PART

I

Defining marketing and the marketing process

Chapter

1 Marketing: Creating and capturing customer value

You are beginning a journey into the science and practice of marketing – a journey that is both exciting and vital in the preparation for the career that awaits you. In this chapter, we start with the question, 'What *is* marketing?'. Simply put, marketing is managing profitable customer relationships. The aim of marketing is to create value *for* customers and to capture value *from* customers in return. We start with a definition of marketing before proceeding to discuss the five steps in the marketing process – from understanding customer needs, to designing customer-driven marketing strategies and integrated marketing programs, to building customer relationships and capturing value for the firm, as shown in Figure 1.1. Finally, we discuss the major trends and forces affecting marketing in this age of customer relationships. Understanding these basic concepts, and forming your own ideas about what they really mean to you, will give you a solid foundation for all that follows.

As you start this chapter, we suggest you pay close attention to the visual representation on the next page, which is designed to give you a 'helicopter' view of the main concepts covered. You will find such a visual representation, or concept map, at the start of each chapter.

Learning Objectives

Learning Objective 1 Define marketing, and outline the steps in the marketing process.
What is marketing? *pp. 4–5*

Learning Objective 2 Explain the importance of understanding the marketplace and customers, and identify the five core marketplace concepts.
Understanding the marketplace and customer needs *pp. 5–9*

Learning Objective 3 Identify the key elements of a customer-driven marketing strategy, and discuss the marketing management orientations that guide marketing strategy.
Designing a customer-driven marketing strategy *pp. 9–13*
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Learning Objective 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 *pp. 15–18*
Capturing value from customers *pp. 18–21*

Learning Objective 5 Describe the major trends and forces that are changing the marketing landscape in this age of relationships.
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LO 1
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(pp. 4–5)

LO 2
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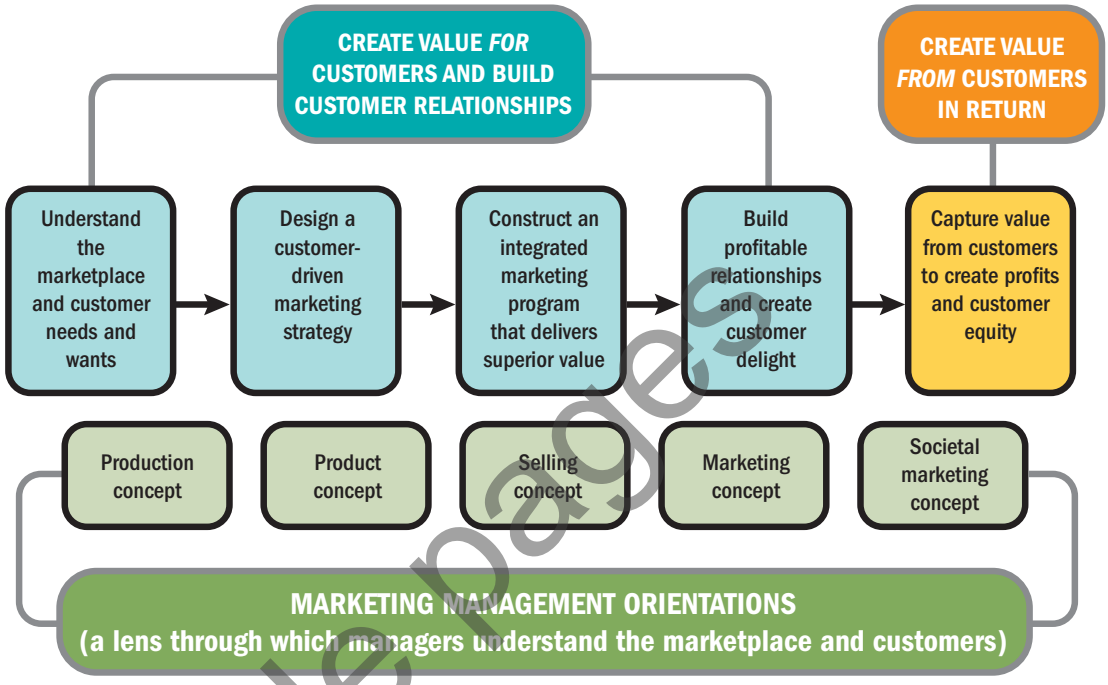
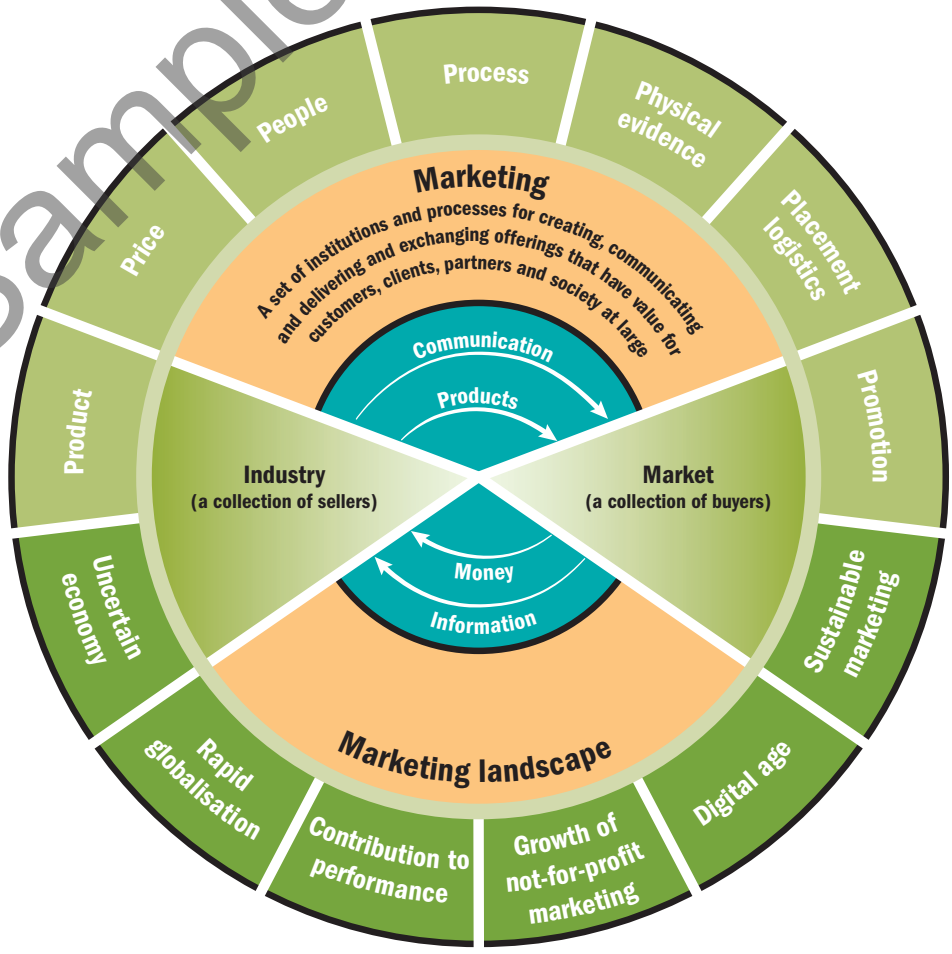




What is marketing? (pp. 4–5)

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 satisfaction.

Marketing comes to you in traditional forms, such as the products you see on supermarket shelves and in the windows of shopping-centre boutiques, as well as in the advertising you see and hear in newspapers and magazines, and on television and radio. However, in recent years, marketers have adopted a host of new marketing approaches, using everything from imaginative websites and social networks to smartphone apps. These new approaches do more than just blast out messages to the masses. They reach you directly and personally. Today's marketers want to become a part of your life and enrich your experiences with their brands – to help you *engage with* their brands.

When we examine successful marketing organisations, we see that many factors contribute to making a business or other organisational type successful. These factors include great strategy, dedicated employees, good information systems and excellent implementation, among others. However, today's successful organisations have one thing in common – they have a strong market orientation, which means they are focused on their customers, their competitors and their profits (or surpluses in the case of those not operating for profit), and they have a commitment to sharing this marketing information with all parts of the organisation.[1] These organisations share an absolute dedication to understanding and satisfying the needs of customers in well-defined target markets. They motivate everyone in the organisation to produce superior value for their customers, leading to high levels of customer satisfaction.

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 television commercials, catalogues, spiels from salespeople and online pitches. However, selling and advertising are but the tip of the marketing iceberg.

Today, marketing must be understood not in the old sense of making a sale – 'telling and selling' – but in the new sense of *satisfying customer needs*. If the marketer engages consumers effectively, understands their needs, develops products that provide superior customer value, and prices, distributes and promotes them well, these products will sell easily. In fact, according to management guru Peter Drucker, 'The aim of marketing is to make selling unnecessary.'[2]

Selling and advertising are only a 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 organisations 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 marketing organisations engage customers, build strong customer relationships and create customer value in order to capture value from customers in return.[3]

marketing
The process by which marketing organisations 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. In the first four steps, marketing organisations uncover knowledge about consumers, create customer value and build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value. By creating

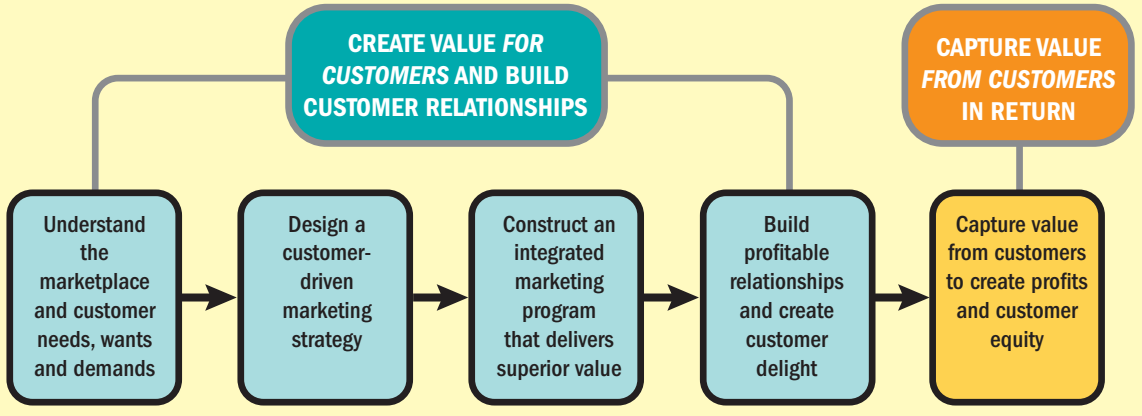


Figure 1.1 A simple model of the marketing process

value *for* consumers, companies, 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 in this model of the marketing process. In this chapter, we review each step but focus more on the customer relationship management steps – understanding customers, building customer relationships and capturing value from customers. In Chapter 2, we look more deeply into the second and third steps – designing marketing strategies and constructing marketing programs.

Understanding the marketplace and customer needs (pp. 5–9)

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

Figure 1.2 shows how these core marketing concepts are linked, with each concept building on the one before. Market offerings are the various product forms we examine in detail in Chapters 7 and 8. We discuss value, satisfaction and quality throughout the book. We begin our discussion of customer needs, wants and demands in this chapter, and examine them further in Chapters 4 and 5. The nature of exchange, transactions, relationships and markets is examined in this chapter and throughout the book.

Customer needs, wants and demands

The most basic concept underlying marketing is that of human needs. Human **needs** are states of felt deprivation. Humans have many complex needs. These include basic *physical* needs for food, clothing, warmth and safety; *social* needs for belonging and affection; and *individual* needs for knowledge and self-expression. While marketers may stimulate these needs, they do not create them for they are a basic part of human makeup.

needs
States of felt deprivation.

Wants are the form taken by human needs as they are shaped by culture and individual personality. A hungry person in Australia, Singapore or Hong Kong might want a rice or noodle dish for a quick lunch, accompanied by green tea. A hungry person in the South Pacific might want mangoes, suckling pig and beans. Wants are described in terms of objects that will satisfy needs. As a society evolves, the wants of its members expand. As people are exposed to more objects that arouse their interest and desire, producers try to provide more want-satisfying goods and services.

wants
The form human needs take, as shaped by culture and individual personality.

