

CHAPTER 1

Marketing: Creating and Capturing Customer Value

PREVIEWING THE CONCEPTS – CHAPTER OBJECTIVES

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

CHAPTER OVERVIEW

Marketing is managing profitable customer relationships. The aim of marketing is to create value for customers and to capture value in return. Marketing is defined as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging value with others.

WHAT IS MARKETING?

A simple definition of marketing is *engaging customers and managing profitable customer relationships*. Marketing must both attract new customers and grow the current customers. Every organization must perform marketing functions, not just for-profit companies. Non-profits (colleges, hospitals, churches, etc.) also must perform marketing.

Marketing Defined

Most people think of marketing as selling and/or advertising—“telling and selling.” Selling and advertising are only part of a larger **marketing mix**—a set of marketing tools that work together to satisfy customer needs and build customer relationships. We define **marketing** as the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.

The Marketing Process

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

In the first four steps, companies work to understand consumers, create customer value, and build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value. By creating value *for* consumers, they in turn capture value *from* consumers in the form of sales, profits, and long-term customer equity.

UNDERSTANDING THE MARKETPLACE AND CUSTOMER NEEDS

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

Customer Needs, Wants, and Demands

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

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

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

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

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

Market Offerings—Products, Services, and Experiences

Needs and wants are fulfilled through **market offerings**—some combination of products, services, information, or experiences offered to a market to satisfy a need or want. Market offerings are not limited to physical *products*. They also include *services*—activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. **Marketing myopia** occurs when a company becomes so taken with their own products that they lose sight of underlying customer needs.

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.

Markets

A **market** is the set of actual and potential buyers of a product. Marketing means managing markets to bring about profitable customer relationships.

DESIGNING A CUSTOMER-DRIVEN MARKETING STRATEGY

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

The marketing manager must answer two important questions:

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

Selecting Customers to Serve

A company must decide *whom* it will serve. It does this by dividing the market into segments of customers (*market segmentation*) and selecting which segments it will go after (*target marketing*). Marketing managers know they cannot serve all customers. By trying to do so, they end up not serving any well. Marketing management is *customer management* and *demand management*.

Choosing a Value Proposition

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

Such value propositions *differentiate* one brand from another.

Marketing Management Orientations

Marketing management wants to design strategies that will build profitable relationships with target consumers. But what *philosophy* should guide these marketing strategies? There are five alternative concepts under which organizations design and carry out their marketing strategies:

1) *The Production Concept*

The **production concept** holds that consumers will favor products that are available and highly affordable. Management should focus on improving production and distribution efficiency.

2) *The Product Concept*

The **product concept** holds that consumers will favor products that offer the most in quality, performance, and innovative features. Under this concept, marketing strategy focuses on making continuous product improvements.

3) *The Selling Concept*

The **selling concept** holds that consumers will not buy enough of the firm's products

unless the firm undertakes a large-scale selling and promotion effort. The concept is typically practiced with unsought goods – those that buyers do not normally think of buying, such as insurance or blood donations. These industries must be good at tracking down prospects and selling them on product benefits.

4) The Marketing Concept

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

The **selling concept** takes an *inside-out* approach, whereas the **marketing concept** uses an *outside-in* perspective. *Customer-driven* companies research current customers deeply to learn about their desires, gather new product and service ideas, and test proposed product improvements. *Customer-driving* marketing involves understanding customer needs even better than customers themselves do and creating products and services that meet existing and latent needs.

5) The Societal Marketing Concept

The **societal marketing concept** questions whether the pure marketing concept overlooks possible conflicts between consumer *short-run wants* and consumer *long-run welfare*. This has been called *Marketing 3.0* or *purpose-driven marketing*. The societal marketing concept holds that companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, *and* society's interests.

PREPARING AN INTEGRATED MARKETING PLAN AND PROGRAM

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

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

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

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

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

ENGAGING CUSTOMERS AND MANAGING CUSTOMER RELATIONSHIPS

Customer Relationship Management

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

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

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

Relationship Building Blocks: Customer Value and Satisfaction

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

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

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

They act on *perceived* value.

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

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

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

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

The purpose of marketing is to generate customer value profitably.

Customer Relationship Levels and Tools

Companies can build customer relationships at many levels.

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

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

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

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

Engaging Customers

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

Customer Engagement and Today’s Digital and Social Media

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

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

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

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

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

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

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

Partner Relationship Management

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

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

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

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

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

CAPTURING VALUE FROM CUSTOMERS

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

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

Creating Customer Loyalty and Retention

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

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

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.”)

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.

“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*.

THE CHANGING MARKETING LANDSCAPE

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

The Digital Age

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

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

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

Social Media Marketing

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

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

Mobile Marketing

Mobile marketing is perhaps the fastest growing digital marketing platform.

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

Most marketers are still learning how to use them effectively.

The Changing Economic Environment

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

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

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

The Growth of Not-for-Profit Marketing

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

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

Rapid Globalization

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

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

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

Today, companies are buying more supplies and components abroad.

Sustainable Marketing—The Call for More Environmental and Social Responsibility

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

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

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

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.

SELF CHECK QUESTIONS:

- 1-1. Define marketing and outline the steps in the marketing process. *Answer:*
- 1-2. Explain the importance of needs, wants and demands and how these frame a marketer's activities.
- 1-3. Discuss how technology is affecting marketing.