GARY ARMSTRONG • PHILIP KOTLER

MARKETING

AN INTRODUCTION

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Marketing

An Introduction

Fifteenth Edition

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To Kathy, Mandy, Matt, KC, Keri,
Delaney, Molly, Macy, and Ben; Nancy, Amy, Melissa, and Jessica

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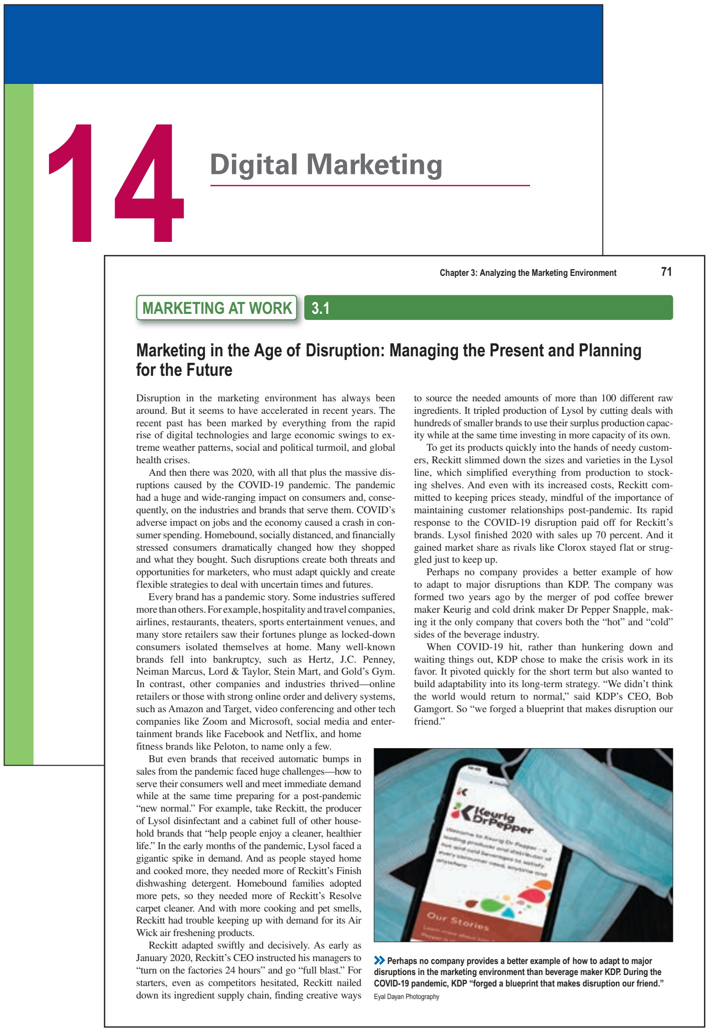
Preface

New to This Edition

All That's New: Marketing in the Age of Disruption

The fifteenth edition of *Marketing: An Introduction* reflects the major trends and shifting forces that impact marketing in this digital age of customer value, engagement, and relationships. Here are just some of the major new and continuing changes you'll find in this edition.

- *Customer engagement framework:* This fifteenth edition continues to build on its *customer engagement* framework—creating direct and continuous customer involvement in shaping brands, brand conversations, brand experiences, brand advocacy, and brand community. New coverage and fresh examples throughout the text address the latest customer engagement tools, practices, and developments.



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MARKETING AT WORK 3.1

Marketing in the Age of Disruption: Managing the Present and Planning for the Future

Disruption in the marketing environment has always been around. But it seems to have accelerated in recent years. The recent past has been marked by everything from the rapid rise of digital technologies and large economic swings to extreme weather patterns, social and political turmoil, and global health crises.

And then there was 2020, with all that plus the massive disruptions caused by the COVID-19 pandemic. The pandemic had a huge and wide-ranging impact on consumers and, consequently, on the industries and brands that serve them. COVID's adverse impact on jobs and the economy caused a crash in consumer spending. Homebound, socially distanced, and financially stressed consumers dramatically changed how they shopped and what they bought. Such disruptions create both threats and opportunities for marketers, who must adapt quickly and create flexible strategies to deal with uncertain times and futures.

Every brand has a pandemic story. Some industries suffered more than others. For example, hospitality and travel companies, airlines, restaurants, theaters, sports entertainment venues, and many store retailers saw their fortunes plunge as locked-down consumers isolated themselves at home. Many well-known brands fell into bankruptcy, such as Hertz, J.C. Penney, Neiman Marcus, Lord & Taylor, Stein Mart, and Gold's Gym. In contrast, other companies and industries thrived—online retailers or those with strong online order and delivery systems, such as Amazon and Target, video conferencing and other tech companies like Zoom and Microsoft, social media and entertainment brands like Facebook and Netflix, and home fitness brands like Peloton, to name only a few.

But even brands that received automatic bumps in sales from the pandemic faced huge challenges—how to serve their consumers well and meet immediate demand while at the same time preparing for a post-pandemic "new normal." For example, take Reckitt, the producer of Lysol disinfectant and a cabinet full of other household brands that "help people enjoy a cleaner, healthier life." In the early months of the pandemic, Lysol faced a gigantic spike in demand. And as people stayed home and cooked more, they needed more of Reckitt's Finish dishwashing detergent. Homebound families adopted more pets, so they needed more of Reckitt's Resolve carpet cleaner. And with more cooking and pet smells, Reckitt had trouble keeping up with demand for its Air Wick air freshening products.

Reckitt adapted swiftly and decisively. As early as January 2020, Reckitt's CEO instructed his managers to "turn on the factories 24 hours" and go "full blast." For starters, even as competitors hesitated, Reckitt nailed down its ingredient supply chain, finding creative ways to source the needed amounts of more than 100 different raw ingredients. It tripled production of Lysol by cutting deals with hundreds of smaller brands to use their surplus production capacity while at the same time investing in more capacity of its own.

To get its products quickly into the hands of needy customers, Reckitt slimmed down the sizes and varieties in the Lysol line, which simplified everything from production to stocking shelves. And even with its increased costs, Reckitt committed to keeping prices steady, mindful of the importance of maintaining customer relationships post-pandemic. Its rapid response to the COVID-19 disruption paid off for Reckitt's brands. Lysol finished 2020 with sales up 70 percent. And it gained market share as rivals like Clorox stayed flat or struggled just to keep up.

Perhaps no company provides a better example of how to adapt to major disruptions than KDP. The company was formed two years ago by the merger of pod coffee brewer maker Keurig and cold drink maker Dr Pepper Snapple, making it the only company that covers both the "hot" and "cold" sides of the beverage industry.

When COVID-19 hit, rather than hunkering down and waiting things out, KDP chose to make the crisis work in its favor. It pivoted quickly for the short term but also wanted to build adaptability into its long-term strategy. "We didn't think the world would return to normal," said KDP's CEO, Bob Gamgort. So "we forged a blueprint that makes disruption our friend."

Perhaps no company provides a better example of how to adapt to major disruptions in the marketing environment than beverage maker KDP. During the COVID-19 pandemic, KDP "forged a blueprint that makes disruption our friend."
Eyal Dayan Photography

- *Digital marketing:* In the fifteenth edition, the digital marketing chapter (Chapter 14) is retitled, heavily restructured, and much revised, with substantial new framing and content. Rather than treating digital marketing as a part of the promotion mix, the chapter is now a stand-alone digital marketing strategy chapter focusing on special considerations in preparing digital marketing campaigns. The recrafted chapter is organized around a four-step digital marketing process that involves understanding digital marketing, preparing for a digital marketing campaign, employing digital channels (online, social media, and mobile marketing) in an omni-channel strategy, and addressing public policy issues in digital marketing.

- *Marketing in the age of disruption:* Throughout the fifteenth edition, you'll find new coverage of how companies are dealing with recent major disruptions in the marketing environment. The recent past has been marked by everything from the rapid rise of digital technologies and large economic swings to extreme environmental patterns, social and political turmoil, and global health crises. For example, the digital age has caused a massive shift in what, how, and where consumers buy. Wide-ranging social, environmental, and political developments require a new approach to social responsibility, sustainability, and brand activism. The global COVID-19 pandemic had a huge and lasting impact on consumers and, consequently, on the industries and brands that serve them. Such disruptions create both threats and opportunities for marketers, who must adapt quickly and create flexible strategies that can deal with uncertain times and futures.