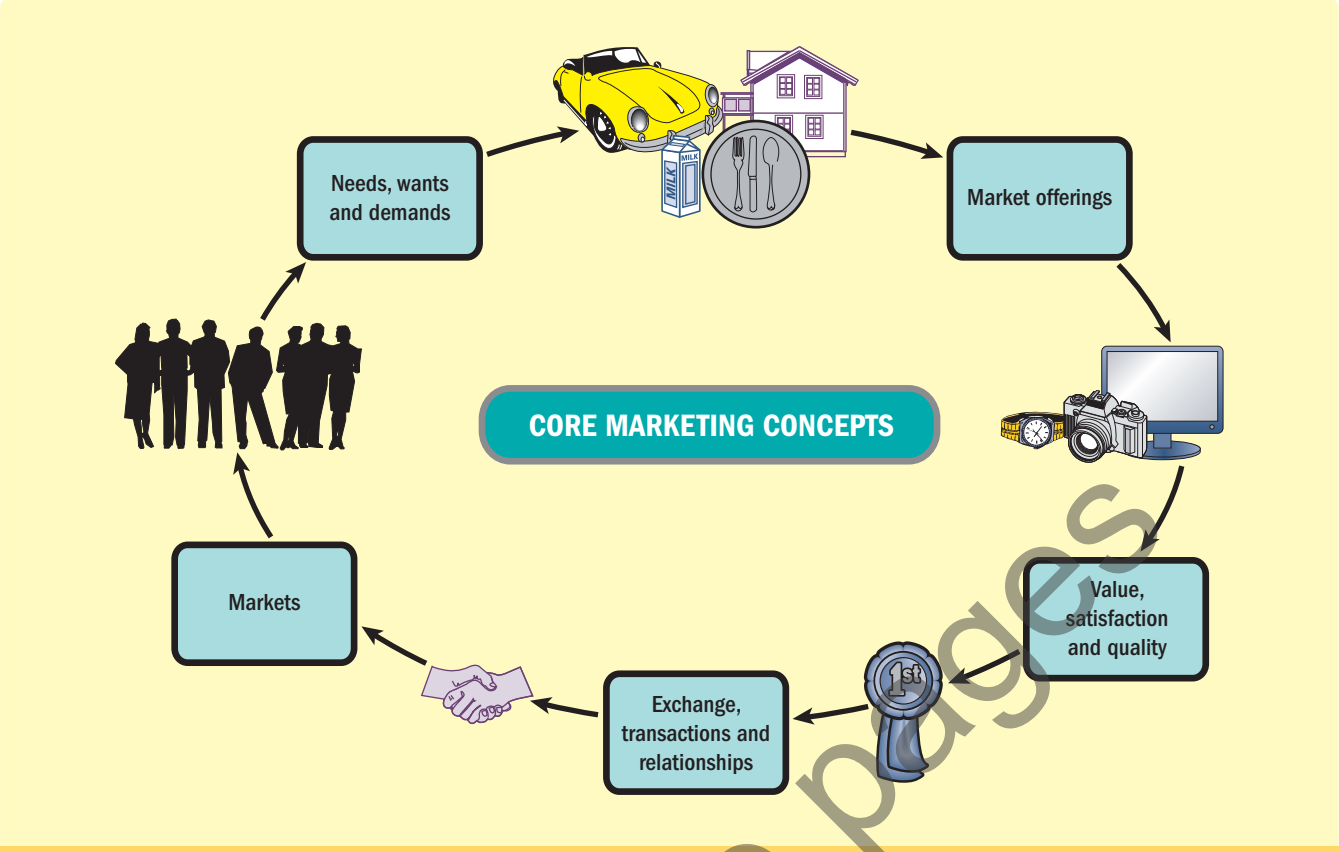


Figure 1.2 Five core customer and marketplace concepts

demands
Human wants that are backed by buying power.

People have almost unlimited wants but limited resources. Thus, they want to choose products that provide the most value and satisfaction for their money. When backed by buying power, wants become **demands**. A simple way to look at needs, wants and demands is that a person needs water to survive (thirst). The person may want a carbonated beverage to satisfy his or her thirst. If the person has the resources, he or she may demand a particular brand of carbonated beverage, such as Coca-Cola, Pepsi or another local brand.

Outstanding marketers, whether profit-oriented companies, citizen-focused government or not-for-profit organisations, go to great lengths to learn about and understand their customers' needs, wants and demands. They conduct qualitative research, such as small focus groups and customer clinics, to ascertain if there are unmet needs, wants and demands. They conduct quantitative research on a larger scale to ascertain the magnitude of the unmet needs, wants and demands. They seek customer insights when they examine their databases for patterns hidden in purchase data, customer complaints, inquiries, warranty claims and service performance data. They train salespeople and other frontline personnel to be on the lookout for unfulfilled customer needs. They observe customers using their own and competing products, and interview them in depth about their likes and dislikes. They conduct consumer research, analyse mountains of customer data and observe customers as they shop and interact, offline and online. Understanding customer needs, wants and demands in detail provides important input for designing marketing strategies. People at all levels of the company – including top management – stay close to customers.[4]

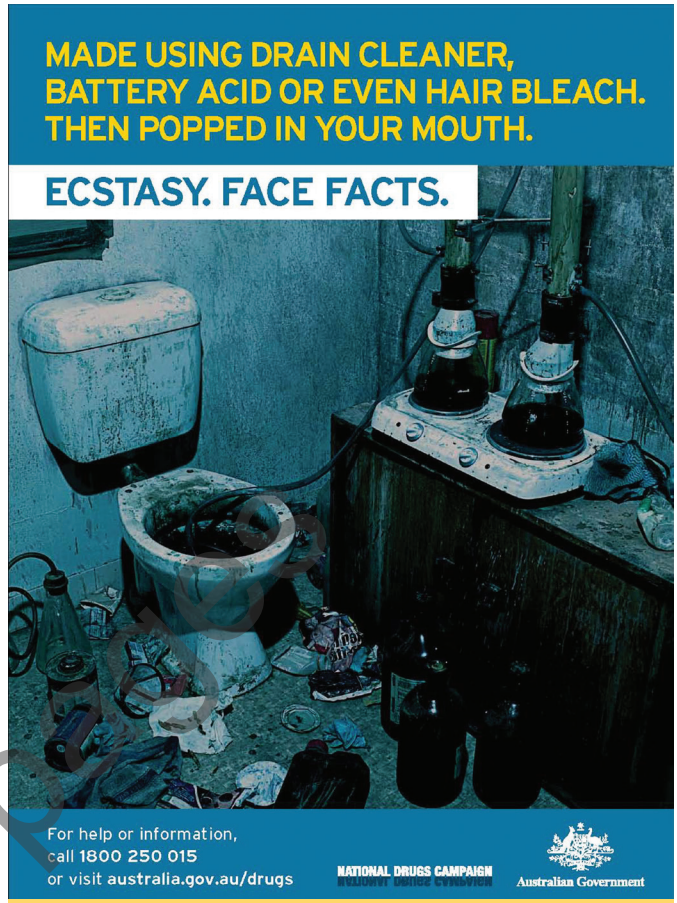
market offering
Some combination of goods, services, information or experiences offered to a market to satisfy a need or want.

Market offerings: Goods, services and experiences

Consumers' needs and wants are fulfilled through **market offerings** – some combination of goods, services, information or experiences offered to a market to satisfy a need or a want. Usually, the word *product* suggests a physical object such as a car, an iPad or a bar of soap. However, the concept of product is not

limited to physical objects; anything capable of satisfying a need can be called a product. The importance of products that are physical objects lies not so much in owning them as in the benefits they provide. We buy food not to look at, but because it satisfies our hunger. We buy a microwave not to admire its utility, but because it defrosts or cooks our food.

Marketers often use the expressions *goods* and *services/experiences* to distinguish between products that have physical form and those that do not – that is, those that are intangible. However, in Chapter 9 we show that there is a continuum involved and not a clear-cut dichotomy. Consumers also obtain benefits through experiences, people, places, organisations, activities and ideas, and so we call these products, too. Consumers decide which entertainers to watch at the movies and on television, which places to visit on holiday, which organisations to support through contributions and which ideas to adopt. Thus, the term *product* covers physical goods, services, experiences and a variety of other offerings that satisfy consumers' needs and wants. If at times the term seems not to fit, we could substitute words such as *satisfier*, *resource* or *offer*. In the broadest sense, market offerings also include other entities, such as *persons*, *places*, *organisations*, *information* and *ideas*.



Product offerings: Social causes are products … Often demarketing is involved.

Department of Health

Many sellers make the mistake of paying more attention to the attributes of the products they offer than to the benefits produced by these products. They see themselves as selling a product, rather than providing a solution to a need. A manufacturer of drill bits may think that the customer wants a 6 mm drill bit, but what the customer *really* wants is a 6 mm hole. These sellers suffer from **marketing myopia**.[5] They are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs. They forget that a product is only a tool to solve a consumer's problem and they will have trouble if a new product comes along that serves the need better or less expensively. The customer with the same need will, all things being equal, want the new product.

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.

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, you do not just watch a V8 Supercar or MotoGP motorcycle race; you immerse yourself in the exhilarating, high-octane experience that the many on-board mini-cameras now provide.

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 original 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 may 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 revisit these core concepts later in the chapter.

Exchanges, transactions and relationships

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

Marketing occurs when people decide to satisfy 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 golf club wants members; an orchestra wants an audience; an online community of practice, such as BimmerPost (BMW owners), wants subscribers who help each other; and a social action group, such as Amnesty Australia, wants idea acceptance.

transaction
A trade between two parties that involves at least two things of value, agreed-upon conditions, and a time and place of agreement.

Whereas exchange is the core concept of marketing, a **transaction** is marketing's unit of measurement. A transaction consists of a trade of values between two parties. In a transaction, we must be able to say that one party gives X to another party and gets Y in return. For example, if you pay $1650 for a television set to Harvey Norman in Sydney or Singapore, you are engaged in a classic monetary transaction.

Marketing consists of actions taken to build and maintain desirable exchange *relationships* with target audiences involving a product, service, idea or other object. Beyond simply attracting new customers and creating transactions, the company wants to retain customers and grow their business. Marketers want to build strong relationships by consistently delivering superior customer value. We expand on the important concept of managing customer relationships later in this 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. 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 buyers, identify their needs, design good market offerings, set prices for those offerings, promote them, and store and deliver them. Activities such as consumer research, product development, communication, distribution, pricing and service are core marketing activities.

Although we normally think of marketing as being carried out by sellers, buyers also carry out marketing. Consumers market when they search for products, interact with companies, obtain information and make their purchases. In fact, today's digital technologies, from websites and online social networks to tablets and smartphones, have empowered consumers and made marketing a truly interactive 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 reach our customers?' but also, 'How can our customers reach us?' and even, 'How can our customers reach each other?'.

Figure 1.3 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. They then create and send their market offerings and messages to consumers, either directly or through marketing intermediaries. All of the parties in the system are affected by major environmental forces (demographic, economic, physical, technological, political/legal and social/cultural).

Each party in the system adds value for the next level. In the figure, the arrows represent relationships that must be developed and managed. Thus, a company's success at building profitable relationships depends not only on its own actions but also on how well the entire system serves the needs of final consumers. Coles Supermarkets cannot fulfil its promise of everyday low prices unless its suppliers provide

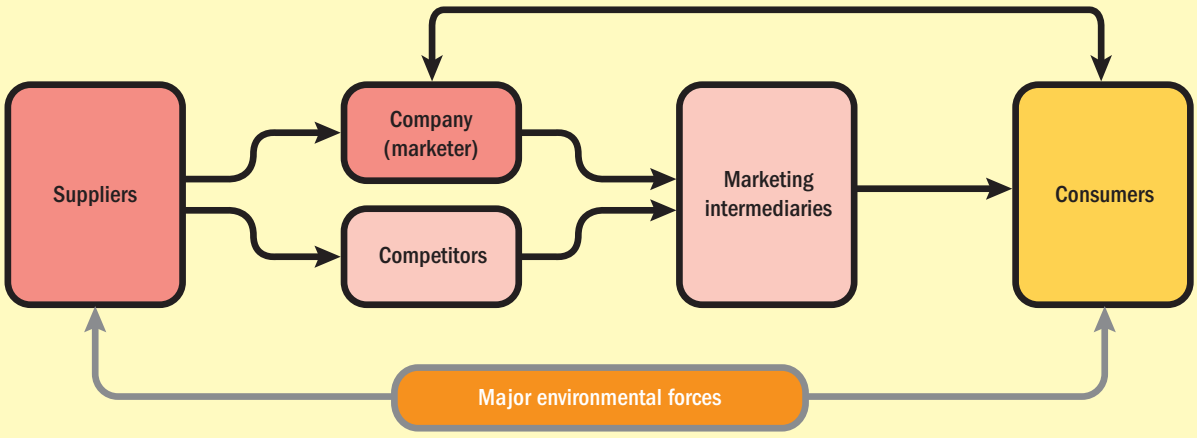


Figure 1.3 Elements of a modern marketing system

merchandise at low costs. And Toyota cannot deliver a high-quality car-ownership experience unless its dealers provide outstanding sales and service.

