share has dropped from 70 percent in 2010. To help win back share, Gillette launched its own Gillette on Demand in 2016. But the brand's most significant change was to focus less on product innovation and implement an average 12 percent across-the-board price cut.

- 1-14** Assuming a contribution margin of 60 percent, what sales would be necessary to break even (that is, maintain the current total contribution) on the 12 percent across-the-board price reduction? Refer to Financial Analysis of Marketing Tactics: Price Decrease in Appendix 2: Marketing by the Numbers to learn how to perform this analysis. (AACSB: Oral and Written Communication; Analytic Reasoning)
- 1-15** What absolute increase and percentage increase in sales does this represent? (AACSB: Oral and Written Communication; Analytic Reasoning)

Company Case Buffalo Wild Wings: Fueling the Sports Fan Experience

With thousands of restaurant chains in the United States, the casual dining market is a fiercely competitive environment. So, it's especially notable when one brand hits a growth spurt even as many others struggle just to hang on. Buffalo Wild Wings—the nation's number-one seller of chicken wings and largest pourer of draft beer—is one of those brands. In a little more than a decade, Buffalo Wild Wings increased its footprint from 300 restaurants to more than 1,200—a growth curve that resembled the upward spiral of a perfectly thrown football pass. During that growth spurt, B-Dubs—as it is known to fans and employees alike—was one of the fastest-growing restaurant chains in the United States.

But even a perfectly thrown football pass can be bobbled. And that's what happened to Buffalo Wild Wings. As fast as it grew for the better part of a decade, sales growth flattened and even started dropping. Profits took an even bigger hit than sales. B-Dubs blamed the fall on everything from a growing trend in stay-at-home eating among millennials to a global price escalation for chicken wings. As one of few publicly traded restaurant chains, Buffalo Wild Wings felt mounting pressure to turn things around. With that, the chain's management had to find answers fast. What was it that made the chain so successful for so many years? And why was that formula no longer working?

Powering Growth

What was the secret sauce that first set Buffalo Wild Wings on fire? The chain realized that people go out to eat for more and stronger reasons than just to satisfy their hunger or their taste buds. So, from the start, Buffalo Wild Wings focused on crafting and delivering a holistic customer experience for a specific type of customer. "We realize that we're not just in the business of selling wings," said the company. "We're something much bigger. We're in the business of fueling the sports fan experience. Our mission is to WOW people every day!" That mission wasn't just talk. Every aspect of the brand's offering was designed to execute on that customer experience promise.

It all started in 1982 when Jim Disbow and Scott Lowery opened their first restaurant near The Ohio State University. Having just relocated from Buffalo, New York, the duo based the concept on a proprietary sauce they had developed when they found that no one in the Columbus, Ohio, area was serving authentic Buffalo wings. As their business thrived, the young entrepreneurs were eager to get to know their customers and give them what they wanted. And what customers wanted was to watch Ohio State football games on the restaurant's lone TV set.

With that epiphany, Buffalo Wild Wings adopted a singular focus—to be the kind of establishment that appeals to any fan

of any sport. With a customer-focused strategy in place and irresistible franchise fees, the company sprung up like a Michael Jordan jump shot. In fact, in 2003, Buffalo Wild Wings made a bold move by going public, joining a small number of standalone restaurant chains to be publicly traded.

Around that time, Buffalo Wild Wings embarked on a massive expansion plan based on a new restaurant design. An early adopter of flat-screen TVs, Buffalo Wild Wings designed its restaurants with dozens of the glowing rectangles, ensuring that every seat and table became the best seat in the house. Restaurant interiors screamed "stadium," with ample natural light, brightly colored furnishings and wall coverings, high-definition LED screens that were highly visible in a well-lit environment, and a large bar area segregated from the dining area. Whereas many restaurants are designed to "turn-and-burn"—to cycle as many guests as possible through each table—the environment at Buffalo Wild Wings invited people to linger longer and continue to enjoy the many food and beverage options.

And although Buffalo Wild Wings' success formula centered largely on non-menu elements of the restaurant experience, the chain never overlooked the menu. It ensured that there was no shortage of food and beverage options to keep customers coming back again and again, including 21 signature sauces and seasonings, all available on traditional and boneless wings. And each restaurant pours as many as 30 different draft beers, with a variety of domestic, import, and craft brands. No other chain boasts this level of variety.

When Life Gives You Lemons, Make Lemon Pepper Chicken Wings

In 2008, Buffalo Wild Wings got an unexpected boost to restaurant traffic. As the Great Recession hit, B-Dubs learned just how much customers valued its focus on fueling the sports fan experience. At a time when most casual dining chains saw revenues plummet, B-Dubs experienced just the opposite. "We had a lot of customers during the downturn who came to our restaurants because of the [high] cost of going to the game," says CEO Sally Smith. "We wanted to create an exciting environment for our customers where they could put in a customized wing order, have a beer, and enjoy the game just as much as if they had been there."

Over the following few years, folks progressively opted out of expensive cable packages in favor of more affordable subscription services such as Netflix and Hulu. This brought B-Dubs plenty of customers who no longer had the option of watching many sports events at home. Cementing its place as the next

best thing to being at the game, Buffalo Wild Wings featured every game it could, including live streaming of local college and even high school events.