- *Marketing technology:* Keeping up with digital concepts, technologies, and practices is a top priority and major challenge for today's marketers. The fifteenth edition of *Marketing: An Introduction* provides thoroughly refreshed, up-to-date coverage of these explosive developments in every chapter—from digital, online, mobile, and social media engagement technologies in Chapters 1, 4, 12, and 14; to "big data," new marketing analytics, the Internet of Things, and artificial intelligence in Chapters 1, 3, 4, and 14; to the rapid rise of direct-to-consumer (DTC) marketing in Chapters 10, 11, and 14; to the massive shift to omni-channel and digital marketing in Chapters 11 and 14. The Chapter 1 section "The Digital Age: Online, Mobile, and Social Media Marketing" introduces the exciting developments in digital and social media marketing. Then a much-revised Chapter 14 on digital marketing digs more deeply into digital marketing strategy and the digital tools by which marketers engage consumers anywhere, anytime via their digital devices.

- *Fast-changing marketing trends and topics:* This edition adds fresh coverage of both traditional marketing areas and fast-changing topics such as digital, mobile, and social media marketing; customer engagement marketing; the customer journey; big data, artificial intelligence, and new marketing analytics; the major digital transformation in marketing research; omni-channel marketing and the massive shifts in today's retailing; direct-to-consumer marketing (DTC); real-time customer listening and marketing; marketing content creation and curation; B-to-B social media and social selling; online and dynamic pricing; sustainability and social responsibility; global marketing; and much more.

- *Content marketing and marketing communications:* The fifteenth edition continues to track fast-changing developments in marketing communications and the creation of brand content. Marketers no longer simply create advertising and integrated marketing communications programs; they join with customers and media to curate and share marketing content in paid, owned, earned, and shared media. You won't find fresher coverage of these important topics in any other marketing text.


First Stop

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, housewares, apparel, and groceries to loose diamonds, musical instruments, and Maine lobsters. And Amazon has rapidly moved beyond online selling, not just

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MARKETING AT WORK 1.2

Real-Time Marketing: Engaging Consumers in the Moment

A funny thing happened during Super Bowl XLVII in New Orleans. Early in the third quarter, the lights in the Mercedes-Benz Superdome suddenly went out. As 71,000 attendees and 106 million viewers restlessly bided their time and scratched their heads, engineers worked feverishly for a full 34 minutes to repair the power outage and bring the lights back on. But whereas the blackout was a disaster for Superdome management and CBS Sports, and an annoyance for players and fans, at least one marketer saw it as an opportunity. Shortly after the blackout began, Nabisco's Oreo brand tweeted out a simple message: "Power out? No problem. You can still dunk in the dark."

That clever one-liner made social media history. It resulted in a barrage of likes, shares, and media coverage, to the degree that Oreo was hailed as "The Brand That Won the Blackout Bowl." Moving forward, Oreo's "dunk in the dark" triggered a surge in real-time marketing by other brands. Marketers of all kinds began trying to create their own "Oreo moments" by aligning marketing content with real-world events and trending topics through timely tweets, videos, blog entries, and social media posts.

In the years since, efforts to reproduce Oreo's success with spontaneous one-off moments have become almost commonplace. But very few such quick-hitters have generated as much interest or response. In today's cluttered and constant digital environment, even the famous Oreo "Dunk in the dark" moment might have gone largely unnoticed.

For sure, real-time marketing is now bigger than ever. But today, as brands master the depths of digital and social media, real-time consumer interaction has become more than just quick hits and one-liners. Nowadays, real-time marketing success results from well-planned, equity-building campaigns and steady in-the-moment consumer engagements that make brands an authentic part of real-time consumer conversations. Real-time marketing has become a day-in, day-out, never-ending, unremitting process of interactive consumer relationship building. "It's more of a long game now than a lightning-in-a-bottle thing," says one digital marketing strategist. "Real-time marketing needs to be a built-in strategy all year round," says another.

Real-time marketing can be a powerful tool for moving customers through the buying process or to provide customer service and problem solving. For example, Walgreens messages an in-store customer with a promotion for a frequently purchased item in another part of the store. Or Southwest interacts in real time with passengers of a delayed or canceled flight to update their status and offer tailored alternatives depending on their ultimate destinations.

But real-time marketing can be used for simply building ongoing customer engagement, community, and personalized relationships. Take Wendy's, for example. The burger chain is well known for its edgy Twitter roasts calling out competitors and other posters, much to the delight of its 3.8 million Twitter fans. "We like our tweets the same way we like to make hamburgers: better than anyone expects from a fast-food joint," proclaims the chain. When one tweeter asked, "@Wendy's How much does a Big Mac cost?," Wendy's responded, "Your dignity." To another tweeter's question, "Why are your burgers square as opposed to being circular," Wendy's responded, "We don't cut corners." And when Planter's Mr. Peanut prompted Wendy's on National Roast Day with an "Alright, @Wendy's. Roast this nut!" tweet, Wendy's came back quickly with a tongue-in-cheek "Congratulations on being the worst part of trail mix."

Such real-time commentary keeps the Wendy's faithful coming back for more. "While marketers wanted to be Oreo in 2013, now they want to be Wendy's," says an analyst. "People tweet at Wendy's and everyone waits and watches with bated breath for what the burger brand will say back."

Like Wendy's, snack brand MoonPie is known for its skillful use of real-time social media to spark an ongoing dialog with

MoonPie

Every morning my boss reads this book to us which is weird because 1) it's morning and 2) I don't even think this is a real book

GOODNIGHT MOONPIE

Real-time marketing: Snack brand MoonPie is known for its skillful use of real-time social media marketing to create a fresh, relevant brand personality and spark ongoing real-time engagement with the brand's fans.

MoonPie

- *Global marketing and sustainable marketing:* The fifteenth edition's global marketing and sustainable marketing chapters (Chapters 15 and 16) have both been significantly restructured and revised, with new organizing frameworks, concepts, and examples.

New Real-World Brand Stories, Highlights, Cases, and In-Text Examples

The fifteenth edition of *Marketing: An Introduction* is loaded with new brand stories, highlight features, cases, in-text examples, and end-of-chapter exercises and features that illustrate brand strategies and contemporary marketing issues and let students apply what they've learned.

- *Chapter-opening stories, Marketing at Work highlights, and in-text examples:* The fifteenth edition brings marketing to life with new or heavily revised chapter-opening vignettes, boxed features that highlight relevant companies and marketing issues, and loads of new in-text examples throughout that illustrate contemporary marketing practice.

- *New company cases and end-of-chapter applications and exercises:* The fifteenth edition provides 16 new company cases by which students can apply what they learn to actual company situations. End-of-chapter discussion questions, critical thinking exercises, and other applications features are also new and revised.

Solving Teaching and Learning Challenges

Today's marketing is all about creating customer value and engagement in a fast-changing, increasingly digital and social marketplace. Marketing starts with understanding consumer needs and wants, determining which target markets the organization can serve best, and developing a compelling value proposition by which the organization can attract and grow valued consumers. Then, more than just making a sale, today's marketers want to engage customers and build deep customer relationships that make their brands a meaningful part of consumers' conversations and lives.

In this digital age, to go along with their tried-and-true traditional marketing methods, marketers have a dazzling set of new online, mobile, and social media tools for engaging customers anytime, anyplace to jointly shape brand conversations, experiences, advocacy, and community. If marketers do these things well, they will reap the rewards in terms of market share, profits, and customer equity. In the fifteenth edition of *Marketing: An Introduction*, students learn how customer value and customer engagement drive every good marketing strategy.

Six Major Customer Value and Engagement Themes

The fifteenth edition of *Marketing: An Introduction* builds on six major customer value and engagement themes:

1. ***Creating value* for *customers in order to capture value* from *customers in return*.** Today's marketers must be good at *creating customer value, engaging customers,* and *managing customer relationships*. In return, they capture value from customers in the form of sales, profits, and customer equity. This innovative *customer value and engagement framework* is introduced at the start of Chapter 1 in a unique five-step marketing process model (see Figure 1.1), which details how marketing *creates* customer value and *captures* value in return. The framework is carefully developed in the first two chapters and then fully integrated throughout the remainder of the text.