Designing a customer-driven marketing strategy (pp. 9–13)

Once marketing management fully understands consumers and the marketplace, it can design a customer-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 attract, engage, keep and grow target customers by creating, delivering and communicating superior customer value.

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

To design a winning marketing strategy, the marketing manager must answer two important questions: (1) *What customers will we serve?* (*Who is our target market?*) and (2) *How can we serve these customers best?* (*What is our value proposition?*). We introduce these aspects of marketing strategy here, and discuss them further in Chapters 2 and 6.

Selecting customers to serve

Marketing management first decides *who* the organisation will serve. This is done by examining the various segments into which the market naturally falls, based on the appropriate factors that can be used to analyse a market. We discuss this aspect in depth in Chapter 6. Marketers know they cannot serve all customers in every way with a single market offering. They know it is necessary to select customers they can serve well and profitably. This may not involve continuously seeking increasing market demand; at times, it may be necessary to seek fewer customers and reduce demand.

Most people think of marketing management as finding enough customers for the company's current output, but this is too limited a view. The organisation has a desired level of demand for its products. At any point in time there may be no demand, adequate demand, irregular demand or too much demand, and marketing management must find ways to deal with these different demand states. (See Table 1.1 for a demand management ready-reckoner.) Marketing management is concerned not only with finding and increasing demand but also with changing or even reducing it. For example, Uluru (Ayers Rock) might have too many tourists wanting to climb it, and Daintree National Park in North Queensland can become

Table 1.1 Demand management ready-reckoner

1 Negative demand
A market is in a state of negative demand if a major part of the market dislikes the product and may even pay a price to avoid it. Examples include vaccinations, dental work and gall-bladder operations.
2 No demand
Target consumers may be unaware of or uninterested in the product. The marketing task is to find ways to connect the benefits of the product with the person's natural needs and interests.
3 Latent demand
Many consumers may share a strong need that cannot be satisfied by any existing product. Examples include safer communities and more fuel-efficient cars. The marketing task is to measure the size of the potential market and develop effective products and services that would satisfy the demand.
4 Declining demand
Every organisation, sooner or later, faces declining demand for one or more of its products. The marketing task is to reverse the declining demand through creative remarketing of the product.
5 Irregular demand
Many organisations face demand that varies on a seasonal, daily or even hourly basis, causing problems of idle or overworked capacity. Examples include public transport, museums and hospital operating theatres. Supermarkets may be less frequented early in the week and understocked after heavy weekend trading. The marketing task is to find ways to alter the same pattern of demand through flexible pricing (e.g. early-bird specials), promotion and other incentives.
6 Full demand
Organisations face full demand when they are satisfied with their volume of business. The marketing task is to maintain the current level of demand in the face of changing consumer preferences and increasing competition.
7 Overfull demand
Some organisations face a demand level that is higher than they can, or want to, handle. Examples include a national park that is carrying more tourists than the facilities can handle. The marketing task, called demarketing, requires finding ways to reduce the demand temporarily or permanently. Demarketing aims not to destroy demand but only to reduce its level, temporarily or permanently.
8 Unwholesome demand
Unwholesome products will attract organised efforts to discourage their consumption. The marketing task is to get people who like something to give it up, using such tools as fear messages, price hikes and reduced availability.
Sources: For a fuller discussion, see Philip Kotler, 'The major tasks of marketing management', *Journal of Marketing,* October 1973, pp. 42–9; and Phyllis Berman & Katherine Bruce, 'Make-up gets a make-over', *BRW*, 7 May 1999, pp. 56–7.

overcrowded in the tourist season. Power companies sometimes have trouble meeting demand during peak usage periods.

demarketing
Marketing in which the task is to temporarily or permanently reduce demand.

In these and other cases of excess demand, the needed marketing task, called **demarketing**, is to reduce demand temporarily or permanently. The aim of demarketing is not to completely destroy demand, but only to reduce or shift it to another time or even to another product. Thus, marketing management seeks to affect the level, timing and nature of demand in a way that helps the organisation achieve its objectives.

A marketing organisation's demand comes from two groups: new customers and repeat customers. Beyond designing strategies to attract new customers and create transactions with them, marketing organisations go all out to retain current customers and build lasting relationships. Simply put, marketing management is *customer management* and *demand management*.

Choosing a value proposition

The marketing organisation must also decide how it will serve targeted customers – how it will *differentiate* and *position* itself in the marketplace. A marketing organisation's *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs.

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?'. Marketing organisations must design strong value propositions that give them the greatest advantage in their target markets. For example, Telstra's value positioning in 2016 was 'It's how we connect'. The company's value propositioning is more easily identified in its WiFi advertising, which used tennis and humour to make it stand out and finished with the statement 'Telstra Air is how' – how to stay in touch using thousands of WiFi hotspots.

Marketing management orientations

We have seen that marketing managers carry out tasks to achieve desired behaviour in defined target markets and to build profitable relationships with target customers. Questions arise in this regard. For example, what *philosophy* should guide these marketing efforts? What weight should be given to the interests of the organisation, the customers and the society? Very often, these interests conflict with each other.

There are five alternative concepts under which organisations may conduct their marketing activities: (1) *production*, (2) *product*, (3) *selling*, (4) *marketing* and (5) *societal marketing*. We discuss each of these below.

The production concept

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

production concept
The idea that consumers will favour products that are available and highly affordable, and that the organisation should therefore focus on improving production and distribution efficiency.

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 labour 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.

The product concept

Another major concept guiding sellers, the **product concept**, holds that consumers will favour products that offer the most quality, performance and innovative features. Thus, an organisation should devote energy to making continuous product improvements. Some manufacturers believe that if they can build a better mousetrap the world will beat a path to their door.[6] But they are often rudely shocked. Buyers may well be looking for a better solution to a mouse problem, but not necessarily for a better mousetrap. The solution might be an electronic deterrent, an exterminating service or even a house cat, or something that works 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.

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

The product concept can also lead to marketing myopia. For instance, railways management once thought that users wanted trains, rather than transportation, and overlooked the growing challenge from airlines, buses, trucks and cars. FTA-TV (free-to-air television) station management who target narrow segments overlook the fact that, in general, younger people watch less television in favour of interaction with each other via mobile devices, instant messaging and email, interactive games and social networking on the web, and even watch sporting events on YouTube after the fact.

The selling concept

Many companies follow 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. The selling concept is

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 marketing concept: KFC colourfully proclaims how it delivers satisfaction – 'It's finger lickin' good'.

Bloomberg via Getty Images

typically practised with unsought goods – those that buyers do not normally think of buying, such as insurance. These industries must be effective at tracking down prospects and selling them on product 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 making what the market wants. It assumes that customers who are coaxed into buying the product will like it. Or, if they do not like it, they will possibly forget their disappointment and buy it again later. These are usually poor assumptions.

The marketing concept

The **marketing concept** holds that achieving organisational goals depends on determining the needs and wants of target markets and delivering the desired satisfaction more effectively and efficiently than competitors do. The marketing concept has often been stated in colourful ways: 'Finger lickin' good' (KFC), 'Beanzmeanz Heinz' (Heinz), 'You are 24 hours of sun!' (Fronius solar energy) and 'Where do you want to go today?' (Microsoft).

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

The selling concept and the marketing concept are sometimes confused. Figure 1.4 compares the two concepts. 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, Southwest Airlines' colourful co-founder, puts 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

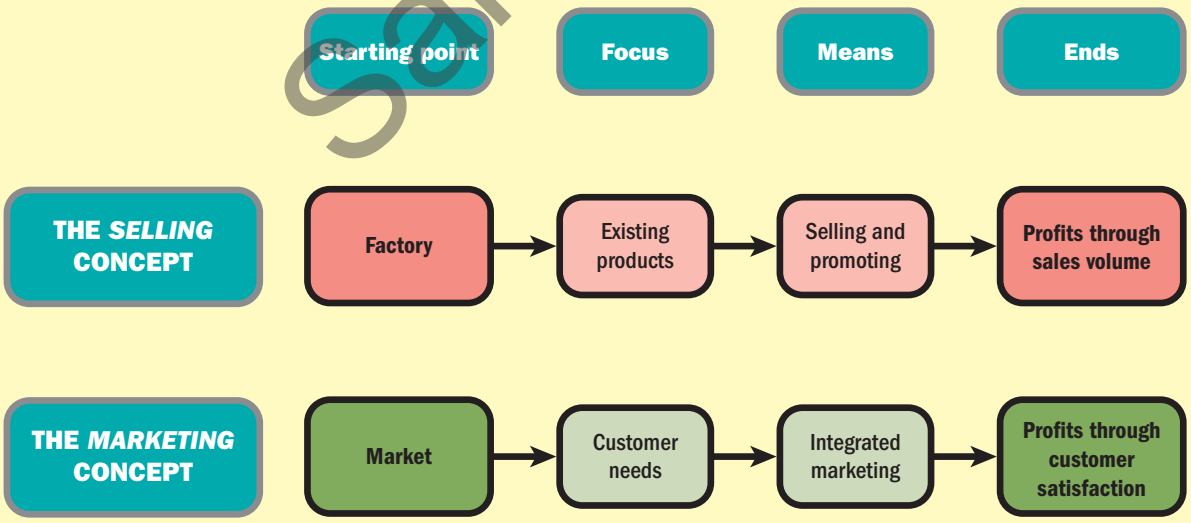


Figure 1.4 The selling and marketing concepts contrasted

marketing activities that affect customers. In turn, it yields profits by creating lasting 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 current customers deeply to learn about their desires, gather new product and service ideas, and test proposed 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 *do not* know what they want or even what is possible. As Henry Ford once remarked, 'If I'd asked people what they wanted, they would have said faster horses.'[7] For example, even 20 years ago, how many consumers would have thought to ask for now-commonplace products such as tablet computers, smartphones, digital cameras, 24-hour online buying and satellite navigation systems (GPS) in their cars? Such situations call for *customer-driven* marketing – understanding customer needs even better than customers themselves do and creating products and services that meet existing and latent needs, now and in the future. As an executive at 3M puts it, 'Our goal is to lead customers where they want to go before *they* know where they want to go.'

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 is best for 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* wellbeing. 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.

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.

Even more broadly, many leading business and marketing thinkers are now preaching the concept of shared value, which recognises that societal needs, not just economic needs, define markets.[8]

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 GE, Dow, Google, IBM, Intel, 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 wellbeing of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers and the economic wellbeing of the communities in which they operate.

One prominent marketer calls this *Marketing 3.0*. 'Marketing 3.0 organisations are values-driven,' he says. 'I'm not talking about being value-driven. I'm talking about "values" plural, where values amount to caring about the state of the world.' Another marketer calls it *purpose-driven marketing*. 'The future of profit is purpose,' he says.[9]

Preparing an integrated marketing plan and program (pp. 13–15)

The company's marketing strategy outlines which customers the company will serve and how the company 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* – that is, the set of marketing tools the firm uses to implement its marketing strategy.

While the ultimate aim may be to modify people's behaviour – to drive more carefully, drink less alcohol, use less energy or water, think favourably of a political party, give more to a charitable organisation or buy a particular brand – marketing managers have a defined set of tools they can use. The set of tools most marketers employ, in varying combinations, has developed most recently from the knowledge gained in business-to-business marketing (formerly industrial marketing) and in marketing services. We refer to these tools (see Figure 1.5) as the *extended marketing mix* and their blending in a strategic manner is discussed in Chapter 2. Each of the main marketing mix tools (product, price, placement logistics and promotion) is discussed in more detail in the chapters forming Part 2. It should be noted at the outset that the three remaining marketing mix tools (people, process and physical evidence) are discussed throughout the book for reasons which should become clear as the story unfolds.

To deliver on its value proposition, the marketing organisation must first create a need-satisfying market offering (product). It must decide how much it will charge for the offer (price) and where it will make the offer available to target customers (placement). It must communicate with target customers about the offer and persuade them of its merits (promotion). It must decide how relationships will be developed and maintained and who will do this (people). It must decide on how customer satisfaction will be delivered and recorded (technologies) – whether a service/experiential product or after-sales service (process). And, lastly, it must manage customer expectations and relative service quality, thereby ensuring that customers have realistic expectations which the marketing organisation can meet (physical evidence). The marketing organisation must blend all these marketing mix tools into a comprehensive, integrated marketing program that communicates and delivers the intended value to chosen customers. We explore marketing programs and the marketing mix in much more detail in later chapters.

