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CHAPTER 1
MARKETING: CREATING CUSTOMER VALUE AND ENGAGEMENT

Objectives Outline

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

Previewing the Concepts

Marketing is managing profitable customer relationships.

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

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

ANNOTATED CHAPTER NOTES/OUTLINE

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. Amazon is rapidly moving beyond online selling, not just into physical stores but also into video and music streaming, cloud services, and the Internet of Things. If one company represents where the world is now headed, it's probably Amazon.

Amazon makes each customer's shopping experience unique to them. Using the latest technologies, including AI, Amazon offers the conveniences of 1-Click ordering and Alexa. They also offer easy returns through partnerships with businesses such as Kohl's, UPS, and their own Whole Foods stores. In an effort to provide a more seamless experience for its customers, Amazon has experimented with other physical formats—Amazon Fresh and Amazon Go. These customers conveniences come at an expense to Amazon.

To better manage and control these expenses, Amazon uses its physical stores as platforms for the pickup, delivery, and return of other goods. They also use their own fleet of delivery vehicles enabling it to out-deliver UPS and FedEx. While this enhances the customer's omnichannel experience, it helps Amazon establish a corporate vertical marketing system (VMS). (This is explored more in Chapter 10.)

WHAT IS MARKETING?

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

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

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

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

Marketing Defined

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

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

We define **marketing** as a social and managerial process by which individuals and organizations obtain what they need and want through creating and exchanging value with others.

Use **Chapter Objective 1** here. Use **Key Term** *Marketing* here.

The Marketing Process

Figure 1.1 shows the five-step marketing process.

1. Understand the marketplace and customer needs and wants.
2. Design a customer-driven marketing strategy.
3. Construct an integrated marketing mix that delivers superior value.
4. Engage customers, build profitable relationships, and create customer delight.
5. Capture value from customers to create profits and customer equity.

Use **Figure 1.1** here.

In the first four steps, companies work to understand consumers, create superior 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, advocacy, profits, and long-term customer equity.

UNDERSTANDING THE MARKETPLACE AND CUSTOMER NEEDS

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

Customer Needs, Wants, and Demands

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

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

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

When backed by buying power, wants become **demands**.

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

Use **Key Terms** *Needs*, *Wants*, and *Demands* here. Use **Discussion Question 1-1** here.

Market Offerings—Products, Services, Solutions, and Experiences

Needs and wants are fulfilled through **market offerings**—some combination of products, services, information, or experiences offered to a market to satisfy a need or want. Market offerings are not limited to physical *products.* They also include *services*—activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, airline, hotel, retailing, and home repair services. They include solutions—combinations of products and services offered that solve customer problems in their entirety, as when a tour company provides end-to-end vacation planning and execution for a family. And they include experiences—offerings that are designed to create customer journeys with memorable customer touch points.

Marketing myopia occurs when a company becomes so taken with their own products that they lose sight of underlying customer needs. They focus on the product they are offering and not the customer benefits and experiences the product delivers.

Use **Chapter Objective 2** here. Use **Key Terms** *Market Offerings* and *Marketing Myopia* here. Use **Discussion Question 1-3** here.

Customer Value and Satisfaction

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

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

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

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

Exchanges and Relationships

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

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

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

Markets

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

Marketing means managing markets to bring about profitable customer relationships.

Figure 1.2 shows the main elements in a marketing system.

Use **Figure 1.2** here. Use **Key Term** *Market* here.

DESIGNING A CUSTOMER VALUE-DRIVEN MARKETING STRATEGY AND PLAN

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

Use **Chapter Objective 3** here. Use **Key Term** *Marketing Management* here. Use **Discussion Question 1-2** here.

The marketing manager must answer two important questions:
1. What customers will we serve (what's our target market)?
2. How can we serve these customers best (what's our value proposition)?

Selecting Customers to Serve

A company must decide *whom* it will serve.

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

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

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

Choosing a Value Proposition

A company's *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs. (JetBlue promises "Just Alright Doesn't Fly Here" by bringing "humanity back to travel." By contrast, Spirit Airlines gives you "Bare Fare" pricing: "Less Money. More Go." 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.

Such value propositions *differentiate* one brand from another.

Marketing Orientations

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

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

1) The Production Concept
The **production concept** holds that consumers will favor products that are available and highly affordable.

Management should focus on improving production and distribution efficiency.