2. ***Customer engagement and today's digital and social media.*** Digital, mobile, and social media have dramatically changed how companies and brands engage consumers, and how consumers connect and influence each other's brand behaviors. The fifteenth edition thoroughly explores the exciting digital, mobile, and social media technologies that help brands to engage customers more deeply and interactively. It starts with two major Chapter 1 sections, "Customer Engagement and Today's Digital, Mobile, and Social Media" and "The Digital Age: Online, Mobile, and Social Media." A completely restructured and revised Chapter 14 on digital marketing summarizes the latest developments in digital marketing strategy and digital engagement tools. Chapters 11 and 14 discuss the massive shift toward digital and omni-channel buying and marketing. Everywhere in between, you'll

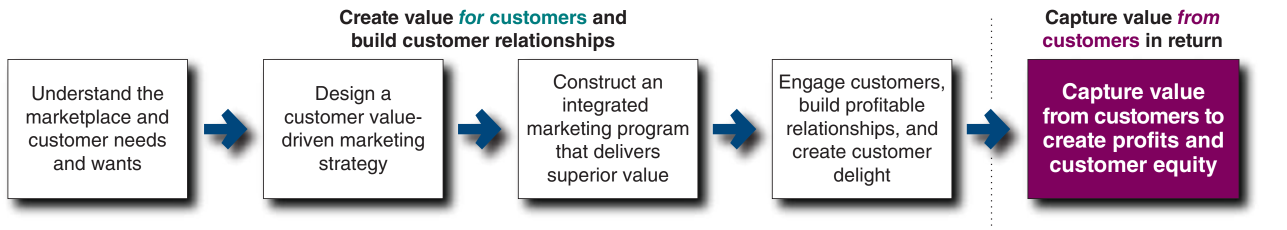
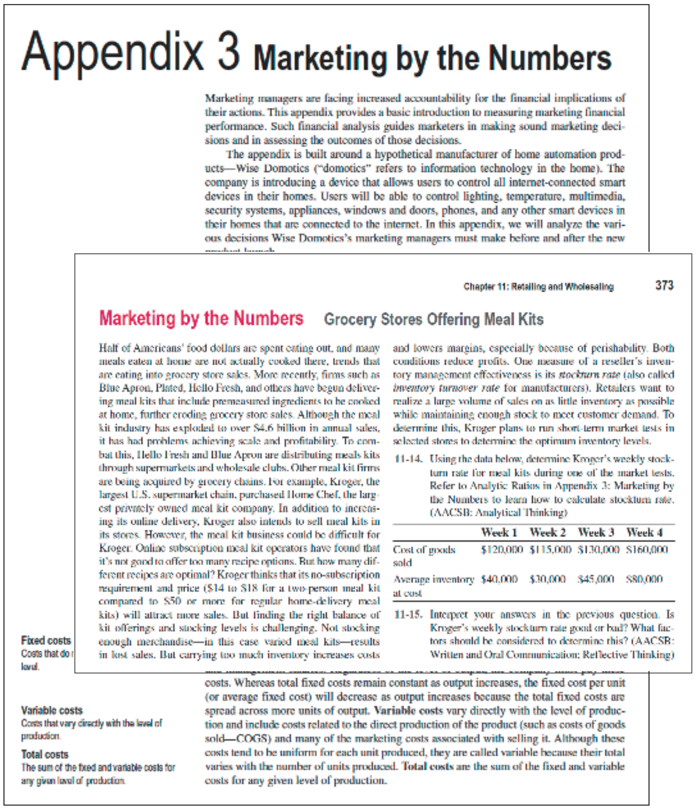


Figure 1.1 The Marketing Process: Creating and Capturing Customer Value



Appendix 3 Marketing by the Numbers

Marketing managers are facing increased accountability for the financial implications of their actions. This appendix provides a basic introduction to measuring marketing financial performance. Such financial analysis guides marketers in making sound marketing decisions and in assessing the outcomes of those decisions.

The appendix is built around a hypothetical manufacturer of home automation products—Wise Domotics ("domotics" refers to information technology in the home). The company is introducing a device that allows users to control all internet-connected smart devices in their homes. Users will be able to control lighting, temperature, multimedia, security systems, appliances, windows and doors, phones, and any other smart devices in their homes that are connected to the internet. In this appendix, we will analyze the various decisions Wise Domotics's marketing managers must make before and after the new

Chapter 11: Retailing and Wholesaling 373

Marketing by the Numbers Grocery Stores Offering Meal Kits

Half of Americans' food dollars are spent eating out, and many meals eaten at home are not actually cooked there, trends that are eating into grocery store sales. More recently, firms such as Blue Apron, Plated, Hello Fresh, and others have begun delivering meal kits that include premeasured ingredients to be cooked at home, further eroding grocery store sales. Although the meal kit industry has exploded to over $4.6 billion in annual sales, it has had problems achieving scale and profitability. To combat this, Hello Fresh and Blue Apron are distributing meals kits through supermarkets and wholesale clubs. Other meal kit firms are being acquired by grocery chains. For example, Kroger, the largest U.S. supermarket chain, purchased Home Chef, the largest privately owned meal kit company. In addition to increasing its online delivery, Kroger also intends to sell meal kits in its stores. However, the meal kit business could be difficult for Kroger. Online subscription meal kit operators have found that it's not good to offer too many recipe options. But how many different recipes are optimal? Kroger thinks that its no-subscription requirement and price ($14 to $18 for a two-person meal kit compared to $50 or more for regular home-delivery meal kits) will attract more sales. But finding the right balance of kit offerings and stocking levels is challenging. Not stocking enough merchandise—in this case varied meal kits—results in lost sales. But carrying too much inventory increases costs and lowers margins, especially because of perishability. Both conditions reduce profits. One measure of a reseller's inventory management effectiveness is its *stockturn rate* (also called *inventory turnover rate* for manufacturers). Retailers want to realize a large volume of sales on as little inventory as possible while maintaining enough stock to meet customer demand. To determine this, Kroger plans to run short-term market tests in selected stores to determine the optimum inventory levels.

11-14. Using the data below, determine Kroger's weekly stockturn rate for meal kits during one of the market tests. Refer to Analytic Ratios in Appendix 3: Marketing by the Numbers to learn how to calculate stockturn rate. (AACSB: Analytical Thinking)

	Week 1	Week 2	Week 3	Week 4
Cost of goods sold	$120,000	$115,000	$130,000	$160,000
Average inventory at cost	$40,000	$30,000	$45,000	$80,000

11-15. Interpret your answers in the previous question. Is Kroger's weekly stockturn rate good or bad? What factors should be considered to determine this? (AACSB: Written and Oral Communication; Reflective Thinking)

Fixed costs
Costs that do

Variable costs
Costs that vary directly with the level of production.

Total costs
The sum of the fixed and variable costs for any given level of production.

costs. Whereas total fixed costs remain constant as output increases, the fixed cost per unit (or average fixed cost) will decrease as output increases because the total fixed costs are spread across more units of output. **Variable costs** vary directly with the level of production and include costs related to the direct production of the product (such as costs of goods sold—COGS) and many of the marketing costs associated with selling it. Although these costs tend to be uniform for each unit produced, they are called variable because their total varies with the number of units produced. **Total costs** are the sum of the fixed and variable costs for any given level of production.

find revised and expanded coverage of the exploding use of digital and social marketing tools.

3. ***Building and managing strong, value-creating brands***. Well-positioned brands with strong brand equity provide the basis upon which to build customer value and profitable customer relationships. Today's marketers must position their brands powerfully and manage them well to create valued brand experiences. The fifteenth edition provides a deep focus on brands, anchored by a Chapter 7 section titled "Branding Strategy: Building Strong Brands."

4. ***Measuring and managing return on marketing***. Especially in uneven economic times and an uncertain marketing environment, marketing managers must ensure that their marketing dollars are being well spent. "Marketing accountability"—measuring and managing marketing return on investment—has now become an important part of strategic marketing decision making. This emphasis on marketing accountability is addressed in Chapter 2, in Appendix 3: Marketing by the Numbers, and throughout the fifteenth edition.