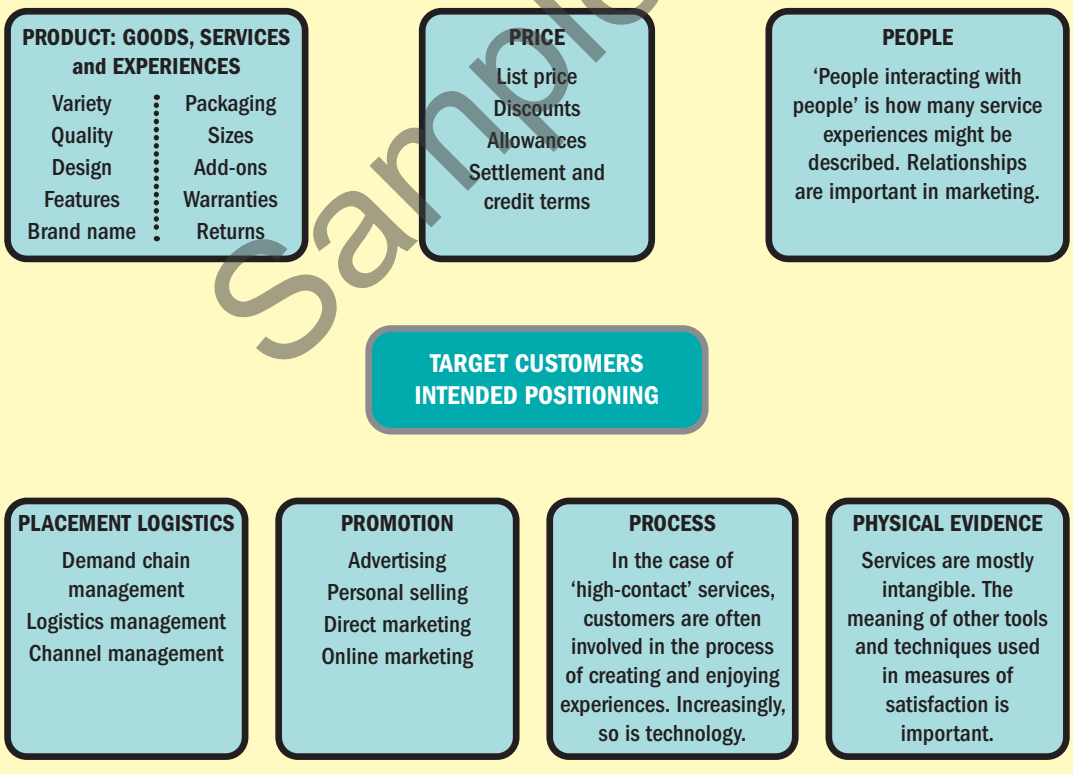


Figure 1.5 The extended marketing mix

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 have 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 last purchase? Describe your relationship with Nike, adidas, New Balance, Asics, Reebok, Puma, Converse or whatever brand of shoes you purchased.

Engaging customers and managing customer relationships (pp. 15–18)

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

Customer relationship management

Customer relationship management is perhaps the most important concept of modern marketing. In its 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, keeping and growing customers. Hence, more specifically, **customer relationship management (CRM)** is the process of managing detailed information about individual customers and carefully managing customer touch points in order to maximise customer loyalty.

customer relationship management (CRM)
Managing detailed information about individual customers and carefully managing customer touch points in order to maximise customer loyalty.

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 to give the marketing organisation a larger share of their business.

Customer value

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 product values and costs accurately or objectively. They act on *perceived* value. For example, is a Tesla Model 3 really the most economical choice when buying a motor vehicle? In reality, it might take years to save enough in reduced fuel costs to offset the car's higher purchase price. However, Tesla Model 3 buyers perceive that they are getting real value. It is all a matter of personal value perceptions. For many consumers, the answer to our question is 'no', but – for the target segment of style-conscious, affluent buyers – the answer is 'yes'.

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

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

customer satisfaction
The extent to which a product's perceived performance matches or exceeds a buyer's expectations.

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. Smart companies aim to delight customers by promising only what they can deliver, then delivering more than they promise. Delighted customers not only make repeat purchases; they also become willing marketing partners and 'customer evangelists' who spread the word about their good experiences to others.[10]

For companies interested in delighting customers, exceptional value and service become part of the overall company culture. For example, year after year, Ritz-Carlton ranks at or near the top of the hospitality industry in terms of customer satisfaction. The company's passion for satisfying customers is summed up in its credo, which promises that its luxury hotels will deliver a truly memorable experience – one that 'enlivens the senses, instils well-being, and fulfils even the unexpressed wishes and needs of our guests'.[11]

Although a customer-centred firm seeks to deliver high customer satisfaction relative to competitors, it does not attempt to *maximise* customer satisfaction. A company can always increase customer satisfaction by lowering its price 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

Marketing organisations 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, Lever-Rexona does not phone or call on all of its Sunsilk consumers to get to know them personally. Instead, the company creates relationships through brand-building advertising, websites and social media presence. At the other extreme, in markets with few customers and high margins, sellers want to create *full partnerships* with key customers. For example, Lever-Rexona teams work closely with Coles, Woolworths and other large retailers. 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 consumers. For example, many companies offer *frequency marketing programs* that reward customers who buy frequently or in large amounts. Airlines offer frequent-flyer programs, hotels give room upgrades to their frequent guests, and supermarkets – for example, Woolworths – give patronage discounts to their customers via such tools as their Woolworths Rewards card which enables customers to get money off their weekly shopping bills.

Other companies sponsor *club marketing programs* that offer members special benefits and create member communities. For example, Harley-Davidson sponsors the Harley Owners Group (HOG), which gives Harley riders a way to share their common passion of 'making the Harley-Davidson dream a way of life'. HOG membership benefits include a quarterly *HOG* magazine, the *H.O.G. Touring Handbook*, a roadside assistance program, a specially designed insurance program, theft reward service, a travel centre and a 'Fly & Ride' program enabling members to rent Harleys while on holiday. The worldwide club now numbers more than 1500 local chapters and more than a million members.[12]

Engaging customers

Profound changes continue to occur in the ways in which companies are relating to their customers. Yesterday's marketing organisations focused on mass marketing to all customers at arm's length. Today's companies build deeper, more direct and lasting relationships with more carefully selected customers. We now examine some of the important trends in the way companies are relating to their customers.

Customer engagement and today's digital and social media

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

Yesterday's companies focused mostly on mass marketing to broad segments of customers at arm's length. By contrast, today's companies are using online, mobile and social media to refine their targeting and to engage customers more deeply and interactively. The *old marketing* involved marketing brands *to* consumers. The *new marketing* is *customer-engagement marketing* – fostering direct and continuous customer involvement in shaping brand conversations, brand experiences and brand community. Customer-engagement marketing goes beyond just selling a brand to consumers. Its goal is to make the brand a meaningful part of consumers' conversations and lives.

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

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

Many companies post their latest ads and videos on social media sites, hoping they will go viral. They maintain an extensive presence on Twitter, YouTube, Facebook, Google+, Pinterest, Instagram, Vine and other social media to create brand buzz. They launch their own blogs, mobile apps, online microsites and consumer-generated review systems, all with the aim of engaging customers on a more personal, interactive level.

Take Twitter, for example. Organisations ranging from computer giant, Dell, and news media to politicians and government departments have created Twitter pages and promotions. They use 'tweets' to start conversations with and between Twitter's more than 317 million monthly active users, to address customer service issues, to research customer reactions and to drive traffic to relevant articles, web and mobile marketing sites, contests, videos and other brand activities.[13]

Similarly, almost every marketing organisation has something going on Facebook these days. Starbucks has more than 38 million Facebook 'fans'; Coca-Cola has more than 94 million.[14] And every major marketer has a YouTube channel where the brand and its fans post current ads and other entertaining or informative videos. Instagram, LinkedIn, Pinterest, Snapchat, Vine – all have exploded onto the marketing scene, giving brands more ways to engage and interact with customers. Skilled use of social media can get consumers involved with and talking about a brand.

The key to engagement marketing is to find ways to enter consumers' conversations with engaging and relevant brand messages. Simply posting a humorous video, creating a social media page or hosting a blog is not enough. Successful engagement marketing means making relevant and genuine contributions to consumers' lives and interactions.

Consumer-generated marketing

Whether invited by marketers or not, **consumer-generated marketing** has become a significant marketing force. Through a profusion of consumer-generated videos, blogs and websites, consumers are playing an increasing role in shaping their own brand experiences and those of other consumers. Beyond creating brand conversations, on their own or by invitation, customers are having an increasing say in everything from product design, usage and packaging, to pricing and distribution and reviewing product quality and satisfaction.[15] Some companies ask consumers for new product and service ideas, while others invite customers to play an active role in shaping ads.

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.

Despite the many successes, however, 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.

Moreover, because consumers have so much control over social media content, inviting their input can sometimes backfire. For example, McDonald's famously launched a Twitter campaign using the hashtag #McDStories, hoping it would inspire heart-warming stories about Happy Meals. Instead, the effort was hijacked by Twitter users, who turned the hashtag into a 'bashtag' by posting less-than-appetising 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.[16]

As consumers become more connected and empowered, and as the boom in digital and social media technologies 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, blogs, mobile apps and websites, consumers are playing a growing role in shaping their own and other consumers' brand experiences. Engaged consumers are now having a say in everything from product design, usage and packaging to brand messaging, pricing and distribution. Brands must embrace this new consumer empowerment and master the new digital and social media relationship tools – or risk being left behind.

Partner relationship management

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

When it comes to creating customer value and building strong customer relationships, today's marketers know they cannot 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 closely with others inside and outside the company to jointly bring more value to customers.

Partners inside the organisation

Traditionally, marketers have been charged with understanding customers and representing customer needs to different company departments. The old thinking was that marketing is done only by marketing, sales and customer-support people. However, in today's more connected world, every functional area can interact with customers, especially electronically. The new thinking is that – no matter what your job is in a company – you must understand marketing and be customer-focused. Rather than letting each department go its own way, firms must link all departments in the cause of creating customer value.

Partners outside the organisation

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 more than just how well they perform. Success at delivering customer value rests on how well their entire supply chain performs against competitors' supply chains.

Capturing value from customers (pp. 18–21)

The first four steps in the marketing process outlined in Figure 1.1 involve building customer relationships by creating and delivering superior customer value. The final step involves capturing value in return, in the form of current and future sales, market share and profits. By building superior customer value, the firm creates highly satisfied customers who remain loyal and buy more. This, in turn, means greater long-run returns for the marketing organisation. Here, we discuss the outcomes of creating customer value: *customer loyalty and retention*, *share of market*, *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 favourably to others about the company and its products. Studies show big differences in the

loyalty of customers who are less satisfied, somewhat satisfied and completely satisfied. Even a slight drop from complete satisfaction can create an enormous drop in loyalty. Thus, the aim of customer relationship management is to create not only customer satisfaction but also customer delight.

Keeping customers loyal makes good economic sense. Loyal customers spend more and stay around longer. Research also shows that it is five times cheaper to keep an old customer than to 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. Here is a classic illustration of **customer lifetime value**:

Customer lifetime value: To keep customers coming back, the US supermarket chain 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

> Stew Leonard, who operates a highly profitable four-store supermarket in Connecticut and New York, once said that he sees $50,000 flying out of his store every time he sees a sulking customer. Why? Because his average customer spends about $100 a week, shops 50 weeks a year, and remains in the area for about 10 years. If this customer has an unhappy experience and switches to another supermarket, Stew Leonard's has lost $50,000 in lifetime revenue. The loss can be much greater if the disappointed customer shares the bad experience with other customers and causes them to defect.
>
> To keep customers coming back, Stew Leonard's has created what has been called the 'Disneyland of Dairy Stores', complete with costumed characters, scheduled entertainment, a petting zoo, and animatronics throughout the store. From its humble beginnings as a small dairy store in 1969, Stew Leonard's has grown at an amazing pace. It's built 30 additions onto the original store, which now serves more than 300,000 customers each week. This legion of loyal shoppers is largely a result of the store's passionate approach to customer service. 'Rule #1: The customer is always right. Rule #2: If the customer is ever wrong, reread rule #1.'[17]

customer lifetime value
The amount by which revenues from a customer over time exceed the company's costs of attracting, selling and servicing that customer. The value of the entire stream of purchases that the customer would make over a lifetime of patronage.