2) The Product Concept

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

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

3) The Selling Concept

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

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

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

4) The Marketing Concept

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

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

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

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

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

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

5) The Societal Marketing Concept

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

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.

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

Use **Key Terms** *Production Concept, Product Concept, Selling Concept, Marketing Concept,* and *Societal Marketing Concept* here.
Use **Figures 1.3** and **1.4** here.
Use **Critical Thinking Exercise 1-7** here.

Preparing an Integrated Marketing Mix

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

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

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

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

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

Use **Linking the Concepts 1** here.

MANAGING CUSTOMER RELATIONSHIPS AND CAPTURING CUSTOMER VALUE

Engaging Customers and Managing Customer Relationships

The first three steps in the marketing process all lead up to the fourth step: engaging customers and managing profitable customer relationships.

Customer Relationship Management

Customer relationship management (CRM) is the most important concept of modern marketing.

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

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

Relationship Building Blocks: Customer Value and Satisfaction
The key to building lasting customer relationships is to create superior customer value and satisfaction.

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

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

They act on *perceived* value.

Customer Satisfaction. This 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 even delighted.

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

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

The purpose of marketing is to generate customer value profitably.

Use **Discussion Question 1-5** here.
Use **Chapter Objective 4** here.
Use **Key Terms** *Customer Relationship Management, Customer-Perceived Value,* and *Customer Satisfaction* here.
Use **Discussion Question 1-6** here.

Customer Engagement and Today's Digital Media
Yesterday's companies focused on mass marketing to all customers at arm's length.

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

Customer-Generated Marketing

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

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

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

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

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.

Marketers want to create *customer brand advocacy*, by which satisfied customers initiate favorable interactions with others about a brand.

Greater consumer empowerment means that companies can no longer rely on marketing by *intrusion*. Instead, they must practice marketing by *attraction*.

Use **Key Term** *Customer-Generated Marketing* here. Use **Critical Thinking Exercise 1-8** here.

Partner Relationship Management

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

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

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

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

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

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

Capturing Value from Customers

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

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

Creating Customer Loyalty and Retention

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

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

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

Growing Share of Customer

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

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

Building Customer Equity

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

What Is Customer Equity?
Customer equity is the total combined customer lifetime values of all of the company's current and potential customers.

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

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

Building the Right Relationships with the Right Customers
Not all customers, not even all loyal customers, are good investments.

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

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

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

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

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

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

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

Use **Key Term** *Customer Equity* here. Use **Figure 1.5** here. Use **Linking the Concepts 2** here. Use **Marketing by the Numbers** here.

THE CHANGING MARKETING LANDSCAPE

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

Marketing in the Digital Age

Today, everything and everyone are digitally connected to everything and everyone else.

There are 5 billion social media users, who spend an average of 6.4 hours online daily.

The COVID-19 pandemic greatly hastened the shift to digital in almost every area of human activity, including marketing-related activities.

Online, Mobile, and Social Media Marketing

Online, mobile, and social media marketing involves using digital marketing tools and digital platforms to engage consumers anywhere, anytime.

At the most basic level, marketers set up company and brand websites that provide information and promote the company's products.

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

Social media marketing provides opportunities to extend customer engagement in real-time by engaging consumers in the moment about trending topics.

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

Mobile marketing is the fastest growing digital marketing platform.

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

91 percent of U.S. shoppers make online purchases using their smartphones and mobile commerce sales are expected to account for 62 percent of all retail sales by 2027.

Digital marketing spending now totals about $700 billion per year globally.

Artificial Intelligence (AI) and Big Data

With the explosion in digital technologies, marketers can now amass mountains of data.

Brands can use such *big data* to gain deep customer insights, personalize marketing offers, and improve customer engagements and service.

Artificial intelligence (AI) involves technology that mimics the way humans think and learn to perform tasks that typically require human intelligence but much faster and with greater analytical capacity.

Use **Chapter Objective 5** here.
Use **Key Terms** *Online, Mobile, and Social Media Marketing* here.
Use **Key Terms** *Artificial Intelligence and Big Data* here.
Use **Discussion Question 1-4** here.
Use **Critical Thinking Exercise 1-9** here.

The Growth of Not-for-Profit Marketing

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

Government agencies have shown an increased interest in marketing. The U.S. military is now designing social marketing campaigns.