5. ***Sustainable marketing around the globe***. As technological developments make the world an increasingly smaller and more fragile place, marketers must be good at marketing their brands globally and in sustainable ways. New material throughout the fifteenth edition emphasizes the concepts of global marketing and sustainable marketing—meeting the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs. The fifteenth edition integrates global marketing and sustainability topics throughout the text. It then provides focused coverage on each topic in Chapters 15 and 16, respectively. Both chapters are substantially restructured and revised in this edition for clarity and currency.

6. ***Marketing in the age of disruption.*** Disruptions in the marketing environment have always been around. There will be a constant flow of future disruptions, and the "new normal" will always be elusive and evolving. Throughout the fifteenth edition, you'll find discussions and examples of how companies and brands are successfully meeting disruptive challenges—from the digital revolution and large economic swings, to new-age disruptive brands, to the aftermath of the global COVID-19 pandemic, to wide-ranging environmental, social, and political movements. As a basic tenet of marketing, to prosper in this age of disruption or even to survive, marketers must bend and adapt to fend off the threats and take advantage of the opportunities. They must learn to serve customers profitably in the face of constant change and uncertainty.

In-Text Teaching and Learning Features

Marketing: An Introduction provides a wealth of chapter-opening, within-chapter, and end-of-chapter learning features that help students to learn, link, and apply major concepts.

- ***Integrated chapter-opening preview sections.*** The active and integrative chapter-opening spread in each chapter starts with an *Objectives Outline* that provides a helpful preview of chapter contents and learning objectives. Next, a *Previewing the Concepts* section briefly previews chapter concepts, links them with previous chapter concepts, and introduces the chapter-opening story. Finally, a *chapter-opening vignette*—an engaging, deeply developed, illustrated, and annotated marketing story—introduces the chapter material and sparks student interest.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MINICASES AND APPLICATIONS

Digital Marketing Brand Support for Black Lives Matter

In May 2020, amid many protests over police killings of Black Americans, many brands post... for the Black community and for t... (BLM) movement. On June 2, 2020... pated in Black Out Tuesday, on wh... social media for the day and displa... show support for Black Lives Matt... policy changes countering systemic... justice system. Some of the nation's... from Starbucks, Netflix, Nordstro... Glossier, Ben & Jerry's, and the NFL... power to help build awareness and m... movement. Social media posts fro... higher-than-usual engagement. Use o... ter hashtag grew more than 250-fold...

One reason that many brands... take public stands on controversial... Black Lives Matter movement is its... millennial and Generation Z consu... horts important to brands' future g... people questioned whether brand co...

community would extend beyond the support shown in June

Marketing Ethics Ec...

Amazon recently introduced its E... which the company markets as a st... transaction-free smart speaker with... assistant Alexa. Designed for kids, ... controls that can limit activities an... do not want children to access. How... Campaign for Commercial-Free Chi... advocates against child-targeted m... that parents may rely on the Echo D... venience or assistance and not realiz... device.

For example, if children tell Al... Echo Dot will offer games or activiti... one of Amazon's brand partners. Thi... extent that children cannot differentia... from non-advertising messages. The E... ers information from children that it u... recommendations, which could influ...

Marketing by the Num...

As marketers focus on Generation Z... ing power, another generation shoul... aging baby boomers. The U.S. 65-an...

Appendix 1 Company Cases

Company Case 1

Buffalo Wild Wings: Fueling the Sports Fan Experience

With thousands of restaurants and chains in the United States, the casual dining market is a fiercely competitive environment. That's why it's especially notable when a brand hits a growth spurt even as most of the others struggle just to hang on. Buffalo Wild Wings—the number one seller of chicken wings and the largest pourer of draft beer—was one of those brands. In 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. 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 everyone knows that a perfectly thrown football cannot go up forever. Thus it was for Buffalo Wild Wings. As fast as it grew for the better part of a decade, sales growth flattened and even started declining. Profits took an even bigger hit than sales. B-Dubs blamed everything from a growing eat-at-home trend among millennials to a global price escalation for chicken wings. As one of few publicly traded restaurant chains, Buffalo Wild Wings faced mounting pressure to "fix things." Those at the helm of Buffalo Wild Wings had to figure things out quickly. What was it that has made the chain so successful for so many years? And why was that no longer working?

Powering Growth

What was the secret sauce that initially set this wing joint on fire? Many years ago, Buffalo Wild Wings figured out that satisfying hunger or even a craving for a particular flavor of food wasn't the only reasons people chose to dine out. So 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," the company stated during its prime. "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 lip service. Every aspect of the brand's offering was designed to execute on that promise.

It all started back in 1982 when Jim Disbow and Scott Lowery opened their first B-Dubs 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. It became immediately apparent that what the customers wanted was to watch Ohio State football games on the restaurant's lone TV set.

From that epiphany, Buffalo Wild Wings evolved into a chain with a singular focus—to be the kind of place that entices any fan of any sport. With a general 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 based on a new restaurant design. An early adopter of flat-screen TVs, Buffalo Wild Wings designed its restaurants to be filled with dozens of the gleaming rectangles, ensuring that every seat and table was the best seat in the house. The ambiance inside 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" in order 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 various food and beverage options.

And while Buffalo Wild Wings' formula for success was largely centered on the non-menu elements of the restaurant experience, it did not overlook the menu. With 21 signature sauces and seasonings, all available on traditional and boneless wings, the company ensured there was no shortage of options to keep customers coming back again and again. In the beer department, Buffalo Wild Wings offers as many as 30 different draft beers with a variety of domestic, import, and craft brands. Because draft beers have to achieve a certain level of turnover to ensure freshness, no other chain boasts this much 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, it became apparent just how much value customers saw in Buffalo Wild Wings' focus on fueling the sports fan experience. As most casual dining chains saw revenues plummet, B-Dubs experienced 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." In the years following, folks progressively opted out of expensive cable packages in lieu of more affordable subscription services like Netflix and Hulu. This brought in plenty of clients

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- ***Author comments and figure annotations.*** Throughout each chapter, author comments ease and enhance student learning by introducing and explaining major chapter sections and figures.

- ***Reviewing and extending the concepts.*** Sections at the end of each chapter summarize key chapter concepts and provide questions and exercises by which students can review and apply what they've learned. The *Objectives Review and Key Terms* section reviews major chapter concepts and links them to chapter objectives. It also provides a helpful listing of chapter key terms by order of appearance to facilitate easy reference. A *Discussion and Critical Thinking* section provides discussion questions and critical thinking exercises that help students to keep track of and apply what they've learned in the chapter.

- ***Minicases and Applications.*** Sections at the end of each chapter provide brief *Digital Marketing*, *Marketing Ethics*, and *Marketing by the Numbers* applications cases that facilitate discussion of current issues and company situations in areas such as mobile and social marketing, ethics, and financial marketing analysis. An end-of-chapter *Company Cases* section identifies which of the company cases found in Appendix 1 are best for use with each chapter.

Developing Employability Skills

- ***Marketing at Work features.*** Each chapter contains a chapter-opening story and two deeply developed *Marketing at Work* highlight features that provide in-depth looks at real brand marketing strategies and contemporary marketing issues. For example, students learn how Amazon's deep-down passion for creating customer value, engagement, and relationships earns customer buying dollars and loyalty in return; why Peloton's products fly off the shelves despite their premium prices; and how brands like Wendy's, Denny's, Burger King, and Moon Pie harness real-time marketing's power to engage customers in the moment. They see how Instagram has made itself a win-win for the company, advertisers, and Instagrammers alike; what makes LinkedIn the place to be for B-to-B marketers; why omni-channel retailer Best Buy is thriving in the age of Amazon; and how upstart brands like Harry's and Casper Mattress awakened their slumbering industries through direct-to-consumer marketing. They learn that artificial intelligence in marketing is now "a bigger deal than fire and electricity" and how brands ranging from Walmart and Target to beverage maker Keurig Dr Pepper have learned to deal with marketing in this age of disruption. No other text brings marketing to life like the fifteenth edition of *Marketing: An Introduction*.