Stew Leonard 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.[18] In fact, a company can lose money on a specific transaction but still benefit greatly from a long-term relationship. This means that companies must aim high in building customer relationships. Customer delight creates an emotional relationship with a brand, not just a rational preference. And that relationship keeps customers coming back.

Growing share of customer

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

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

To increase share of customer, firms can offer greater variety to current customers. Or they can train employees to cross-sell and up-sell in order to market more products and services to existing customers. For example, Amazon.com is highly skilled at leveraging relationships with its 244 million customers to increase its share of each customer's purchases. Originally an online bookseller, Amazon.com now also

offers customers music, videos, gifts, toys, consumer electronics, office products, home improvement items, lawn and garden products, apparel and accessories, jewellery and an online auction. Based on its system, which relies on each customer's purchase history, the company recommends related products that might be of interest. In this way, Amazon.com captures a greater share of each customer's spending budget. In the United States, Amazon has what it terms its Prime two-day shipping program, which has also helped boost its share of customers' wallets. For an annual fee of $99, Prime members receive delivery of all their purchases within two days, whether it is a single paperback book or a 60-inch high-definition television. According to one analyst, the ingenious Amazon Prime program 'converts casual shoppers, who gorge on the gratification of having purchases reliably appear two days after the order, into Amazon addicts'. As a result, Amazon's 40 million Prime customers now account for more than half of its US sales. On average, a Prime customer spends 2.4 times more than a non-Prime customer does.[19]

Building customer equity

We can now see the importance of not just acquiring customers, but also keeping and growing them. One marketing consultant puts it this way: 'The only value your company will ever create is the value that comes from customers – the ones you have now and the ones you will have in the future. Without customers, you do not have a business.'[20] Customer relationship management takes a long-term view. Companies want not only to create profitable customers, but to 'own' them for life, earn a greater share of their purchases and capture their customer lifetime value.

What is customer equity?

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

The ultimate aim of customer relationship management is to produce high *customer equity*.[21] **Customer equity** is the total combined customer lifetime values of all of the company's current and potential customers. As such, it is a measure of the future value of the company's customer base. Clearly, the more loyal the company's profitable customers, the higher the company's customer equity. Customer equity may be a better measure of a company's performance than current sales or market share. Customer equity is one reason why upmarket car brands, such as BMW, have focused on younger customers (average age about 40), and why communities of practice, such as Bimmerpost.com and BabyBMW.net, are so important to the company's long-term sales and profitability. There, those younger users communicate with one another across the full range of BMWs and also with companies across the world that supply original equipment accessories and more.

Building the right relationship with the right customers

Companies should manage customer equity carefully. They should view customers as assets that need to be managed and maximised. 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. Customers can be classified into one of four relationship groups, according to their profitability and projected loyalty.[22] Each group requires a different relationship management strategy. *Strangers* show low potential profitability and little projected loyalty. There is little fit between their needs and the company's offerings. The relationship management strategy for these customers is simple: do not invest anything in them; make money on every transaction.

Butterflies are potentially profitable but not loyal. There is a good fit between their needs and the company's offerings. However, like real butterflies, we can enjoy them for only a short while and then they are 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 the company 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 company wants to make continuous relationship investments to delight these customers and nurture, retain and grow them. It wants to turn true friends into *true believers*, who come back regularly and tell others about their good experiences with the company.

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

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 have 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?
- Select a company that you last purchased from. How well does that company manage its relationships with customers? What customer relationship management strategy does it use? Do you think this relationship management strategy differs from other companies you buy from?
- Are you a 'true friend' of any company? What strategy does this company use to manage its relationship with you?

The changing marketing landscape (pp. 21–28)

Marketing operates within a dynamic global environment. Every decade calls on marketing managers to think in a fresh way about their marketing objectives and practices. Rapid changes can quickly make yesterday's winning strategies out of date. As management thought leader Peter Drucker once observed, a marketing organisation's winning formula for the last decade will probably be its undoing in the next decade.

Marketing does not take place in a vacuum. Now that we have discussed the five steps in the marketing process, let us examine how the ever-changing marketplace affects both consumers and the marketers who serve them. We look more deeply into these and other marketing environment factors in Chapter 3.

In this section, we examine the major trends and forces that are changing the marketing landscape and challenging marketing strategy. We look at six major developments: (1) the *digital age*; (2) the *challenging economic environment*; (3) *measuring marketing's contribution to organisational performance*; (4) the *growth of not-for-profit marketing*; (5) *rapid globalisation*; and (6) the *call for more corporate social responsibility*.

The digital age: Online, mobile and social media marketing

The information revolution has reached a critical point where a new information-based infrastructure is unfolding as we witness the convergence of telecommunications, media and technology (TMT) in the form of computer systems, information services and consumer/professional electronics. The new digital infrastructure is creating major shifts in markets and competition. As a result, traditional company and industry structures are being transformed into alliance networks. This IT explosion is accelerating the rate of change and the emergence of new global competitors as various markets become attractive due to the lower costs offered to many industries by technology such as the **internet**.

internet
A vast public web of computer networks that connects users of all types all around the world to each other and to an amazingly large information repository.

The explosive growth in digital technology has fundamentally changed the way we live – how we communicate, share information, access entertainment and shop. More than 3 billion people – 42 per cent of the world's population – are now online; over 80 per cent of Australians own smartphones. These numbers will only grow as digital technology rockets into the future.[23]

Most consumers are totally smitten with all things digital. For example, many smartphone users keep their mobile phone next to them when they sleep – they say it is the first thing they touch when they get up in the morning and the last thing they touch at night. In just the past few years, people averaged more time per day with digital media than they did viewing traditional television, with many using their mobile device while they watch television.[24]

The consumer love affair with digital and mobile technology makes it fertile ground for marketers trying to engage customers. So it is 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, it seems that every company is reaching out to customers with multiple websites, newsy tweets and Facebook pages, 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
The use of 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.

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 branded community sites, where customers can congregate and exchange brand-related interests and information. For example, the Pettalk site, <www.pettalk.com.au>, is a place where pet lovers can communicate via discussion boards dedicated to various types of pets. Patient, <patient.info/forums/>, offers moderated forums where people from all over the world can register and share their medical experiences, and the research they have found for various ailments and remedies. And Sony's GreatnessAwaits.com site serves as a social hub for PlayStation PS4 game enthusiasts. It is a place where fans can follow social media posts about PS4, watch the latest PS4 videos, discover which PS4 games are trending on social networks, share content and interact with other fans – all in real-time. To date, GreatnessAwaits.com has earned more than 4.5 million page views, curated more than 3.3 million pieces of social content and featured 75 000 fans.[25]

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

Social media marketing

It is difficult to find a brand website, or even a traditional media ad, that does not feature links to the brand's Facebook, Twitter, Google+, LinkedIn, YouTube, Instagram, Pinterest or other social media sites. Social media provide exciting opportunities to extend customer engagement and get people talking about a brand. More than 90 per cent of all US companies now use social media as part of their marketing mixes, and 71 per cent believe that social marketing is core to their business.[26]

Some social media are huge – Facebook has more than 1.2 billion active monthly members. Twitter has more than 317 million monthly active users; Pinterest draws in 53 million users; and Instagram racks up an estimated 300 million active monthly visitors. Reddit, the online social news community, has nearly 174 million unique visitors each month from 185 countries. But more-focused social media sites are also thriving, such as XDA-Developers, an online global community of many millions of smartphone users who exchange advice, discuss entertainment and share software development via phone at the community's online, Facebook, Swappa, Twitter, YouTube, Google+ and mobile sites such as Tapatalk.

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 important happenings in consumers' lives.

Using social media might involve something as simple as a contest or promotion to garner Facebook likes, tweets or YouTube postings. But more often these days, large organisations of all kinds use a wide range of carefully integrated social media. For example, space agency NASA uses a broad mix of social media to educate the next generation of space explorers on its mission to 'boldly go where no man has gone before'. In all, NASA has more than 480 social media accounts, spanning various topics and digital platforms. The agency has more than 10 million Facebook fans, 9 million Twitter followers, 2.5 million Instagram followers and 30 000 YouTube subscribers. One of NASA's largest-ever social media campaigns supported the recent test launch of the Orion spacecraft, which will eventually carry humans to deep-space destinations, such as Mars or an asteroid.[27]

Mobile marketing

Mobile marketing is perhaps the fastest-growing digital marketing platform. Four out of five smartphone users use their phones to access their bank account for online transfers and payments, browse product information through apps or the mobile web, make in-store price comparisons, read online product reviews, find and redeem coupons, and a lot more.[28] Smartphones are ever-present, always on, finely targeted and highly personal, and for one-third of Australians, their only means of telephone communication.[29] This makes smartphones 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.

We investigate the exciting use of digital technologies in marketing in the chapters ahead, particularly in Chapter 13.

The challenging world economy

From 2008 to 2009, the United States experienced a stunning economic meltdown, mainly due to questionable bank-lending practices. This Global Financial Crisis (GFC) was unlike anything experienced since the Great Depression of the 1930s. As a result, most world economies experienced major economic upheavals, requiring implementation of government stimulus packages. Stock markets plunged and trillions of dollars of market value simply evaporated. The financial crisis left shell-shocked US consumers short of both money and confidence as they faced losses in income, a severe credit crunch, declining home values and rising unemployment.

The stimulus packages introduced by the leading economies had a beneficial effect, particularly in Australia and New Zealand. These countries were less affected by the GFC due, in part, to mineral exports and to tighter regulation of the financial services sector. However, a subsequent downturn in trade with China in 2015–16 caused concerns in both countries.

The faltering and uncertain economy caused many consumers to rethink their spending priorities and to cut back on their buying. More than just a temporary change, the economic downturn has affected consumer attitudes and spending behaviour and will continue to do so for many years to come – and in many countries. In Australia and New Zealand, consumer confidence fell due to the collective impact on their economies of a number of challenges occurring internationally: first, the US crisis, then the sovereign debt issues of a number of southern European countries, followed by mass migration out of war-torn sectors of the Middle East into these countries and further into Europe, coupled with a downturn in China's exports.

In today's post-recession era, consumer incomes and spending are again on the rise. However, even as the economy has strengthened in the United States, rather than reverting to their old free-spending ways, Americans are now showing an enthusiasm for frugality not seen in decades. Sensible consumption has made a comeback, and it appears to be here to stay. The new consumer spending values emphasise simpler living and more value for the dollar. Despite their rebounding means, consumers continue to buy less, clip more coupons, swipe their credit cards less and put more in the bank.

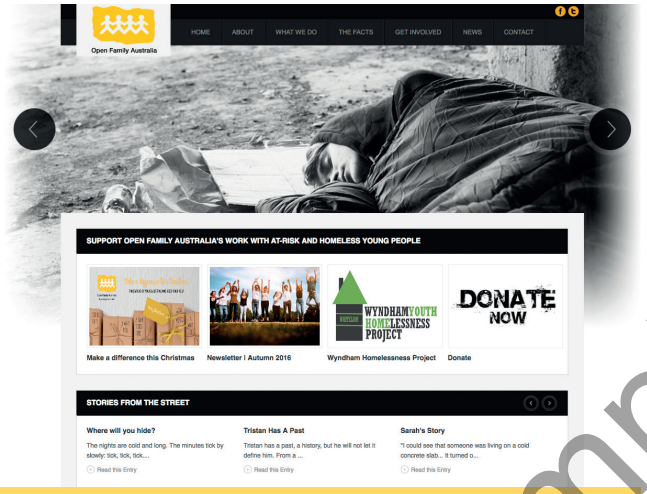
Companies in all industries – from discounters to luxury brands – have tightened their budgets and aligned their marketing strategies with the new economic realities. More than ever, marketers are

emphasising the *value* in their value propositions. They are focusing on value-for-the-money, practicality and durability in their product offerings and marketing pitches.

In adjusting to the new economy, companies might be tempted to cut marketing budgets deeply and to slash prices in an effort to coax jittery customers into opening their wallets. Although cutting costs and offering selected discounts can be important marketing tactics in a slowing economy, smart marketers understand that making cuts in the wrong places can damage long-term brand images and customer relationships. The challenge is to balance the brand's value proposition with the current times while also enhancing its long-term equity. Thus, rather than slashing prices in uncertain economic times, many marketers hold the line on prices and instead explain why their brands are worth it.