Rapid Globalization

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

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

McDonald’s now serves 70 million customers daily at more than 41,500 restaurants worldwide—59 percent of its revenues come from outside the United States.

Today, companies are sourcing more supplies and components abroad, and developing specialized new products for markets around the world.

Sustainable Marketing: The Call for More Environmental and Social Responsibility

Consumers expect marketers to be socially and environmentally responsible. Thus, marketers are reexamining their social responsibilities and their relationship with the earth and sustainability.

Most companies view sustainable marketing as an opportunity to do well by doing good.

Use **Key Terms** *Sustainable Marketing and social responsibility* here**.** Use **Marketing Ethics** here.

So What Is Marketing? Pulling It All Together

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

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

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

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

Figure 1.6 shows a model of the marketing process.

Use **Figure 1.6** here.

Developing Skills for Your Career

Marketing is an exciting, fast-changing discipline that offers a wide range of rewarding careers. See Appendix 4, Careers in Marketing, to see if one of these careers is right for you.

END OF CHAPTER MATERIAL

Discussion and Critical Thinking

Discussion Questions

1-1 What is marketing, and what is the goal of the marketing process? (AACSB: Written and Oral Communication)

Answer:
Marketing is the set of strategies and activities that companies use to acquire and engage customers, build strong customer relationships, and create superior customer value so they can capture value from customers in return.
The high-level goal of the five-step marketing process is creating and capturing customer value. In the first four steps, companies work to create customer value by: (1) understanding the marketplace and customer needs and wants; (2) designing a customer value-driven marketing strategy; (3) constructing an integrated marketing program mix that delivers superior value; and (4) engaging customers, building profitable relationships, and creating customer delight. In the last step, companies reap the rewards of creating superior customer value by (5) capturing value from customers to create profits and customer equity.

1-2 Describe the five marketing orientations. (AACSB: Written and Oral Communication)

Answer:
The five marketing orientations are as follows:
1. The production concept, which holds that consumers will favor products that are available and highly affordable. This concept focuses on improving production and distribution efficiency.
2. The product concept, which holds that consumers will focus on the functional and aesthetic attributes of the product. The focus is on designing the most impressive product.
3. The selling concept, which holds that consumers will not buy enough of the firm's products unless the firm undertakes a large-scale selling and promotion effort.
4. The marketing concept, which focuses on achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfaction better than competitors.
5. The societal marketing concept, which 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.

1-3 Define marketing myopia and give a company example. (AACSB: Written and Oral Communication)

Answer:
Marketing myopia refers to the mistake of focusing more on the particular products that a business provides rather than on the advantages and experiences these products create for the customers. Consider Kodak, a well-known company that once dominated the photographic film industry. Kodak focused heavily on its core product, photographic film, instead of the benefits and experiences customers sought—capturing and sharing memories. With the advent of digital photography, customers found a more convenient and efficient way to capture and share memories. However, Kodak continued to concentrate on improving and marketing its film products. As a result, despite inventing the first digital camera, Kodak underestimated the potential of digital photography. As a result, Kodak lost significant market share to competitors who embraced the digital revolution and ultimately filed for bankruptcy in 2012.

1-4 Describe how artificial intelligence is revolutionizing marketing. Provide examples with your answer. (AACSB: Written and Oral Communication)

Answer:
Artificial Intelligence (AI) is a technology that emulates human cognitive processes to execute tasks that usually need human intellect, but it does so more rapidly and with superior analytical capabilities.
AI is transforming the marketing landscape by automating numerous analytical and creative tasks that are traditionally performed by humans, but with greater speed, improved quality, and reduced costs. AI is being utilized in nearly every aspect of marketing. Here are some ways marketers are leveraging AI:
Data collection, analysis, and insights—AI can swiftly collect and analyze vast data sets to detect trends and patterns, offering insights that inform more effective marketing strategies and actions. AI facilitates “speed to insight,” delivering real-time, actionable evaluations of market trends and consumer behavior and preferences.
Customer interaction and personalization—Marketers employ AI to engage with consumers and create personalized customer interactions, marketing messages and offerings, recommendations, and brand experiences.
Idea generation—AI can be used to generate new ideas and concepts, from new product ideas to marketing strategy brainstorming. For instance, Coca-Cola can develop new product ideas in just weeks using its AI-powered Coke Creations platform, compared to the 12 months it typically takes without AI.
Marketing content creation: Marketers use AI to create high-quality, original marketing content, ranging from advertising copy and images, video scripts, and website designs to personalized emails, blog posts, and social media posts. With AI, marketers can create compelling, almost-human content in less time and at a lower cost.
Customer service—AI can be used to enhance customer service and support, such as answering customer queries and resolving issues or directing customers to FAQs, tutorials, and videos. For instance, AI-powered chatbots and digital assistants can

interact directly with customers to provide immediate responses, personalized recommendations, and seamless customer support.
The power AI provides marketers in terms of speed, and conceptually acting as a sound board for ideas, enables marketers to act on data in real-time making marketing more dynamic and real-time in today's rapidly evolving business environment.

