Chapter 1
Marketing: Creating Customer Value and Engagement
First Stop: Nike

The Nike swoosh—it’s everywhere. Nike has mastered social networking, both online and off, creating deep engagement and community, with and among customers.
What Is Marketing?

• Marketing is engaging customers and managing profitable customer relationships.

• Goals of Marketing
  – Attract new customers by promising superior value
  – Keep and grow current customers by delivering satisfaction
Forms of Marketing

Traditional
• Making a sale
• Abundance of products in the nearby shopping centers
• Television, magazine, and direct-mail ads

Contemporary
• Satisfying customer needs
• Imaginative Web sites and mobile phone apps, blogs, online videos, and social media
• Reach customers directly, personally, and interactively
Figure 1.1 - The Marketing Process: Creating and Capturing Customer Value

1. Understand the marketplace and customer needs and wants
2. Design a customer value-driven marketing strategy
3. Construct an integrated marketing program 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
Learning Objective 1-1 Summary

• **Marketing** creates value for customers
  – understand marketplace and customers
  – design a customer value-driven marketing strategy
  – construct a marketing program
  – engage customers, build relationships

• Captures value from customers
Understanding the Marketplace and Customer Needs

• Five core customer and marketplace concepts:
  – Needs, wants, and demands
  – Market offerings
  – Value and satisfaction
  – Exchanges and relationships
  – Markets
Customer Needs, Wants, and Demands (1 of 2)

Needs

• States of felt deprivation
  – Physical needs - Food, clothing, warmth, and safety
  – Social needs - Belonging and affection
  – Individual needs - Knowledge and self-expression

Wants

• Form taken by human needs when shaped by culture and individual personality

Demands

• Human wants that are backed by buying power
Customer Needs, Wants, and Demands (2 of 2)

Staying close to customers: Target’s energetic new CEO
Market Offerings

- Products, services, information or experiences
  - Offered to satisfy a need or want

- Marketing myopia - paying more attention to the specific products than to the benefits and experiences produced
Customer Value and Satisfaction

- Customers form expectations about the value and satisfaction of market offerings.
  - Satisfied customers buy again
  - Dissatisfied customers switch to competitors

- Setting the right level of expectations
  - Low expectations may fail to attract buyers
  - High expectations may disappoint buyers
Exchanges and Relationships

• **Exchange** is the act of obtaining a desired object by offering something in return.

• Marketing consists of creating, maintaining, and growing desirable exchange relationships.
  – Strong relationships are built by consistently delivering superior customer value.
Markets

• All actual and potential buyers of a product
• Sellers and Consumers market
• Customer-managed relationships
Figure 1.2 - A Modern Marketing System
Learning Objective 1-2 Summary

• Customers needs, wants, and demands
• Customer lifetime value and share of customer
• Long-term customer equity
• Other marketplace concepts
  – market offerings
  – value and satisfaction
  – exchange and relationships
  – markets
• Value proposition
Designing a Customer Value-Driven Marketing Strategy (1 of 4)

• **Marketing management**: Choosing target markets and building profitable relationships

• Designing a winning marketing strategy
  – Target market?
  – Value proposition?
• **Market segmentation** refers to dividing the markets into segments of customers.

• **Target marketing** refers to which segments to go after.
Choosing a value proposition - the company must decide how it will differentiate and position itself in the marketplace.
Designing a Customer Value-Driven Marketing Strategy (4 of 4)

• Marketing management orientations
  – Production concept
  – Product concept
  – Selling concept
  – Marketing concept
  – Societal marketing concept
Figure 1.3 - The Selling and Marketing Concepts Contrasted

The **selling concept**
- Starting point: Factory
- Focus: Existing products
- Means: Selling and promoting
- Ends: Profits through sales volume

The **marketing concept**
- Starting point: Market
- Focus: Customer needs
- Means: Integrated marketing
- Ends: Profits through customer satisfaction
Figure 1.4 - Three Considerations Underlying the Societal Marketing Concept

- Society (Human welfare)
- Societal marketing concept
- Consumers (Want satisfaction)
- Company (Profits)
Marketing Mix

• Four Ps of Marketing
  – Product
  – Price
  – Place
  – Promotion

• Marketing mix tools should be blended into a comprehensive integrated marketing program.
Learning Objective 1-3 Summary

• Market segmentation
• Target marketing
• Differentiation and positioning
• Production and product concepts
• Selling and marketing concepts
• Societal marketing concept
Customer Relationship Management