Measuring marketing's contribution to organisational performance

Businesses exist to create wealth for their owners, while not-for-profit organisations seek to survive in order to continue satisfying those who depend on them. While some researchers initially took the view that profits are an element of market orientation, we join others in taking the view that profit is the objective of business and surpluses the objective of not-for-profit organisations.[30]



Marketing a social cause: Open Family Australia provides outreach support and services to homeless and at-risk young people.

Open Family Australia

As performance measurement has increasingly become the domain of marketing management, one key question facing each type of organisation is which objective (independently reported from such sources as company reports) and subjective (self-reported by managers) performance measures to use in assessing performance. In one review of 150 prior studies covering the period 1991–95, it was found that the three most widely used measures were sales (and growth) (22 per cent of all measures), market share (17 per cent) and profit contribution (11 per cent).[31] Such financial measures as sales revenue and profits dominated (67 per cent). Another study extended this by examining a further 46 empirical performance studies published between 1992 and 2003 (nearly all of them published between 1996 and 2003). They found that while the majority of measures were still financially oriented (54 per cent of indicators used), non-financial measures were increasingly being favoured.[32]

The seminal US studies by researchers Narver and Slater and by Kohli and Jaworski employed subjective performance measures whereby managers self-reported their market orientation and the organisation's performance.[33] A later UK study by Harris is one of very few that employed both subjective and objective measures in assessing organisational performance.[34] A meta-analysis by Ellis took these and many other similar studies and reporting methods into account and concluded that, on balance, there is a positive relationship between an organisation holding a market orientation whereby it focuses on both customer needs and competitor activities, and the organisation's performance using a variety of financial and marketing measures or metrics.[35] Marketing in action 1.1 begins our examination of marketing metrics in this book.

It should be evident from this commentary on measuring marketing's performance that, to date, most studies have used the performance indicated by management, rather than turning to more objective sources such as company reports. There are conflicting findings on the connection between holding a market orientation and organisational performance from studies in different parts of the world. Further studies are needed to provide an unequivocal answer as to which measures to use and what value-adding contribution marketing makes to both profit-oriented and not-for-profit organisations.

Marketing in Action 1.1

Are marketers really that 'lousy at selling marketing'?

A former Australian marketing commentator, Neil Shoebridge, often commented on the issue of why marketing management seem to find it difficult to sell the benefits of marketing to the financial management of organisations – particularly to top management. He went so far as to indicate that, 'Marketers might be good at selling their companies' products, but they have done a lousy job of selling marketing.' Why this might be so, and how the matter is being addressed, is the subject of this Marketing in action box.

Why the difficulty in measuring marketing effectiveness?

One difficulty is that, quite apart from the fact that even marketing academics and practitioners use the same words (e.g. brand equity, product innovation), individually they ascribe different meanings to the words. This makes it difficult to talk with certainty to others within their organisations. Another problem is that, while those who continually 'count the beans' within these organisations recognise the costs of marketing, they do not yet include such aspects as 'brand equity' on the assets side of the published financial statements of the organisation. To do so would, at the outset, require agreement on what forms such an asset. To be fair, many sophisticated organisations do utilise a 'dashboard' approach to decision making and predicting the future of their business, and marketing performance measures, or metrics (*metrics* is here taken to indicate a measuring system), such as 'brand share', 'brand equity' and 'share of voice', are indeed monitored and used along with other financial and non-financial measures.

Another important issue is that, when referring to marketing, we need to be clear about which aspect of marketing is being referred to. Shoebridge is clearly suggesting that marketing managers are looking to measure a return on marketing expenditure at the 'budgetary level', and he cites the Australian Marketing Institute's (AMI) 'metrics tool kit', which was developed with the assistance of a grant from the Australian Research Council. Often, this can simply mean trying to measure the return on integrated marketing communication (IMC), or perhaps on a single element such as advertising, if that is the only communication tool used. There is a 'functional' aspect to marketing that sees practitioners in different types of organisations using different metrics and having different responsibilities. For example, marketing management of a service firm such as Qantas uses different metrics and is responsible for different facets of the business than those in a service firm such as the ANZ Banking Group. And both service firms differ in their metrics and responsibilities from those involved in the manufacturing and marketing of fast-moving consumer goods (FMCG), such as Lever-Rexona.

For Tim Ambler, Roger Best and the many firms they have influenced, the most important aspect is 'pan-company marketing'. These firms have adopted a market-oriented approach, which ensures that, from top to bottom, thanks to effective internal marketing, their employees see the only reason for the organisation's existence as satisfying customers. How? They are market-oriented because they repeatedly add value at every point of contact – what Jan Carlzon of Scandinavian Airways referred to as 'moments of truth' – and at every purchase and post-purchase situation. This market-oriented approach is also vital for not-for-profit organisations, such as the Red Cross and the Australian Cancer Council, and indeed for all levels of government, political and administrative. Not adopting this approach may result in *moments of misery* for customers and a falling-away in repeat business.

The aspect of marketing referred to throughout this book, even when examining a marketing metric that seems applicable at the budgetary level, is the pan-company marketing perspective. Why? The simple answer is that, while businesses might depend on shareholder satisfaction to have the funds to continue and expand the scope of their operations, all facets of the business – including shareholder wealth – depend on customers and their repeated satisfaction. This means that all employees should see it as their duty to know how they contribute to customer satisfaction.

Which marketing metrics?

The key to developing a metrics system is to identify a group of indicators (Ambler recommends 'a dozen or so') that aid in managing the business and enable accurate cashflow predictions into the future. As with marketing research, we can ask every question imaginable, but the answers to relatively few questions will indicate whether the customer will come back and spend more money on our product offering. Sometimes the answer to one question indicates they will never come back. A non-financial marketing metric, such as 'share of voice' (which includes social media word of mouth), is important to long-term 'brand attitude', and both – in time – impact on financial measures such as profitability and cashflow. The critical feature is to establish the leads and lags between the indicators. As we see in Appendix 3's Spotlight 7, the link is more solid and the effect more immediate for the direct and digital marketer – which knows its customers by name – than for the FMCG marketer which stands removed from individual customers by a supply chain that includes wholesalers and retailers (see Appendix 3's Spotlight 4). All such market-oriented companies depend on innovation for their life's blood and continually need to develop new products that truly add value for customers (see Appendix 3's Spotlight 6).

We begin by referring to a ranking of performance measures (or *analytic measures*) in Spotlight 1 in Appendix 3.

The journey has begun

We address this matter by presenting a marketing analytics spotlight – a mini case study – in Appendix 3 to introduce you to the many measures that are employed in assessing the performance that results from effective marketing. The marketing analytics spotlights should therefore be seen as the start of a journey that will continue throughout your marketing studies and into your business life. As Farris and colleagues succinctly put it, 'Being able to "crunch the numbers" is vital to success in marketing. Knowing which numbers to crunch, however, is a skill that develops over time.' And so we ask you to work through the examples provided at the end of each chapter and begin your journey into the effective use of marketing metrics. In particular, you will find mini case studies entitled 'Marketing analytics at work', which are designed to allow you to work through the various marketing performance measures faced by marketing management.

A word of caution: Research studies conducted at different points in time, and in various locations, are not always able to support the findings of earlier studies. It is therefore wise to read as widely as possible and to remain open-minded when confronted with conflicting evidence. Marketing has adopted the scientific approach, and researchers continually seek to support or refute the findings of earlier studies in the knowledge that 'iron laws' are unlikely to be developed, even with continuous empirical investigation.

Sources: Quotation from Paul W Farris, Neil T Bendle, Phillip E Pfeifer & David J Reibstein, *Marketing Metrics: 50+ Metrics Every Executive Should Master*, Wharton School Publishing, 2006; Shoebridge quotation from Neil Shoebridge, 'Marketers' measure', *BRW*, 1–7 December 2005, p. 63. The term *pan-company marketing* is from Tim Ambler, *Marketing and the Bottom Line*, 2nd edn, Financial Times Prentice Hall: London, 2003. See also T Ambler & F Kokkinaki, 'Measures of marketing success', *Journal of Marketing Management*, 13(7), 1997, pp. 665–79; T Ambler, F Kokkinaki & S Puntoni, 'Assessing marketing performance: Reasons for metrics selection', *Journal of Marketing Management*, 20, 2004, pp. 475–98; T Ambler, F Kokkinaki, S Puntoni & D Riley, 'Assessing market performance: The current state of metrics', Centre of Marketing, London Business School, Working Paper, 2001, pp. 1–68; Roger J Best, *Market-Based Management*, 4th edn, Pearson Prentice Hall: Upper Saddle River, NJ, 2005; Competitive Fitness of Global Firms report, available at <www.corvaltec.com/index.html>, accessed 9 January 2007; J-C Larréché, *The Test of Business Capabilities? Highlights from Measuring the Competitiveness of Global Firms 2002*, Financial Times Prentice Hall: London, 2002, available at <www.corvaltec.com>, accessed 30 August 2003.

Questions

1. What does the term *marketing analytics* refer to?
2. List and describe the three aspects of marketing at the budgetary level that can influence the measures used. (*Hint:* One is the functional aspect of marketing.)
3. What is the sole reason for the company's existence put forward in this Marketing in action box? Do you agree?
4. Which (if any) one marketing performance measure do you believe is the most important?

The growth of not-for-profit marketing

not-for-profit marketing
Marketing as practised by a variety of organisations whose aim is to make surpluses so as to continue their operations, but that do not seek to make profits for shareholders.

Over the years, marketing has been most widely applied in the business sector. In more recent times, however, **not-for-profit marketing** has also become a major component in the strategies of many philanthropic organisations, universities, hospitals, museums, symphony orchestras, zoos and even churches.

Similarly, many private schools and, increasingly, universities, facing fluctuating domestic and international enrolments, rising costs and global competitors, are using marketing to compete for students and funds, both at home and abroad. They are redefining target markets, improving their communication and promotion, and responding more effectively to student needs and wants. Many performing arts groups face huge operating deficits that they must cover by more aggressive donor marketing, particularly from the corporate sector. Finally, many long-standing not-for-profit organisations – the YMCA, the Salvation Army, the Red Cross and the Scouts – have lost members and are now modernising their missions and 'products' to attract more members and donations.[36]

Even government agencies have shown an increased interest in marketing. For example, the armed services in many countries have marketing plans to attract recruits. And various government agencies are now designing social marketing campaigns to reward and encourage energy conservation and concern for the environment, to stimulate good corporate behaviour or to discourage smoking, excessive drinking and drug use.

The continued growth of not-for-profit and public-sector marketing presents exciting challenges for marketing managers.

Rapid globalisation

The world economy has undergone radical change during the past three decades. Geographical and cultural distances have shrunk with the advent of jet airliners, telephone links (such as Japan's DoCoMo iMode interactive mobile phones), digital satellite-television broadcasting (such as Britain's BSkyB and Japan's

PERFECTV), internet email and instant messaging, social networking and other technical advances, such as internet-capable smartphones (iPhone and Android phones) and Video-over-IP phone services (such as Google Hangouts and Microsoft's Skype). These technological advances have allowed companies to expand significantly their geographical market coverage, purchasing and manufacturing. The result is a vastly more complex marketing environment for both companies and consumers.

Telecommunications, media and technology (TMT): In this digital age, for better or worse, technology has become an indispensable part of our lives. The technology boom provides exciting new opportunities for marketers.

David Sacks/The Image Bank/Getty Images

Today, almost every marketing organisation, large or small, is touched in some way by global competition. From the American florist that buys its flowers from Dutch nurseries, to the Melbourne clothing designer and Sydney retailer that each source merchandise in China, to the American electronics manufacturer competing with giant Japanese rivals in its home markets, to the Australian consumer-goods producer introducing new products into emerging markets abroad – companies are not only trying to sell more of their locally produced goods in international markets, but are also buying more components and supplies abroad. For example, an American fashion designer may choose cloth woven from Australian wool with printed designs from Italy. The designer designs a dress and electronically transmits the drawing to a factory in mainland China. Finished dresses are airfreighted to New York where they are distributed to department and specialty stores around the country.