1-5 List the key elements in developing a customer value-driven marketing strategy. (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:
The key elements are as follows:
1. Selecting customers to serve, which involves identifying and targeting a specific segment, or specific segments, of consumers who are most likely to be interested in the company's product or service.
2. Choosing a value proposition, which involves determining the unique benefits or advantages the product or service offers to customers compared to competitors.
3. Deciding on marketing orientations, which involves choosing a strategic approach to marketing, such as production-oriented, product-oriented, sales-oriented, customer-oriented, or societal marketing-oriented. Note that the customer-oriented approach is what most firms should embrace, even while paying attention to social sustainability.
All these steps help in planning the marketing mix, which involves creating a balance of the *four Ps of marketing*—product, price, place, and promotion. This puts the value strategy into action and effectively reaches and serves the customers. Finally, through pricing, the firm recaptures value in terms of profits. Throughout, the firm should focus on building long-term, profitable customer relationships.

1-6 What is customer relationship management? (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:
Customer relationship management, or CRM, is a key part of modern marketing. It is all about creating and keeping profitable relationships with customers by providing strong value and satisfaction. It covers everything from keeping and growing existing customer relationships to getting new customers.

Critical Thinking Exercises

1-7 Visit www.lego.com and discuss how well Lego balances the three considerations of the societal marketing concept. To what extent has Lego embodied this concept? (AACSB: Written and Oral Communication; Analytical Thinking)

Answer:
There are three considerations of the societal marketing concept:

1. Company profits
2. Consumer wants
3. Society’s interests

Student answers may vary, but there are many instances of Lego embodying the societal marketing concept. First, Lego’s profitability is driven by product innovation which involves co-creating new product ideas with customers. Second, Lego provides value to its customers through its dedication to their interests and diversity. Third, Lego’s concern for societal welfare is shown through its various sustainability programs focused on children (for example, Build the Change and Re: Code), the environment (for example, Replay and developing sustainable materials), and people (for example, promoting a family-friendly workplace and a diverse and inclusive Lego group).

1-8 Consider Apple’s recurring “Shot on iPhone” campaigns. These campaigns encourage customers to take photos with their iPhones and share them on social media with the hashtag #ShotOniPhone. This not only showcases the iPhone’s high-quality camera but also creates a community of Apple enthusiasts sharing their creativity. How does Apple’s “Shot on iPhone” campaign demonstrate effective customer-brand advocacy? How might other companies implement similar strategies to foster customer advocacy? (AACSB: Communication; Reflective Thinking) (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:
The #ShotOniPhone campaigns leverage the power of user-generated content, turning customers into brand advocates. The campaign demonstrates effective customer-brand advocacy along the following dimensions:
By encouraging users to share their iPhone photos and using the hashtag #ShotOniPhone, Apple fosters a sense of community among its users. The more people around them that own an iPhone, the more comfortable an individual consumer is in choosing an iPhone.
The public act of uploading a photo taken on an iPhone strengthens the customer's emotional connection with the brand.
Many of the photos uploaded display striking imagery, highlighting the superior quality of the iPhone camera.
Apple saves on advertising costs, letting customers do the brand-building.
Other companies can implement similar strategies:
They can encourage user-generated content that highlights the use of their products or services. Adventure camera-maker GoPro adopts a similar strategy. This not only promotes the product but also builds a community around the brand, fostering customer loyalty and advocacy.
They can get customer communities engaged in co-developing offerings. For example, T-shirt company Threadless uses customer-generated designs to make its products.
They can get customer communities to solve problems for other customers. For example, the Dell Technologies User Community (DTUC) solves many technical problems for Dell customers.

Companies that engage customers in these ways must ensure that they provide a platform that truly values and showcases their customers' contributions.