- ***Company Cases.*** Appendix 1 contains 16 all-new company cases that help students to apply major marketing concepts and critical thinking to real company and brand situations.

- ***Marketing Plan appendix.*** Appendix 2 contains a detailed sample marketing plan that helps students to apply important marketing planning concepts.

- ***Marketing by the Numbers appendix.*** An innovative Appendix 3 provides students with a comprehensive introduction to the marketing financial analysis that helps guide, assess, and support marketing decisions. A new or revised exercise at the end of each text chapter lets students apply analytical and financial thinking to that chapter's concepts and links the chapter to the Marketing by the Numbers appendix.

- ***Careers in Marketing.*** A newly revised Appendix 4 helps students to explore marketing career paths and lays out a process for landing a marketing job that best matches their special skills and interests.

Instructor Teaching Resources

The fifteenth edition of *Marketing: An Introduction* comes with the following resources:

- Instructor's Manual
- Test Bank
- Computerized TestGen
- PowerPoints

For more information and resources, please visit www.pearson.com

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Gary Armstrong
Philip Kotler

About the Authors

As a team, Gary Armstrong and Philip Kotler provide a blend of skills uniquely suited to writing an introductory marketing text. Professor Armstrong is an award-winning teacher of undergraduate business students. Professor Kotler is one of the world's leading authorities on marketing. Together, they make the complex world of marketing practical, approachable, and enjoyable.

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But Professor Armstrong's first love has always been teaching. His long-held Blackwell Distinguished Professorship is the only permanent endowed professorship for distinguished undergraduate teaching at the University of North Carolina at Chapel Hill. He has been very active in the teaching and administration of Kenan-Flagler's undergraduate program. His administrative posts have included Chair of Marketing, Associate Director of the Undergraduate Business Program, Director of the Business Honors Program, and many others. Through the years, he has worked closely with business student groups and has received several UNC campuswide and Business School teaching awards. He is the only repeat recipient of the school's highly regarded Award for Excellence in Undergraduate Teaching, which he received three times. Most recently, Professor Armstrong received the UNC Board of Governors Award for Excellence in Teaching, the highest teaching honor bestowed by the 16-campus University of North Carolina system.

PHILIP KOTLER is Professor Emeritus of Marketing at the Kellogg School of Management, Northwestern University. He received his master's degree at the University of Chicago and his Ph.D. at M.I.T., both in economics. Dr. Kotler is the co-author of *Marketing Management* (Pearson), now in its sixteenth edition and the most widely used marketing textbook in graduate schools of business worldwide. He has authored more than 60 other successful books and has published more than 150 articles in leading journals. He is the only three-time winner of the coveted Alpha Kappa Psi award for the best annual article in the Journal of Marketing.

Professor Kotler was named the first recipient of four major awards: the Distinguished Marketing Educator of the Year Award and the William L. Wilkie "Marketing for a Better World" Award, both given by the American Marketing Association; the Philip Kotler Award for Excellence in Health Care Marketing presented by the Academy for Health Care Services Marketing; and the Sheth Foundation Medal for Exceptional Contribution to Marketing Scholarship and Practice. He is a charter member of the Marketing Hall of Fame, was voted the first Leader in Marketing Thought by the American Marketing Association, and was named the Founder of Modern Marketing Management in the Handbook of Management Thinking. His numerous other major honors include the Sales and Marketing Executives International Marketing Educator of the Year Award; the European Association of Marketing Consultants and Trainers Marketing Excellence Award; the Charles Coolidge Parlin Marketing Research Award; and the Paul D. Converse Award, given by the American Marketing Association to honor "outstanding contributions to science in marketing." A recent *Forbes* survey ranks Professor Kotler in the top 10 of the world's most influential business thinkers. And in a recent *Financial Times* poll of 1,000 senior executives across the world, Professor Kotler was ranked as the fourth "most influential business writer/guru" of the twenty-first century. He is considered by many to be the "father of modern marketing."

Dr. Kotler has served as chairman of the College on Marketing of the Institute of Management Sciences, a director of the American Marketing Association, and a trustee of the Marketing Science Institute. He has consulted with many major U.S. and international companies in the areas of marketing strategy and planning, marketing organization, and international marketing. He has traveled and lectured extensively throughout Europe, Asia, and South America, advising companies and governments about global marketing practices and opportunities.

1 Marketing

Creating Customer Value and Engagement

Objectives Outline

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

Previewing the Concepts

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 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 online 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.

First Stop

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, housewares, apparel, and groceries to 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 best represents where the world is now headed, it's probably Amazon.

From the start, Amazon has grown explosively. During just the past three years, Amazon's revenues have more than doubled to $386 billion, an average of $283,000 every minute of every day. The e-commerce giant now pulls in 45 percent of all U.S. online sales and is the nation's second-largest company by revenues, trailing only Walmart. And as unthinkable as it might seem, at its current growth rate, Amazon could overtake even mighty Walmart in as little as two years.

What has made Amazon such an amazing success story? Founder and executive chair 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 does much more than just sell goods online. It engages customers and creates satisfying customer experiences. "The thing that drives everything is creating genuine value for customers," says Amazon founder Jeff Bezos.

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.

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

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 fifteen years ago, free 48-hour shipping was unheard of; now, it's standard across the industry. So Amazon is working to bring its free Prime shipping down to 24-hours. If that's not fast enough for you, there's Amazon Prime Now—delivery within two hours or less. "It's cheap, easy, and outrageously 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 UPS and the U.S. Postal Service. By one estimate, Amazon currently delivers two-thirds of its own packages. The company is also actively exploring more futuristic options, such as delivery drones, robots, and driverless vehicles.

As Walmart and other store retailers are increasingly invading Amazon's digital domain, the online retailer is also invading their brick-and-mortar worlds. It knows that a complete customer relationship will require merging online and offline selling into the seamless omni-channel shopping experience that today's consumers expect. For example, Amazon's purchase of upscale grocery chain Whole Foods Market gave it a leap forward in grocery retailing and also provided a physical store platform for the selling and more speedy delivery of other kinds of goods.

Amazon is expanding its physical store presence further with store concepts such as Amazon Books (books), Amazon 4-Star (selections of top-rated or trending items), Amazon Fresh (assortments of fresh and prepared foods), Amazon Go convenience and grocery stores (automated self-checkout), and Amazon Pop Up (temporary stores). In addition to selling products, these stores serve as pickup and return locations for online purchases. And to make returns easier yet, customers can simply drop returns off at their nearest Kohl's or UPS Store. That's it. Store employees will pack, label, and ship them back for free.

So what sweeping new customer-pleasing changes can you expect from Amazon in the future? 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 disruptions, 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.

What Is Marketing?

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

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 2.7 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.

Marketing is all around you, in good-old traditional forms and in a host of newer forms, from websites and mobile apps to online videos and social media.

Cathy Yeulet/123RF

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. And in recent years, marketers have assembled a host of newer 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 marketers engage consumers effectively, understands their needs, develops products that provide superior customer value, and price, distribute, and promote 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, 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.

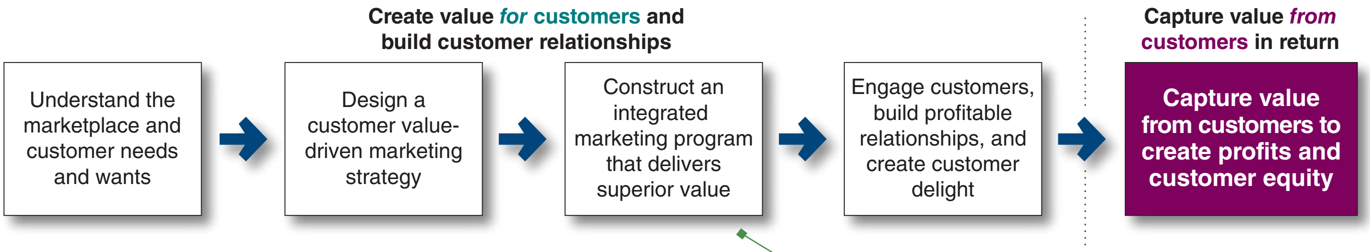


Figure 1.1 The Marketing Process: Creating and Capturing Customer Value

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.