Many domestically purchased goods and services are 'hybrids', with design, materials purchases, manufacturing and marketing taking place in several countries. Australians who want to 'Buy Australian' might reasonably decide to avoid a Honda Civic or a Mitsubishi Lancer and purchase a Ford Focus. Imagine their surprise when they learn the Focus is actually a German-made vehicle that sells in great quantities in Europe. Imagine their further surprise at finding that Ford is an American company that also has part ownership of Mazda, or that the Jaguar, Daimler, Rover and Land Rover brands are owned by Indian car maker Tata, or that Zhejiang Geeley Holding Group of China owns Volvo. Consumers in many other nations suffer similar surprises. Australian car marketer General Motors Holden is owned by US giant General Motors. Iconic UK confectionery company Cadbury is now owned by US food giant Kraft. Quintessentially American McDonald's now serves 68 million customers daily in more than 36000 local restaurants in over 100 countries worldwide – nearly 70 per cent of its corporate revenues come from outside the United States. Similarly, Nike markets in 190 countries, with non-US sales accounting for about half of its worldwide sales. Even MTV Networks has joined the elite of global brands – its 150 channels worldwide deliver localised versions of its pulse-thumping fare to 419 million homes in 164 countries around the globe. And it reaches millions more daily via the more than 5000 mobile, console and online games and virtual worlds that it shares on its more than 300 websites worldwide.[37]

Thus, managers in countries around the world are asking: Just what is global marketing? How does it differ from domestic marketing? How do global competitors and forces affect our business? To what extent should we 'go global'? Many companies are forming strategic alliances with foreign companies, even competitors, who serve as suppliers or marketing partners. The past few years have produced some surprising alliances between competitors, such as Ford and Mazda, General Electric and Matsushita, Telstra and News Corporation, Nokia and Microsoft, and Ericsson and Sony. Winning companies in the 21st century may well be those that have built the best global networks.[38]

There is continued resistance from various groups to perceived negatives in the process of globalisation. We examine these further in the next section.

Sustainable marketing: The call for more environmental and social responsibility

A further factor in today's marketing environment is the increased call for companies to take responsibility for the social and environmental impact of their actions. Corporate ethics have become an important matter in almost every business arena, from the corporate boardroom to the business-school classroom. Global companies, with widely adopted brands, cannot ignore the problems they cause by moving operations from one country to the next in search of lower labour costs. Such companies, and governments, can no longer ignore the disruptions caused by the anti-globalisation movement, even if they do not agree with the sentiments of this vociferous group. And few companies can disregard the well-organised and very demanding environmental movement, spearheaded by organisations such as Greenpeace. While Tesla leads the way with their fully electric vehicles, Audi, BMW, General Motors, Honda, Mercedes-Benz, Mitsubishi, Peugeot and Toyota, like others, are putting forward an environmentally friendly face with their semi-electric cars and other hybrids, showing their commitment to the environment via the web, including providing support for local communities in this regard.[39]

Ethics and environmental movements are placing even stricter demands on companies as time passes. No wonder, when in many eastern European countries the air is fouled, the water is polluted, the rivers and the soil are poisoned by chemical dumping, and the effects of global warming are becoming evident. Intensive farming in Australia has caused land salination, algal bloom (from pesticides and reduced water flow in river systems) and general degradation of the waterways, and is destroying the Great Barrier Reef. Worldwide, the outpouring of human effluent has affected the sea, and unfettered car-exhaust emissions have degraded air quality and are contributing to changed weather patterns.

In 1992, 20 years after the United Nations Conference on Human Environment, representatives from more than 100 countries attended the inaugural Earth Summit in Rio de Janeiro to consider how to handle such problems as the destruction of rainforests, global warming, endangered species and other environmental threats.

> [The Summit] brought environment and development issues firmly into the public arena. Along with the Rio Declaration and Agenda 21 it led to agreement on two legally binding conventions: Biological Diversity and the Framework Convention on Climate Change. It also produced a Statement of Forest Principles.[40]

The second Earth Summit was held in 2002 in Johannesburg, and the third in Brussels in 2005, the Copenhagen Climate Summit was held in late 2009, while the fourth Earth Summit was held in Rio de Janeiro in 2012.[41] Global warming and other environmental issues make it imperative that marketing organisations examine the best use of resources, in both inputs and outputs. However, as the Climate Summit resolutions illustrate, getting individual countries to agree to carbon dioxide emission reductions remains difficult.

Some companies, such as Patagonia, Timberland, Method, Ben & Jerry's and others, practice *caring capitalism*, setting themselves apart by being civic-minded and responsible. They build social and environmental responsibility into their company value and mission statements. For example, Ben & Jerry's, a division of Unilever, has long prided itself on being a 'values-led business', one that creates 'linked prosperity' for everyone connected to the brand – from suppliers to employees to customers and communities.[42]

So, what is marketing? Pulling it all together (pp. 28–30)

In Figure 1.1, we presented a simple model of the marketing process. Now that we have discussed all the steps in the process, Figure 1.6 presents an expanded model that will help you pull it all together. What is marketing? Simply put, marketing is the process of building profitable customer relationships by creating value for customers and capturing value in return.

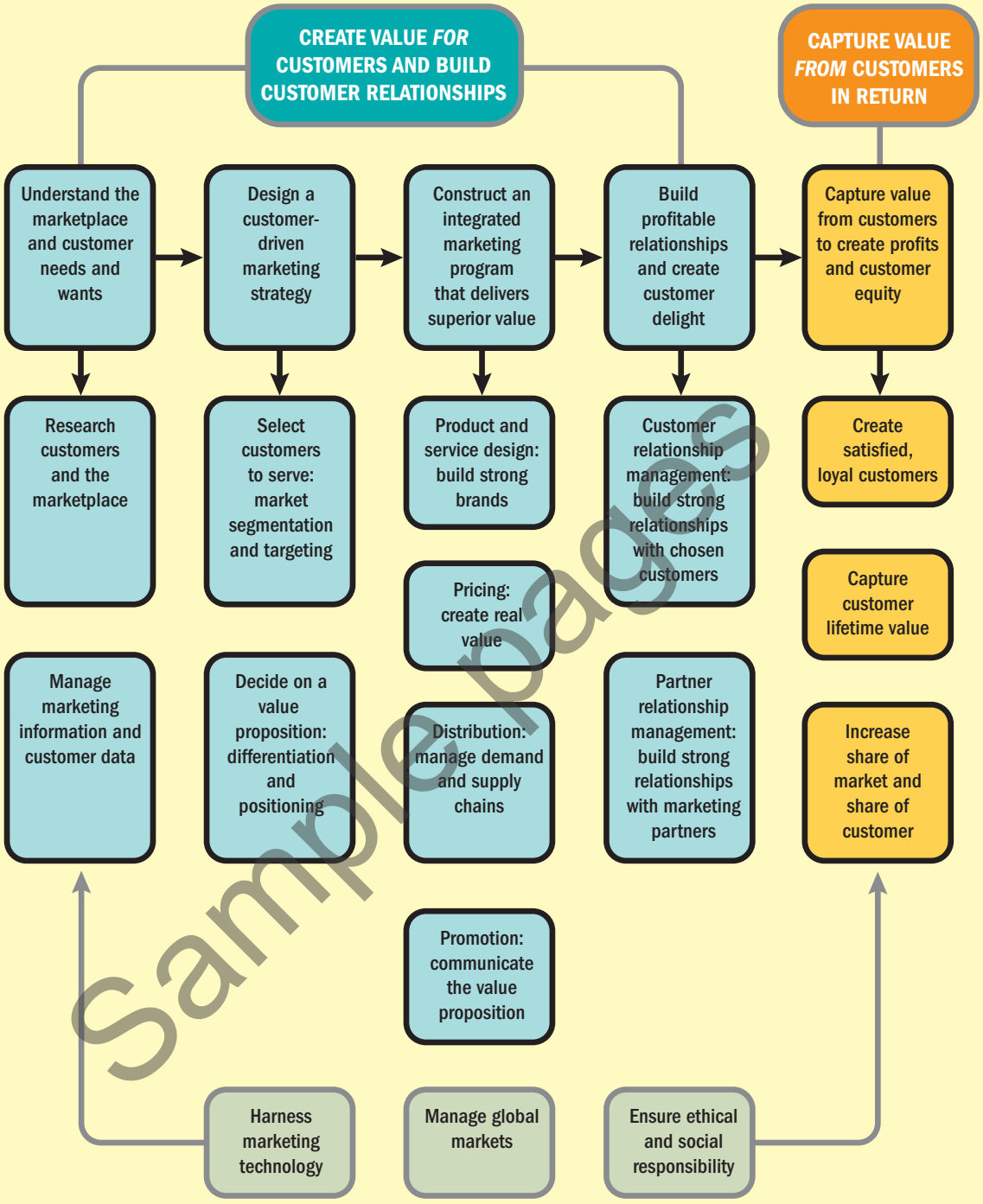


Figure 1.6 An expanded model of the marketing process

The first four steps of the marketing process focus on creating value for customers. The marketing organisation first gains a full understanding of the marketplace by researching customer needs and managing marketing information. It then designs a customer-driven marketing strategy based on the answers to two simple questions. The first question is: 'What consumers will we serve?' (market segmentation and targeting). Successful marketing companies know they cannot serve all customers in every way. Instead, they need to focus their resources on the customers they can serve best and most profitably. The second marketing strategy question is: 'How can we best serve targeted customers?' (differentiation and positioning). Here,

the marketer outlines a value proposition that spells out what values the company will deliver in order to win target customers.

With its marketing strategy chosen, the company now constructs an integrated marketing program, consisting of a blend of the marketing mix elements as shown in Figure 1.5, which transforms the marketing strategy into real value for customers. The company develops market offerings (products) and creates strong brand identities for them. It prices these offers to create real customer value and distributes the offers to make them available to target consumers. Finally, the company designs promotion programs that communicate the value proposition to target consumers and persuade them to act on the market offering.

Perhaps the most important step in the marketing process involves building value-laden, profitable relationships with target customers. Throughout this process, marketers practise customer relationship management to create customer satisfaction and delight. In creating customer value and relationships, however, the company cannot go it alone. It must work closely with marketing partners both inside the company and throughout the marketing system. Thus, beyond practising good customer relationship management, firms must also practise good partner relationship management.

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

Finally, in the face of today's changing marketing landscape, companies must take into account three additional factors. In building customer and partner relationships, they must harness marketing technology, take advantage of global opportunities and ensure they act in an ethical and socially responsible way.

Figure 1.6 provides a good road map to future chapters of the book. Chapters 1 and 2 introduce the marketing process, with a focus on building customer relationships and capturing value from customers. Chapters 3 to 6 address the first step of the marketing process – understanding the marketing environment, managing marketing information and understanding consumer and business buyer behaviour. In Chapter 6, we look more deeply into the two main marketing strategy decisions: selecting which customers to serve (segmentation and targeting) and deciding on a value proposition (differentiation and positioning). Chapters 7 to 13 discuss the marketing mix variables. Chapter 14 brings the book to a close with a discussion on ethics, social responsibility and marketing compliance.

Student Learning Centre

Reviewing the learning objectives

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

Learning Objective 1. Define marketing, and outline the steps in the marketing process. (pp. 4–5)

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

Learning Objective 2. Explain the importance of understanding the marketplace and customers, and identify the five core marketplace concepts. (pp. 5–9)

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

The core marketplace concepts are needs, wants and demands; market offerings (products, services and experiences); value and satisfaction; exchange and relationships; and markets. Wants are the form taken by human needs when shaped by culture and individual personality. When backed by buying power, wants become demands. Companies address needs by putting forth a value proposition, a set of benefits they promise to consumers to satisfy consumers' needs. The value proposition is fulfilled through a market offering, which delivers customer value and satisfaction, resulting in long-term exchange relationships with customers.

Learning Objective 3. Identify the key elements of a customer-driven marketing strategy, and discuss the marketing management orientations that guide marketing strategy. (pp. 9–15)

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

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

Learning Objective 4. Discuss customer relationship management, and identify strategies *for* creating value for customers and capturing value *from* customers in return. (pp. 15–21)

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

Learning Objective 5. Describe the major trends and forces that are changing the marketing landscape in this age of relationships. (pp. 21–30)

Dramatic changes are occurring in the marketing arena. The digital age has created exciting new ways to learn about and relate to individual customers. As a result, advances in digital and social media have taken the marketing world by storm. Online, mobile and social media marketing offer exciting new opportunities to target customers more selectively and engage them more deeply. The key is to blend the new digital approaches with traditional marketing to create a smoothly integrated marketing strategy and mix.

The Great Recession caused consumers to rethink their buying priorities and bring their consumption back in line with their incomes. Even as the post-recession economy has strengthened, people are now showing an enthusiasm for frugality not seen in decades. The challenge is to balance a brand's value proposition with current times while also enhancing its long-term equity.