1-9 YETI specializes in outdoor products like coolers, drinkware, and gear. YETI has cultivated a strong community of advocates through its targeted engagement strategies that resonate deeply with outdoor enthusiasts. YETI's approach involves creating high-quality, durable products that appeal to those who value reliability in harsh outdoor conditions. The brand has effectively used storytelling through its "YETI Presents" series, which features documentaries and short films showcasing real customers' adventures and experiences with YETI products in the wild. Visit YETI's website (www.yeti.com/) and evaluate the brand's effectiveness in creating customer engagement through its customer touchpoints. Is YETI's brand message consistent across platforms? (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:
After visiting the website, students may answer in different ways depending on their perspective of how YETI is positioning itself. However, here is some guidance:

1. YETI's marketing strategy includes product testing and reviews by customers, fostering a sense of community and belonging among its audience which are on all of its digital platforms. The strategy also makes the reviews more authentic.
2. YETI collaborates with outdoor influencers, expanding its reach to the influencers' followings and establishing brand trust.

In terms of brand message consistency, YETI maintains a unified brand message across all channels and touchpoints, despite the fact that customers are involved in building the brand reputation. This is because YETI is itself positioned with discipline, highlighting its high-quality rugged products that won't let customers down. Thus, YETI's messaging is consistent, impactful, and memorable.

Minicases and Applications

Digital Marketing and AI: Dell's User Community and Contact Connect AI

The Dell Technologies User Community (DTUC) is an independent, customer-led community that provides a platform for Dell's IT professionals, customers, and outside technical experts to network, collaborate, share new product ideas, and troubleshoot problems. On a second digital front, Dell's firm-to-customer Contact Connect AI (CCA) leverages natural language understanding (NLU) to improve customer experiences and reduce issue resolution times. The AI platform identifies customer issues and creates resolutions across multiple channels and at multiple stages of the customer support process.

1-10 Explore DTUC at www.dtuc.com/. How does the digital community that DTUC represents help Dell customers and the company? (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:
DTUC provides customers with many benefits:
1. It builds a sense of community across Dell customers and employees, giving them a sense of belonging.
2. It provides the ability to troubleshoot complex customer problems, drawing on the wisdom of the crowd.
3. It helps solve customer problems much faster than Dell alone could.
4. It increases brand engagement for customers who contribute solutions and help solve other customers' problems.
5. It helps customers get the news of new products early and enables them to contribute to the design of new offerings.

At the same time, DTUC provides Dell with many benefits:
1. It substantially reduces customer service and troubleshooting costs.
2. It surfaces customer-driven solutions to problems of which Dell itself may not be aware.
3. It provides Dell with a constant line of feedback on what is performing well and what is not, letting it incorporate that feedback into new offering design.
4. It builds customer loyalty and increases repurchase rates.

1-11 Read about the Contact Connect AI at www.dell.com/en-us/blog/transforming-customer-support-with-contact-connect-ai/. Suppose you are part of Dell's marketing team. You want to integrate Contact Connect AI into the Dell Technologies User Community (DTUC) to enable a single customer interface for real-time interaction and feedback. To help with this task, login to an AI interface of your choice and ask the question, "How can I merge Dell's DTUC customer community and Dell's firm-to-customer Contact Connect AI system into one holistic interface?" Summarize what you learned from this response. (AACSB: Reflective Thinking; Integration of Real-World Business Experiences)

Answer:
Students' answers will vary depending on the AI interface they use. However, the AI interface should respond with a complex, multi-stage process starting with defining objectives/scope, proceeding through stages such as user interface design, stakeholder engagement, feedback and iterations, and user training, and ending with ongoing support and maintenance. The instructor should emphasize the following points:
- AI systems may appear to be very simple and powerful to use. But the behind-the-scenes work required to set them up is complex and takes ample time and resources.
- It's not just about the technology. Customers must be trained and induced to embrace the new technology.
- The strength of DTUC is the network of people and the key roles they play. However, introducing AI may reduce the role of people, diluting the foundations of

DTUC. Therefore, even if Contact Connect AI makes the process more efficient, Dell must think carefully about how it is introduced so that people remain at the center of DTUC. The instructor can provoke an interesting discussion on this point, challenging students to come up with ideas about AI can be integrated while ensuring that DTUC remains people- and community-centric.