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

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.

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 may want roast turkey with all the fixings, followed by pumpkin pie. A person in Papua, New Guinea, needs food but may want taro, rice, yams, and pork, followed by banana cake with chocolate-coconut sauce. 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 executive chair Jeff Bezos had a customer-facing email address that helped him identify customer concerns. “I see most of those emails,” said 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, making sure they live up to the company’s lofty vision. Such personal visits help the pair to shape new customer solutions based on real user experience. And Starbucks chief executive Kevin Johnson regularly spends time in his local Starbucks, working the counter, brewing coffee, handing out orders, wiping tables, and chatting with customers. Johnson wants

Staying close to customers: Airbnb’s CEO Brian Chesky (left) and co-founder Joe Gebbia (center) regularly stay at the company’s host locations, helping them shape new customer solutions based on real user experiences.

Jim Wilson/The New York Times/Redux

to be certain that he understands "what it means to be human in a digital age and what that means for the future of Starbucks."[5]

Market Offerings—Products, Services, and Experiences

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

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

More broadly, market offerings also include other entities, such as persons, places, organizations, information, ideas, and causes. For example, The Ad Council runs campaigns promoting a wide range of ideas and causes. Its "Love Has No Labels" campaign markets a movement to promote diversity, equity, and inclusion of all people across race, religion, gender, sexual orientation, age, and ability. Ads include warm and striking images of diverse individuals embracing one another, with headlines such as "Love has no race," "Love has no sexuality," And "Love has no religion." » And the Ad Council's "Texting and Driving Prevention" campaign points out that even though 94 percent of Americans recognize it's dangerous to send a text while driving, and 91 percent recognize it's dangerous to read one, many people still do it. The campaign addresses the disconnect between awareness and behavior by reminding drivers from 16 to 34 that no one is special enough to message while driving. "Text and whatever," it tells them. "Just don't text and drive."[6]

» **Market offerings do not have to be physical products. The Ad Council's "Texting and Driving Prevention" campaign addresses the disconnect between awareness and behavior by reminding drivers from 16 to 34 that no one is special enough to message while driving.**

"Text and Whatever." Pereira O'Dell for the National Highway Traffic Safety Administration and Ad Council's Texting and Driving Prevention campaign.

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

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

Smart marketers look beyond the attributes of the products and services they sell. By orchestrating several services and products, they create brand experiences for consumers. For example, 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 Marketing at Work 1.1). Similarly, 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 featherweight 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. Apple's 510 retail stores in 25 countries attract more than 1 million customers daily and generate the highest sales per square foot of any U.S. retailer.

MARKETING AT WORK 1.1

The Walt Disney World Resort: Making Magical Moments

Each year, up to 58 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, Guardians of the Galaxy: Cosmic Rewind, Tron Lightcycle Power Run, 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

Marketing experiences: You don't just visit Walt Disney World Resort; you immerse yourself in a carefully choreographed experience—a world where dreams come true and things still work the way they should.

Sunshine/Alamy Stock Photo

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 can download a MyMagic+ app to their smartphone, giving them digital room keys, park passes, and payment methods. Combined with the cloud-based MyMagic+ system, the app also lets cast members identify guests individually, greeting them by name and even recognizing celebratory occasions such as birthdays, anniversaries, or reunions.

The MyMagic+ system lets 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 app as well. MyMagic+ 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]

Customer Value and Satisfaction

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

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

Exchanges and Relationships

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

Marketing occurs when people decide to satisfy 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.

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

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

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

Marketing means managing markets to bring about profitable customer relationships. However, creating these relationships takes work. Sellers must search for 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.

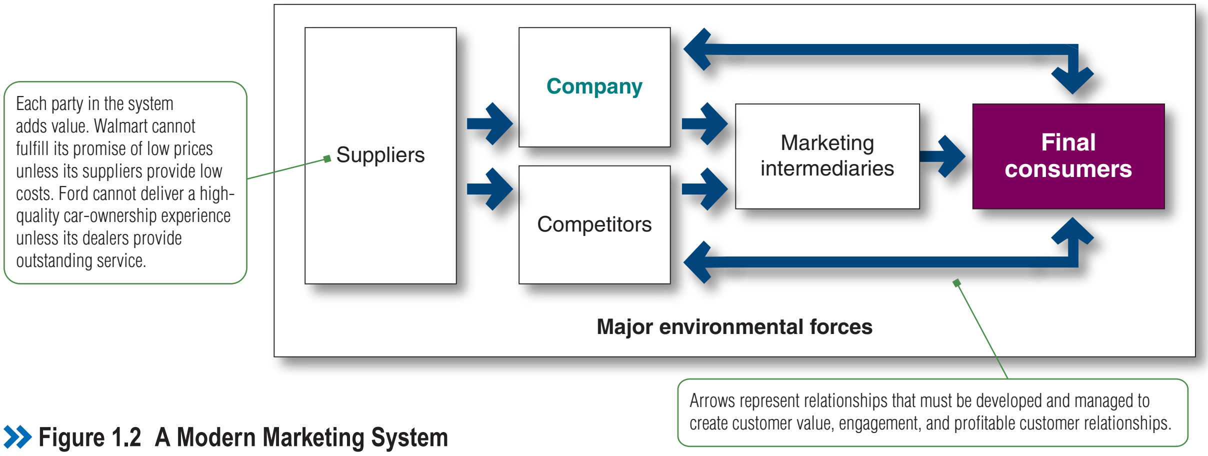


Figure 1.2 A Modern Marketing System

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

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

Once it fully understands consumers and the marketplace, marketing management can design a customer 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: 1) What customers will we serve? (What's our target market?) and 2) How can we serve these customers best? (What's our value proposition?) We will discuss these marketing strategy concepts briefly here and then look at them in more detail in Chapters 2 and 6.

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 "award-winning service from award-winningly nice humans," proclaiming that "Just Alright Doesn't Fly Here." By contrast, Spirit Airlines gives you "Bare Fare" pricing: "Less Money. More Go." » Video streaming service Hulu aims to "empower everyone to discover, share, and celebrate the stories that connect us." Netflix wants simply to let you "See What's Next." And online accommodations site Airbnb helps people to "Belong Anywhere"—to live like a local wherever they travel. Competitor Vrbo makes travel more of a family affair. It's "where families travel better together."

» **Value propositions: Video streaming service Hulu aims to "empower everyone to discover, share, and celebrate the stories that connect us."**

oasisamuel/Shutterstock.

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. 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.

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.

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.

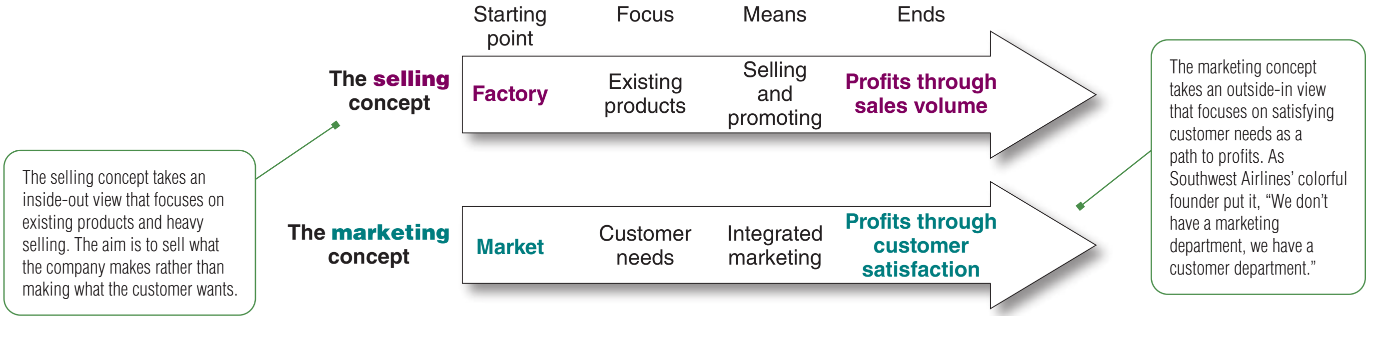
Such aggressive selling, however, carries high risks. It focuses on creating sales transactions rather than on building long-term, profitable customer relationships. The aim often is to sell what the company makes rather than to make what the market wants. It assumes that customers who are coaxed into 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.