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

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

Discussion questions

1. *Telling and selling.* Is marketing practice little more than 'telling and selling', while marketing science is really just a matter of carrying out experiments, tests, surveys and other research to help organisations sell more? Or is marketing practice truly concerned with satisfying customer needs and wants by interacting and working with the customer, and marketing science concerned with furthering this aim? One way of discussing this is to form class syndicates taking each position, armed with examples from the marketplace. (Learning Objective 1) (AACSB: Communication; Reflective Thinking)
2. *Customer satisfaction.* If it is true that smart companies aim to completely satisfy customers by promising only what they can deliver, and then delivering more than they promise, does this mean that those who follow this dictum are market leaders and the most profitable in their industry sector? This very topical issue is a matter for individual research using academic journals; the findings might then be pooled in class. Be aware that there is no simple answer. (Learning Objective 2) (AACSB: Communication; Reflective Thinking)
3. *Market orientation or marketing orientation.* At a recent academic conference, a presenter was discussing the literature he had followed in devising his study of the connection between respondent organisations' market orientation and their sales performance. During the presentation, he inadvertently used the term *marketing orientation.* Some of the audience became quite vocal at this point. Why might this be the case? Surely the two terms mean the same thing? (Learning Objective 3) (AACSB: Communication; Reflective Thinking)
4. *Globalisation.* As a response to globalisation, organisations such as airlines are partnering with foreign organisations, even competitors, to form strategic alliance networks (such as the oneworld® alliance of airberlin, American Airlines, British Airway, Cathay Pacific Airlines, Finnair, Iberia, LAN Airlines, Japan Airlines, Malaysia Airlines, Qantas Airways, Qatar Airlines, Royal Jordanian, S7 Airlines, TAM, SriLankan Airlines – see <oneworld.com>) that compete with other networks (such as Star Alliance – see <www.staralliance.com>). The older notion of single companies competing in single markets seems to be giving way to many such strategic alliances. Can you identify other markets where this process is evident? What are the implications for marketing science and practice? (Learning Objective 4) (AACSB: Communication; Reflective Thinking)
5. *Societal marketing concept.* If this term means that the organisation should determine the needs, wants and interests of target markets, then surely this is the same thing as the marketing concept? Is this not simply duplication? Justify your answer. (Learning Objective 5) (AACSB: Communication; Reflective Thinking)
6. *Change management.* A number of enterprises – large (HIH Insurance), medium (One.Tel, Impulse Airlines, Ansett Airlines) and small – have achieved notoriety by their spectacular failures. There seems to be a number of reasons, including systems failure and management failure. Using such sources as the financial press and magazines, identify how marketing may or may not contribute to such failures and to other difficulties that businesses are experiencing. (Learning Objective 5) (AACSB: Communication; Reflective Thinking)

Critical thinking exercises

1. Form a small group of three or four fellow students. Discuss a need or want you have that is not adequately satisfied by any offerings currently in the marketplace. Think of a product or service that will satisfy that need or want. Describe how you will differentiate and position your offering in the marketplace and develop the marketing program for your offering. Present your ideas to the other groups. (Learning Objective 2) (AACSB: Communication; Reflective Thinking)
2. Consider a product that you use or a retailer where you shop frequently. Estimate how much you are worth to the retailer or manufacturer of the brand you prefer if you remain loyal to that marketer for the rest of your life (your customer lifetime value). What factors should you consider when deriving an estimate of your lifetime value to the company? How can the company increase your lifetime value? (Learning Objective 4) (AACSB: Communication; Reflective Thinking; Analytic Reasoning)
1. In a small group, create a presentation about careers in marketing. Search the internet for information regarding the different career options available in marketing, and the skills, education and experience necessary to advance in the field of marketing. Then select a company and describe the marketing career opportunities available there. (Learning Objectives 1–4) (AACSB: Communication; Reflective Thinking)

Navigating the key terms

Learning Objective 1

marketing (p. 4)

Learning Objective 2

demands (p. 6)
exchange (p. 8)
market (p. 8)
market offering (p. 6)
marketing myopia (p. 7)
needs (p. 5)
transaction (p. 8)
wants (p. 5)

Learning Objective 3

demarketing (p. 10)
marketing concept (p. 12)

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product concept (p. 11)
production concept (p. 11)
selling concept (p. 11)
societal marketing concept (p. 13)

Learning Objective 4

consumer-generated marketing (p. 17)
customer equity (p. 20)
customer lifetime value (p. 19)
customer relationship management (CRM) (p. 15)
customer satisfaction (p. 15)
customer-perceived value (p. 15)
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share of customer (p. 19)

Learning Objective 5

digital and social media marketing (p. 22)
internet (p. 21)
not-for-profit marketing (p. 26)

Mini cases

1.1 Digital technologies in marketing

Publishing: To unbundle the app or not?

Newspaper and magazine publishers the world over are in a quandary. Digital tablets such as Apple's iPad, and a myriad of Google Android tablets such as Samsung's range, now bristle with apps which their owners have downloaded courtesy of publishers such as Australasia's Fairfax Media Limited. Fairfax Media publish, among other assets, the *Australian Financial Review* (*AFR*) and *BRW*.

Subscribe to the *AFR* on a five- or six-day basis and you get access, through the *AFR* iPad app, to various newspaper features online. Fee-paying digital subscribers have free access to the app. In a similar strategy to that adopted by Time Inc., called 'All Access', the *AFR* gives its print subscribers access to tablet and smartphone apps and also provides separate access to its digital editions and subscriber content from its website. Competitors, such as Hearst and Condé Nast, also sell app subscriptions separately. And while this has been taking place, hardcopy readership has been dropping.

The Economist has a similar strategy that unbundles tablet editions from print. Pricing strategy is as one might expect in that the price for a print subscription is more expensive than for a *digital* subscription, while *print plus digital* costs more again. These publishers appear to be ready for the steady decline in print readers that every publisher is experiencing.[43]

1. Thinking about your own reading habits, do you still read print versions of newspapers and magazines? Why, or why not? (Learning Objectives 1, 2 and 4) (AACSB: Communication; Use of IT; Reflective Thinking)
2. Do you think the strategy adopted by ***The Economist*** reflects the ***needs***, ***wants*** and ***demands*** of readers? (Learning Objectives 1, 2 and 5) (AACSB: Communication; Reflective Thinking)

1.2 Customer-driven marketing strategy

Apple and Adobe Flash clash: Customer-driven?

Apple's iDevices – iPods, iPhones and iPads – are globally popular. But where's the flash? Adobe Flash, that is. Adobe's Flash, the long-standing multimedia platform behind approximately 75 per cent of the animated and streaming audio and video on the internet, is not supported by Apple's devices. Many purchasers were disappointed after spending hundreds of dollars on iPads and iPad Minis only to realise they could not play their favourite online game or watch videos on their device. And they still cannot, even with the latest-generation devices. Why not? It seems Apple's late founder and CEO, Steve Jobs, did not like Flash and would not support it on Apple's devices. Instead, app developers must conform to Apple's operating system, and existing applications on the web must convert to HTML5 to play on an Apple product. Adobe's co-founders claim Apple is 'undermining the next chapter of the web', and bloggers exclaim this is not just an 'Adobe/Apple problem . . . but an Apple/World problem'.

1. Does Apple appear to embrace the marketing concept? (Learning Objectives 3, 4 and 5) (AACSB: Communication; Use of IT; Reflective Thinking; Technology)
2. Research the controversy surrounding this issue and debate whether Apple did the right thing for its customers by not including the ubiquitous Adobe Flash software on Apple's products. Is there a way around the dilemma for those wanting to watch Flash movies and play Flash games on their iPhones? (Learning Objectives 1 and 5) (AACSB: Communication; Reflective Thinking)

1.3 Marketing analytics at work

Transport for NSW: Customer satisfaction index

Every mode of transport stands or falls by its ability to satisfy customers. The New South Wales government has a vision that promotes better outcomes for customers of its integrated public transport system. In meeting this goal, it tracks the views of over 17 000 randomly selected customers over time. For example, the Customer Satisfaction Index (CSI) published in November 2015 covered seven surveys from November 2012 to November 2015. Customers were asked to rate their experience of their most recent trip or experience.[44]

The customer surveys used a seven-point scale ('very dissatisfied' to 'very satisfied') to gather satisfaction levels for such parameters as timeliness, safety and security, ticketing, convenience, accessibility, comfort, cleanliness, information and customer service. Customer satisfaction for each transport mode was monitored: train, bus, ferry, light rail and the urban taxi network.

Having read the November CSI report, and examined Appendix 3 for any similar marketing analytics spotlights you could draw on for inspiration, consider the following questions:

1. Do you think that each of the satisfaction parameters mentioned (e.g. timeliness) would be of equal importance to customers? If not, how would you calculate an overall CSI for Transport for NSW, taking account of such differences? (Learning Objectives 2 and 3) (AACSB: Communication; Reflective Thinking; Sustainability)
2. Might there be differences in the importance level for each parameter by transport mode? If so, how would you calculate an overall CSI for Transport for NSW, taking account of such differences? (Learning Objectives 2 and 3) (AACSB: Communication; Reflective Thinking)

1.4 Ethical reflection

The security of customer details

The football club, the Mighty Emus, has approached a marketing research firm, FastAsk, to undertake a membership satisfaction survey. The club wants FastAsk to send an email to each of its members with an email address and to call the remainder using a computer-aided telephone system, inviting them to complete a web form (questionnaire accessed with a web browser) that seeks their views on various aspects of the club's performance, both on-field and off-field. As an inducement to respond, the research company has suggested that a prize of one year's free membership be offered to a winner drawn from a barrel.

The Mighty Emus' marketing officer, Barry Bright, has passed the email list to the research company so that they can invite members to visit the questionnaire website. Barry sent the list of email addresses at the behest of the club's directors, even though he objected to this action because the email list includes subscribers who asked that their details not be given to third parties. Barry is fully aware of the amendments to the *Australian Privacy Act* that came into effect on 21 December 2001; he knows that heavy penalties may be imposed on those who do not comply with the provisions of the Act. He is also aware of the *Spam Act 2003* and the introduction of the *Do Not Call Register Act 2006*.[45]

1. What are your views concerning the proposed marketing research? (AACSB: Communication; Ethical Reasoning; Reflective Thinking)

References

1 John C Narver & Stanley F Slater, 'The effect of a market orientation on business profitability', *Journal of Marketing*, 54, October 1990, pp. 20–35; for a more embracing perspective on market orientation, see Paul D Ellis, 'Market orientation and performance: A meta-analysis and cross-national comparisons', *Journal of Management Studies*, 43(5), 2006, pp. 1089–107.

2 See Philip Kotler & Kevin Lane Keller, *Marketing Management,* 15th edn, Pearson Education: Hoboken, NJ, 2016, p. 5.

3 The American Marketing Association offers the following definition: 'Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.' See <www.marketingpower.com/_layouts/Dictionary.aspx?dLetter=M>, accessed September 2015.

4 See Daniel P Smith, 'Keep in touch', *QSR Magazine,* July 2013, <www.qsrmagazine.com/executive-insights/keep-touch>; and Phil Wahba, 'Back on target', *Fortune,* 1 March 2015, pp. 86–94.

5 See Theodore Levitt's classic article, 'Marketing myopia', *Harvard Business Review*, July–August 1960, pp. 45–56. For more recent discussions, see Minette E Drumright & Mary C Gentile, 'The new marketing myopia', *Journal of Public Policy & Marketing*, Spring 2010, pp. 4–11; Roberto Friedmann, 'What business are you in?', *Marketing Management,* Summer 2011, pp. 18–23; and Al Ries, '"Marketing myopia" revisited: Perhaps a narrow vision is better business', *Advertising Age,* 4 December 2013, <http://adage.com/print/245511>.

6 Ralph Waldo Emerson offered this advice: 'If a man . . . makes a better mousetrap . . . the world will beat a path to his door.' Several companies, however, have built better mousetraps and yet have failed.

7 'The difference in creating companies and categories', *happycustomer,* 4 March 2014, <http://happycustomer.stellaservice.com/2014/03/04/column-the-difference-in-creating-companies-and-categories/>.

8 See Michael E Porter & Mark R Kramer, 'Creating shared value', *Harvard Business Review*, January–February 2011, pp. 63–77; Marc Pfitzer, Valerie Bockstette & Mike Stamp, 'Innovating for shared value', *Harvard Business Review,* September 2013, pp. 100–7; 'About shared value', *Shared Value Initiative,* <http://sharedvalue.org/about-shared-value>, accessed September 2015; and 'Shared value', <www.fsg.org>, accessed September 2015.

9 Michael Krauss, 'Evolution of an academic: Kotler on marketing 3.0', *Marketing News*, 30 January 2011, p. 12; and Simon Mainwaring, 'Marketing 3.0 will be won