Marketing Ethics: Dr. Bronner's ALL-ONE! Ethical Model

Dr. Bronner's ALL-ONE!, the organization behind the top-selling organic liquid soap in the United States, has built its brand on ethical foundations. The company supports a broad range of causes such as income equality, drug policy reform, sustainability, animal advocacy, and regenerative organic agriculture. Founded in the late 1940s, Dr. Bronner's has remained relevant through changing trends and consumer preferences thanks to its effective marketing strategy. It's "Cosmic Principles…guide us in everything we do, from soapmaking to peacemaking." Known for its all-natural ingredients and multi-use functionality, Dr. Bronner's has been a staple in the organic and natural product world for decades. From sourcing fair trade ingredients to giving back to communities, Dr. Bronner's puts its values first into everything it does. This ethics-driven approach has been a part of Dr. Bronner's marketing strategy from the very beginning.

1-12 Today, consumers are increasingly conscious of the ethics and socially responsible practices of companies they support. As a result, many companies now promote their ethical practices. In this increasingly competitive environment, how can a company like Dr. Bronner's ALL-ONE! continue to be profitable in the short and long run? (AASCB: Integration of Real-World Business Experiences).

Answer:
Balancing profitability with ethical practices and social responsibility in an increasingly competitive environment is indeed a challenge for many companies, including Dr. Bronner's. That said, here are some ideas to maintain short- and long-term profitability:

1. Continue to position the brand clearly on the social responsibility front with clear and transparent communication.
2. Emphasize the long history of the brand in the ethical space.
3. Behind the scenes, work to improve efficiency and profit margins without compromising on ethical standards. These initiatives can include investing in new technologies, improving supply chain management, or finding creative ways to reduce waste.
4. Expand the product line into new, adjacent areas which are less competitive and where there is pent-up demand for ethically strong products.
5. Strengthen relationships with the retail trade, ensuring retail strong support for the brand.
6. Possibly increase the emphasis on direct-to-customer marketing and sales.
7. Forming partnerships with other ethical businesses or organizations can lead to shared marketing costs, increased buying power, and other synergies that can improve profitability.

8. Typically, consumers who are conscious of ethical practices are often willing to pay a premium for products that align with their values. Engaging these consumers, telling the company's story, and highlighting its commitment to ethical practices and social responsibility can help build a loyal customer base that supports the company's mission as well as its products.
9. While some ethical practices may involve higher costs in the short term, they can lead to greater sustainability and profitability in the long term. For example, investing in sustainable practices can reduce future environmental costs, and treating employees well can lead to higher productivity and lower turnover.

Marketing by the Numbers: Netflix Trying to Outshine Competition

The Global Streaming division of Netflix is experiencing challenges from changing consumer trends and from high-growth direct-to-consumer subscription services such as Amazon Prime Video, Hulu, Max, and even Newsmax. As a result, Netflix's market share dropped from 70 percent in 2010 to 44.21 percent in 2024. Netflix and close competitor Disney+ have focused on content innovation and higher subscription prices. Netflix continues to innovate and sought to expand its reach by putting more emphasis on original content. It purchased the Millarworld brand, which targets comic book fans, and is attempting to acquire a start-up that produces content for young women. To protect its market leader position, Netflix has sometimes cut prices on its subscriptions.

1-13 Assuming a contribution margin of 75 percent and current sales of $33 billion for Netflix, what sales would be necessary to break even (that is, maintain the current total contribution) on an 8 percent across-the-board price reduction? Refer to Financial Analysis of Marketing Tactics: Price Decrease in Appendix 3: Marketing by the Numbers to learn how to perform this analysis. (AACSB: Written and Oral Communication; Analytical Thinking)

Answer:
Since price decreases by 8 percent, that means the contribution margin will decrease because costs do not change with a price reduction. Therefore, to determine sales necessary to maintain the current total contribution in terms of absolute dollars, we must first determine the current total contribution:

Current total contribution = contribution margin × sales

$$= 0.75 \times \$33 \text{ billion} = \$24.75 \text{ billion}$$

Though we do not know individual prices, we can base our analyses on 100 percent or price equals $1.00. Because we know the contribution margin is 75 percent, the unit contribution margin will equal $0.75 per unit and unit variable costs will equal $0.25 per unit if price equals $1.00 per unit. Thus, we can see the effect on unit contribution margin and contribution margin percentage when price is decreased 8 percent to $0.92 per unit ($1.00 × (1 − 0.08) = $0.92):