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 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



» **Figure 1.3 Selling and Marketing Concepts Contrasted** 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 smartphones, 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 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]

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

The Societal Marketing Concept. 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, GE, IBM, Johnson & Johnson, Nestlé, 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 consumer goods giant Nestlé puts it, "creating shared value is about sustainably delivering on shareholder expectations while helping to address global societal challenges. We believe that if we want to be successful in the long term, we must create value for our shareholders and society while also protecting the planet."[12]

As the text example shows, Jeni's Splendid Ice Creams knows that doing good can benefit both the community and the company. It thrives by "making better ice creams and bringing people together."

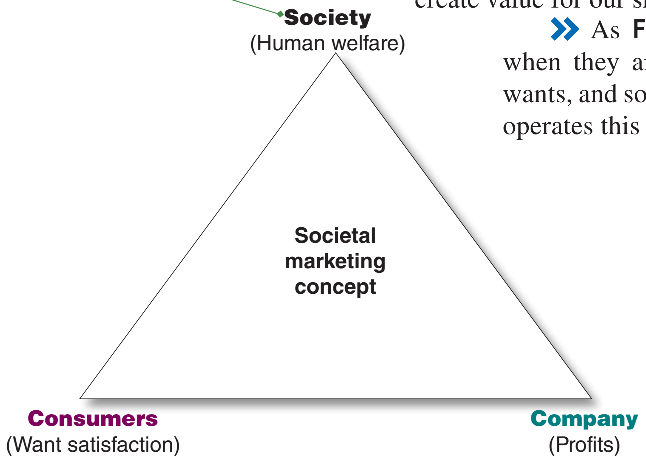
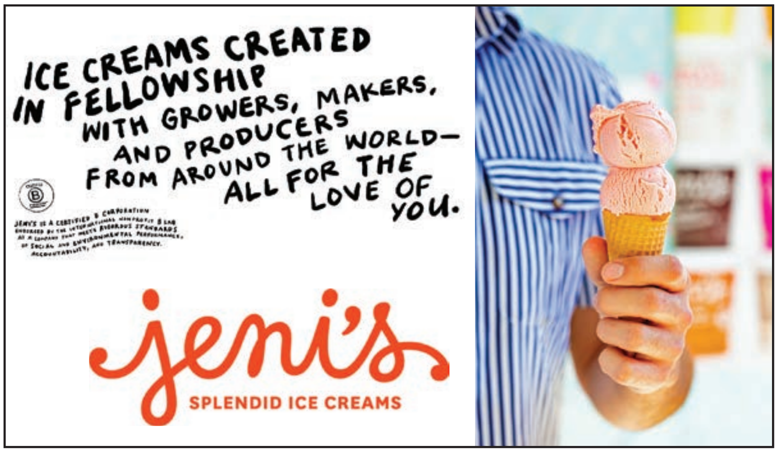


Figure 1.4 Three Considerations Underlying the Societal Marketing Concept

As **Figure 1.4** shows, companies should balance three considerations when they are setting their marketing strategies: company profits, consumer wants, and society's interests. Small but fast-growing Jeni's Splendid Ice Creams operates this way:[13]

> 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 herbs and wildflower honey from nearby farms, along with fair-trade



The societal marketing concept: Jeni's Splendid Ice Cream does more than just make good ice cream. It makes "ice creams created in fellowship with growers, makers, and producers from around the world all for the love of you."

Jeni's Splendid Ice Creams, LLC

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 less than 20 years, the business has grown from a pint-sized local operation to more than 50 scoop shops in 14 cities, all with devoted followings. You'll also find Jeni's in more than 3,000 grocery stores, suggesting that doing good can benefit both the community and the company.

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.

LINKING THE CONCEPTS

Stop here for a moment and stretch your mind. What have you learned so far about marketing? Set aside the more formal definitions we've examined and try to develop your own understanding of marketing.

- In *your own words*, what *is* marketing? Write down *your* definition. Does your definition include such key concepts as customer value, engagement, and relationships?
- What does marketing *mean* to you? How does it affect your daily life?
- What brand of athletic shoes did you purchase last? Describe your relationship with Nike, adidas, New Balance, Under Armour, Asics, Reebok, Converse, or whatever brand of shoes you purchased.

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

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.

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

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

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 \$1,000,000 or more. But to those who own one, a Patek is a great value:[14]

» **Perceived value: Some owners consider a Patek Philippe watch a real bargain, even at prices ranging from \$20,000 to \$1,000,000 or more. "You never actually own a Patek Philippe. You merely look after it for the next generation."**

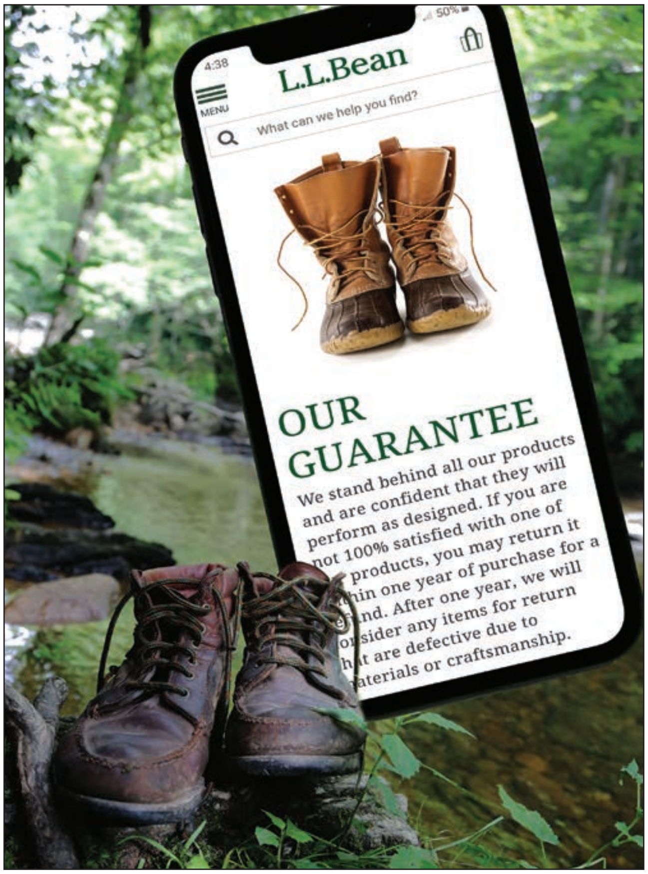
Patek Philippe Geneva

> Listen up here because I'm about to tell you why a certain watch costing \$20,000 or even \$1,000,000 isn't actually expensive but is in fact a tremendous value. Every Patek Philippe watch is handmade by Swiss watchmakers from the finest materials. The standard Patek Philippe watch takes up to three years to plan and nine months to produce. More complex models often take two years to produce. "Every single component of every single watch is made by Patek Philippe and hand-finished by Patek Philippe," notes one observer. "Every. Single. Component. So, before it leaves Switzerland, roughly 1,000 people will have contributed to the production of each timepiece." 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 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 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.[15]



Customer satisfaction: Customer service champion L.L.Bean was founded on a philosophy of complete customer satisfaction. "If you are not 100% satisfied with one of our products, you may return it within one year of purchase for a refund."

Eyal Dayan Photography

> Year after year, L.L.Bean lands in the top 10 of virtually every list of top service companies" 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, Wegmans, Chick-fil-A, Nordstrom department stores, and JetBlue Airways. However, a company doesn't 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.[16]

» Relationship marketing tools: As an Uber Rewards member, the more you use Uber, the more you benefit, with perks such as locked-in pricing, priority airport pickups, access to highly rated drivers, and complimentary upgrades at no extra cost.

Uber

Significant changes have occurred in the nature of customer-brand relationships in recent years. Today's digital technologies—the internet and the surge in online, mobile, and social media—have profoundly changed the ways that people on the planet 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 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, TikTok, 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.

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.

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.