But TV alone wasn't enough to fuel the fan experience. There isn't always a game that customers want to watch. So, Buffalo Wild Wings designed an environment bursting with energy that went beyond the action on the screen. That energy relied on engaging customers. Take the chain's infamous Blazin' Wing Challenge—a taunt that promises a trophy-style T-shirt and a place on the Wall of Fame to any customer who can down one dozen of the chain's hottest wings in no more than six minutes. That may sound easy, but the sauce is 60 times hotter than the typical jalapeño.

During the six-minute scarf session, challengers aren't allowed to eat or drink anything other than the wings (no dipping sauces), use napkins or utensils, or touch their faces. The sauce's warning label advises, "Keep away from eyes, pets, and children." Servers provide plenty of cautionary advice, even encouraging most people not to take the challenge. And prior to taking the plunge, challengers must sign a waiver that makes clear that they "voluntarily assume all risk of loss, damage, injury, illness, or death that may be sustained by [them] as a result." Each challenger is announced over the PA, and all activity is monitored by multiple employees—and usually a crowd of patrons.

As another way to keep customers engaged, Buffalo Wild Wings adopted a strategy of innovation, regularly developing new ways to enhance a customer's visit to a Buffalo Wild Wings. One example was an investment in tableside tablets. Available to any and every customer, the tablets served multiple functions, such as allowing guests to play poker or trivia games, even answering questions about teams playing in real time. Guests could keep the action on the tablets or broadcast their game on to one of the big screens. A social jukebox feature let guests pick the music that played on the restaurant's system. And tablets also enabled guests to place orders and pay their bills.

As Buffalo Wild Wings opened more and more restaurants, it remained focused on enhancing the customer experience. For example, a few years ago, B-Dubs created the Guest Experience Captain, a new position with the role of personalizing the guest experience and keeping guests engaged. Playing the role of a genuine host, the Guest Experience Captain moves from table to table, chatting with guests and making sure their every whim is met. If they want one TV on one game while the screen next to it is on another, it's done. If they need help with a tablet, the Captain lends a hand. Loaded with a full knowledge of everything in the restaurant, the Guest Experience Captain is not there to take food or drink orders, to run food to tables, or to clear dirty dishes (those tasks are covered by the regular servers, runners, and bus staff). However, the Captains do make suggestions and even bring out samples of different sauces with complementary fries for dipping.

What Goes Up . . .

Catering to the customer experience paid big dividends for Buffalo Wild Wings. For years, it seemed that everywhere a new Buffalo Wild Wings opened, customers showed up in droves. For the decade leading up to 2014, the wing joint's sales and profits experienced double-digit growth—some years ballooning by more than 30 percent. During that period, Buffalo Wild Wings' business quadrupled.

But in 2015, all that came to a screeching halt as profits and same-store revenue growth first flattened and then dropped.

When then-CEO Sally Smith was promoted to that position in 1996, the company had just 70 restaurants. While the amazing success of the company had all occurred under her leadership, cheers quickly turned to jeers. Investors and franchisees protested, demanding change. In a move eerily suggestive of the ousting of players and coaches in professional sports, Smith was ousted after only a few less-than-stellar seasons. At the same time, Buffalo Wild Wings returned to private ownership as a pillar of the Inspire Brands restaurant ownership group portfolio, along with Arby's and Sonic Drive-In.

The change provided a good opportunity for a fresh start. All was certainly not lost—Buffalo Wild Wings had a strong foundation. With a reputation for delivering superior value to customers through an engaging customer experience, the brand simply needed to reignite that formula in a way that worked in a marketing environment that had shifted.

After in-depth analysis, Buffalo Wild Wings management determined that the brand had lost its focus on the very things that had made the brand so special. "I think that if you look back when Buffalo Wild Wings was really, really, really successful, it was really the only one out there doing what it was doing," says Paul Brown, CEO of Inspire Brands. "We had a nationalized local sports bar, and then more competition has come in, and I think that some of that competition has been a little bit more innovative."

As competition from the general casual-dining industry intensified over the years, B-Dubs began to market itself less as a sports bar and more as a general casual-dining chain. By failing to emphasize what differentiated a visit to a Buffalo Wild Wings from a visit to any old casual-dining restaurant, it became lost in a "sea of sameness." And as more millennials entered the workforce but ate out less than previous generations, all restaurants found themselves competing for a shrinking market.

Under new management, Buffalo Wild Wings is developing a turnaround plan. Revealing few details as of yet, Brown makes clear that the plan will focus not on big changes to the B-Dubs market offering but on emphasizing what makes B-Dubs special. The chain is rolling out a new store design that retains the "stadium feel" with a fresh new look and a stronger orientation as a gathering space for groups small and large, reinforcing one of the brand's greatest strengths—a trip to Buffalo Wild Wings is a shared experience. Beyond that, it's "wait and see." "There will obviously be some changes to the menu, changes, to the experience, and changes to the marketing," says Brown. But stressing the importance of stressing what makes the brand different, Brown adds, "I think there's an opportunity to step way back and say 'It's not [just any old casual-dining restaurant]' and let it define its own category."³⁹

Questions for Discussion

- 1-16** Describe the Buffalo Wild Wings market offering based on the concepts of needs, wants, and demands, differentiating the three.
- 1-17** Discuss Buffalo Wild Wings' success and stagnation in terms of customer perceived value.
- 1-18** Which of the five marketing management orientations best applies to Buffalo Wild Wings?
- 1-19** Do you think Buffalo Wild Wings' turnaround plan will turn things around? Why or why not?