	Old	**New (reduced 8%)**

As can be seen, an 8 percent reduction in price resulted in a decrease of the contribution margin from 75 percent to 72.8 percent. To determine the level of sales necessary to break even on this price reduction, we calculate the level of sales that must be attained at the new, lower contribution margin to achieve the original total contribution of $24.75 billion:

New contribution margin × new sales level = original total contribution

So,

$$\text{New sales level} = \frac{\text{original total contribution (\$)}}{\text{new contribution margin (\%)}} = \frac{\$24{,}750{,}000}{0.728} = \$33{,}997{,}252.75$$

or $34 million rounded

Thus, Netflix needs to increase sales by approximately $1 million to compensate for the price cut if it wants to maintain the original contribution margin.

1-14 Consider another scenario where Netflix has enhanced the customer experience and decides to increase prices across the board by 10 percent. What is the level of sales required to maintain the original contribution margin? (AACSB: Written and Oral Communication; Analytical Thinking)

Answer:
As described earlier, a contribution margin of 75 percent implies that $1 of sales brings in $0.75 of contribution. That is, $0.25 is consumed by costs.
As before, the current total contribution = contribution margin x sales = 0.75 x $33 billion = $24.75 billion.

With a price increase of 10 percent, what sold at $1 now sells for $1.10. The costs for the content remain the same at $0.25. Therefore, the new contribution is $1.10 − $0.25 = $0.85. Therefore, the new contribution percent is ($0.85/$1.10) × 100 = 77.2 percent.
Let S be the sales required to generate the same total $24.75 billion contribution as earlier.
Then, it must be that S × 0.772 = $24.75 billion.
Therefore, required sales S = $24.75 billion/0.772 = $31.73 billion.
Thus, Netflix can afford a drop in sales from $33 billion to $31.73 billion in response to the price increase and yet maintain the original contribution margin.

Company Case Teaching Notes

Company Cases 1 Walt Disney World Resort/6 WeightWatchers/11 Temu
See Appendix 1 for teaching notes for the below cases.

Case 1, Walt Disney World Resort: Making Magical Moments.
Through attention to detail, innovative attractions, and exceptional customer service, Walt Disney World ensures that visitors leave with lasting memories.

Case 6, WeightWatchers: Preserving the Brand's Heritage while Charting a Course for the Future.
WeightWatchers now integrates weight-loss medications into its approach. By combining behavioral regimens with modern solutions, it tries to attract a broader audience while promoting healthy lifestyles.

Case 11, Temu: A Rising New Era Retailer.
Temu aims to revolutionize online retail with ultra-low prices and a gamified shopping experience. The company is shaking up the competition and redefining consumer expectations.

GREAT IDEAS

<u>Barriers to Effective Learning</u>

1. For most students, this will be their first introduction to marketing and all its ramifications. To most of them, marketing is nothing more than selling, social media marketing, and/or advertising, and this gets reinforced daily when they see "marketing" job ads that are really sales positions. It helps to get students talking about what marketing is, and to give examples of what they think is really good marketing. Try to bring in contemporary examples that the students can relate to.
2. Building relationships can sometimes be easy to understand in a business-to-business transaction, but it can be much more difficult to comprehend in consumer businesses. Use examples such as Amazon.com that do a wonderful job of developing one-on-one relationships with millions of customers through their tracking of customer purchases and analysis of these purchases to recommend additional items. Ask students to discuss how they feel about the companies they buy from. Have any developed relationships with them that have made them loyal to the brand or store?
3. Societal marketing is something that can be a little unclear to students. Why should fast food chains, for instance, be responsible for the nation's obesity (just one very topical discussion point)? Understanding how one should balance the need for profits with what some might consider "soft" issues can be difficult at times. And that can be made even more difficult among the politically astute students, as they can easily lead the class into a left versus right discussion on individual versus corporate versus governmental responsibility. Try to not let that happen, instead focusing on how companies can actually increase their revenue and profits by showing that they care about their customers and their communities. Bombas is a brand that could be discussed. Many students are familiar with their socks and some wear them. Bombas doesn't just give money to an issue, they have worked with homeless shelters to create specifically

manufactured products to address specific problems experienced by those who are unhoused.