Customer brand advocacy
Actions 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, 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, TikTok, 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:[17]

Engaging customers: 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."

@ChangoTheHandsomePittie

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 over 1 million subscribers to its delivery service and almost 5 million fans on Facebook and Instagram. One 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 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
Brand exchanges created by consumers themselves—both invited and uninvited—by which consumers are playing an increasing role in shaping their own brand experiences and those of other consumers.

Consumer-Generated Marketing

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 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.[18]

Other companies invite consumers to play a role in shaping ads and social media content. For example, the Heinz #MakingArtWithHeinz campaign invited Brazilian consumers to create the “wildest burger of their dreams” using a burger template on Instagram. Heinz then selected the best designs and asked chefs from its restaurants to actually create them and send them the creators’ homes. The winning consumer and chef creations were featured in videos posted on social media. Heinz followed up with a “Draw Ketchup” campaign in which it asked consumers across five continents to participate in an anonymous “social experiment” and simply “draw ketchup.” Although it never identified the Heinz brand, all participants drew bottles of Heinz ketchup except two—one drew mustard; another drew only a red blob. “Whether it was the glass bottle, the logo with a tomato, or simply just Heinz scrawled across the bottle, it was pretty amazing to see,” says a Heinz marketer. Many of the sketchers and their sketches—both good and poor—were featured in an online video and on digital billboards. Heinz also invited other consumers to add their own drawings online, with a chance to win a custom-designed Heinz bottle with their label on it.[19]

Consumer-generated content: Heinz invited people across five continents to “draw ketchup.” Most drew Heinz. Many of the sketchers and their sketches—both good and poor—were featured in an online video and on digital billboards.

The Kraft Heinz Company

As it did with most things digital, the COVID-19 pandemic lockdown boosted the use of consumer-generated content, as brands sought new ways to connect with isolated consumers. For example, reflecting the fact that people could no longer gather and watch their favorite teams in public places, Buffalo Wild Wings created an uplifting “Sports Live On” ad—using purely consumer-generated content—showing real people creating made-up sports in their homes. Facebook’s “We’re Never Lost if We Can Find Each Other” campaign used footage from real people showing how they were staying connected during the pandemic. And McDonald’s spotlighted customer reactions to its long-awaited reopening with footage from real-life fans.[20]

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.[21]

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 or risk being left behind.

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.

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

Capturing Value from 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, engages them, and builds strong relationships with them. If it does that well, it can capture value from customers in return, in the form of loyal customers who buy and advocate for the company's brands.

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. Companies with highly loyal customer bases grow faster and deliver two to five times the shareholder returns. Research also shows that it's five times cheaper to keep an old 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**:[22]

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

> 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

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

Courtesy of Stew Leonard's

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.[23] In fact, a company can lose money on a specific transaction but still benefit greatly from a long-term relationship. This means that companies must aim high in building customer relationships. Customer delight creates an emotional relationship with a brand, not just a rational preference. And that relationship keeps customers coming back.

Growing Share of Customer

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

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

To increase share of customer, firms can offer greater variety to current customers. Or they can create programs to cross-sell and up-sell to market more products and services to existing customers. For example, Amazon is highly skilled at leveraging relationships with its hundreds of millions of customers worldwide to increase its share of each customer's spending budget:[24]

> 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 ingenious 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." Amazon's 150 million Prime customers spend, on average, 2.3 times more annually than non-Prime customers. And that's just online. To dig even deeper into customers' wallets, Amazon is now expanding rapidly to 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 keep them for life, earn a greater share of their purchases, and capture their customer lifetime value.

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.[25] **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:[26]

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 has struggled to make the Caddy cool again with edgier, high-performance designs that position it more effectively against the likes of BMW and Audi with a younger generation of consumers. It is focusing on high-design luxury SUVs and crossovers, and GM 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.

Managing customer equity: To increase customer equity, Cadillac is making the classic car cool again among younger buyers. For example, says GM, "Cadillac will lead the company to an all-electric future."

General Motors

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.[27] 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.

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

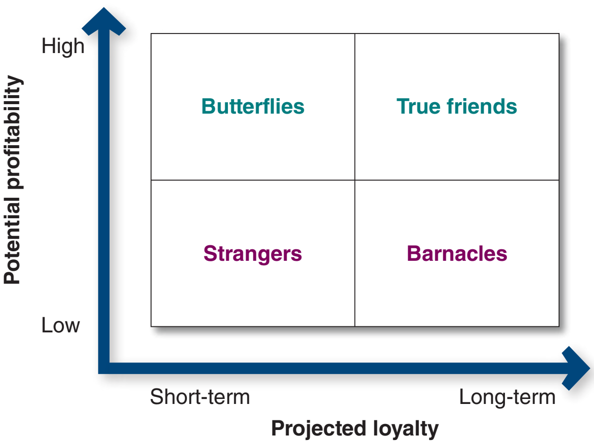


Figure 1.5 Customer Relationship Groups

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 tracks and scores individual customer returns behavior. The system is designed to identify the small percentage of shoppers whose behavior suggests returns abuse or fraud. 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 Best Buy executive.[28]

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.

LINKING THE CONCEPTS

We've covered a lot of ground. Again, pause for a moment and develop *your own* thoughts about marketing.

- In *your own words*, what *is* marketing, and what does it seek to accomplish?
- How well does Amazon manage its relationships with customers? What customer relationship management strategy does it use? What relationship management strategy does Walmart use?
- Think of a company for which you are a "true friend." What strategy does this company use to manage its relationship with you?

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.

Change has always shaped the marketing world. But change seems to have been accelerated in recent years by several major disruptions, ranging from the rapid rise of digital technologies and a number of culture-changing social movements to economic crises such as the Great Recession of 2008–2009, major environmental events, and the COVID-19 pandemic. Marketing in the age of disruption requires new thinking, strategies, and tactics. We will discuss the changing marketing environment in detail in Chapter 3.

In this section, we examine four major developments that are changing the marketing landscape and challenging marketing strategy: 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

Internet of Things (IoT)
A global environment where everything and everyone is digitally connected to everything and everyone else.

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. Almost 5 billion people—63 percent of the world's population—are now online; over 80 percent of all American adults own smartphones. These numbers will only grow as digital technology rockets into the future.[29]

Most consumers are totally smitten with all things digital. For example, according to one study, 66 percent of Americans keep their mobile phone next to them when they sleep, and 64 percent have texted someone who's in the same room with them. 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.[30]

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-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.

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.

The COVID-19 pandemic greatly hastened the shift to digital in almost every area of human activity, including marketing-related activities. For example, the pandemic accelerated the shift to online shopping by an estimated 5 to 10 years. Before the pandemic, e-commerce sales were expected to account of 15 percent of all U.S. sales in 2020. But only three months into the pandemic, 25 percent of all sales were moving through online channels. Similarly, to reach consumers who were often sheltering at home, marketers quickened their shift from in-store and in-person connections to digital-first consumer engagement strategies, boosting their use of online, mobile, social media, and other digital platforms to connect their brands with consumers.[31]

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 than 1.1 million of the brand's enthusiasts. It's a place where Fitbit fans can share inspiration, updates, and milestones with fellow users; 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."[32]

» **Online brand communities: Sephora's Beauty Insider Community 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.**

Manuel Esteban/Shutterstock; Eyal Dayan Photography

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, TikTok, 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 2.8 *billion* active monthly users, Instagram and TikTok have more than 1 billion, Twitter more than 330 million, and Snapchat 46 million. Reddit, the online social news community, has 1.7 million monthly users. But smaller, more focused social media sites are also thriving, such as CafeMom, which reaches 25 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.[33]

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. They provide and ideal platform for consumer engagement and building brand personality and community (see Marketing at Work 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 has 48 million followers on Facebook, 2 million on Twitter, 14 million on Instagram, and 5.2 million on TikTok. 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."[34]

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 the nearest Starbucks and learning about new products to placing and paying for orders. In turn, Starbucks uses the data collected by the app about customer preferences and purchasing behaviors to craft personalized offers and discounts to individual customers. Nearly two-thirds of Starbucks customers use the mobile app.[35]

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 50 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 about two-thirds of all digital ad spending.[36]

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."[37]

> 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."