• Delivering superior customer value and satisfaction to build and maintain profitable customer relationships
  – **Customer-perceived value**: Customer’s evaluation of a marketing offer relative to those of competing offers
  – **Customer satisfaction**: Extent to which a product’s perceived performance matches a buyer’s expectations
Customer Relationship Levels and Tools (1 of 2)

Levels

• Basic relationships
  – Low-margin customers
• Full partnerships
  – High-margin customers

Tools

• Frequency marketing programs
• Loyalty rewards programs
• Club marketing programs
Customer Relationship Levels and Tools (2 of 2)

*Walgreens: Relationship Marketing Tools*
Customer-Engagement Marketing

• Customer-engagement marketing makes the brand a meaningful part of consumers’ conversations and lives.

• Greater consumer empowerment means that companies must practice marketing by attraction.

• Marketers must find ways to enter consumers’ conversations with engaging and relevant brand messages.
Consumer-Generated Marketing

• Brand exchanges created by consumers
  – Consumers play an increasing role in shaping their own brand experiences and those of other consumers.

• Uninvited and Invited
  – Consumer-to-consumer exchanges
  – Consumers invited by companies
    ▪ New product and service ideas
    ▪ Active role in shaping ads
Partner Relationship Management

• Working closely with partners both inside and outside the company to jointly bring more value to customers
  – Partners inside the firm—cross-functional teams
  – Partners outside the firm—suppliers, channel partners
Creating Customer Loyalty and Retention

• Keeping customers loyal makes good economic sense.

• **Customer lifetime value** is the value of the entire stream of purchases a customer makes over a lifetime of patronage.

• Customer defections can be costly
  – Can lose that customer’s lifetime value
  – May cause other customers to defect
Share of Customer

• Portion of the customer’s purchasing in their product categories

• **Share of Customer** is increased by:
  – Good customer relationship management
  – Offering greater variety to current customers
  – Creating programs to cross-sell and up-sell to existing customers
Customer Equity (1 of 2)

• Total combined customer lifetime values of all of the company’s customers

• Measures the future value of the company’s customer base

• Increases when the loyalty of the firm’s profitable customers increases

• Better measure of a firm’s performance than current sales or market share
Customer Equity (2 of 2)

Cadillac: Managing Customer Equity
Figure 1.5 - Customer Relationship Groups

- **Butterflies**: High potential profitability, long-term loyalty
- **True friends**: High potential profitability, short-term loyalty
- **Strangers**: Low potential profitability, long-term loyalty
- **Barnacles**: Low potential profitability, short-term loyalty
Learning Objective 1-4 Summary

- Customer relationship management
- Customer-engagement marketing
- Customer equity
- Customer value and satisfaction
- Creating value for customers and capturing value from customers in return.
The Changing Marketing Landscape

• Digital Age
• Changing Economic Environment
• Growth of Not-for-Profit Marketing
• Rapid Globalization
• Sustainable Marketing
The Digital Age: Online, Mobile, and Social Media Marketing

- **Digital and social media marketing**: Engaging consumers via their digital devices using digital marketing tools

- **Mobile marketing**: Using mobile channels to stimulate immediate buying, make shopping easier, and enrich the brand experience

- Blending the new digital approaches with traditional marketing creates a smoothly integrated marketing strategy and mix.
Changing Economic Environment

• The Great Recession undermined consumer confidence.

• Post-recession era
  – Consumers have become more frugal.
  – New consumer spending values emphasize simpler living.
  – Marketers are focusing on value, practicality and durability in their product offerings.
Growth of Not-for-Profit Marketing

Sound marketing can help **not-for-profits** attract membership, funds, and support.
Rapid Globalization and Sustainable Marketing

• Managers around the world are taking both local and global views of the company’s:
  – Industry
  – Competitors
  – Opportunities

• Corporate ethics and social responsibility have become important for every business.
Learning Objective 1-5 Summary

- Online, mobile and social media marketing
- Post-recession economy
- Not-for-profit marketing
- Connecting globally
- Ethical and societal responsibilities
Figure 1.6 - An Expanded Model of the Marketing Process

Create value for customers and build customer relationships:

- Understand the marketplace and customer needs and wants
- Design a customer value-driven marketing strategy
- Construct an integrated marketing program that delivers superior value
- Engage customers, build profitable relationships, and create customer delight
- Capture value from customers in return

Capture value from customers to create profits and customer equity:

- Create satisfied, loyal customers
- Capture customer lifetime value
- Increase share of market and share of customer

Harness marketing technology
Manage global markets
Ensure environmental and social responsibility
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