4. Traditional-age undergraduates have spent their entire lives with technology, and so some of them can actually snicker when the discussion turns to how technology has changed business in general and marketing more specifically. A discussion of the difficulties of connecting to consumers without the internet is warranted. How would the students approach a one-on-one relationship with millions of customers if they didn't have digital social media (Instagram; TikTok; or X, formerly Twitter), email, or internet?
5. At this stage, students are very apprehensive about the course. When they walked into class, they thought they might learn about selling, social media marketing, and advertising, and now they've discovered that there is much more to marketing than just those two subjects. Ease their minds and make them look forward to learning more by talking about how much fun it is to be the center of the company and to know more about customers than any other functional area in the company. Emphasizing that marketing combines both the analytical and the creative can also ease some tension. The accounting and finance majors will find that there is something in it to suit their more analytical frame of reference, and the artists and designers who hope to become fashion mavens can also rest assured that although they will need to understand the more logical areas of the subject, their intuition can still reign supreme.

Student Projects

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

Small-Group Assignment

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

1. How has Amazon managed to create such intense customer loyalty? What can Amazon do to ensure customer loyalty remains at current high levels?

2. Each group should then share its findings with the class.

Individual Assignment

Companies are realizing that losing a customer means more than losing a single sale. It means losing a stream of revenue from that customer over their lifetime. Reread the story of Stew Leonard (under Creating Customer Loyalty and Retention).

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

Think-Pair-Share

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

1. Do marketers create needs?
2. How is marketing different from selling?
3. What are two companies with which you have an emotional bond? Describe that bond.

Classroom Exercise/Homework Assignment

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

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

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

Classroom Management Strategies

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

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

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

1. Ten minutes should be spent on discussing what marketing really is. Many students will come into class thinking they are going to be learning all about advertising, social media, or all about selling. Ask students to talk about what they think marketing is, and to use examples of what they've encountered in their own lives. Try asking them to respond to a survey question "What is marketing" and post the results in a word cloud.
2. Ten minutes can also be spent on the second major topic of the chapter, understanding the marketplace and consumer needs. Discussing the differences of needs, wants, and demands, and how they relate to marketing, can greatly enhance the students' understanding of the basis of marketing. Also included in this section are the notions of market offerings, satisfaction, solutions, and relationships. You can discuss the various ways companies develop relationships with their customers. Using Amazon, the company discussed in the opening pages of the chapter, can really help the students understand that a company with thousands of customers can still easily develop relationships with each and every one of them.
3. Another 10 minutes can be spent on designing customer-driven marketing strategies. Many students will still not understand how needs, wants, and demands can drive companies' product development, but this section of the chapter will help them see it a little more clearly.
4. Preparing a marketing plan and program can be covered in 5 minutes. This section shows how everything they learn in marketing will be pulled together, but it is too soon in the semester to be spending a lot of time on the topic.
5. Customer relationships are the heart of the chapter and the entire text. Spend 15 minutes discussing this topic and use examples that the students will appreciate. Discussing the difference in the relationships they have with their hairdresser or barber and that of www.amazon.com or another one of the online merchants can drive home the importance of holding on to good customers. Students will also be well aware of frequency marketing programs, and examples of those will also be beneficial.
6. The final 10 minutes can be spent discussing the future of marketing and the development of customer relationships. Spend time talking about recent economic events such as inflation and how it has impacted business. Next, remember that the majority of students will never have known an era without the ability to be online. Asking them how they would have developed relationships with their customers without the assistance of technology is always a good way to get a discussion started on how marketing programs are developed. Then you can talk about how the rise of digital social media marketing has opened the entire world for even a small retailer, as well as raised some ethical issues, such as marketing

American culture to the entire world, regardless of the mores and cultures of other societies.

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

PROFESSORS ON THE GO

Marketing: Creating and Capturing Customer Value

Key Concepts

Needs, wants, and demands
Market offerings
Customer value and satisfaction

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

Key Concepts

Choosing a value proposition
Marketing management orientations

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

Key Concepts

Relating to customers
Relating to partners
Creating customer loyalty and retention

- Customer loyalty and retention programs are important in building customer relationships and customer equity. Discuss why a national grocery chain such as Safeway or Kroger would choose a "club" program over a "frequency" program.

- “Today, most marketers realize that they don’t want to connect with just *any* customers.” Do you agree with this statement? Why? Which company would be more likely to follow this creed, Sephora or Chanel?
- Think of a product or brand that you buy over and over. What might your customer lifetime value be, assuming the product or brand continues to delight you?