PART 1 Defining Marketing and the Marketing Process

CHAPTER 1

Marketing: Creating and Capturing Customer Value

PREVIEWING THE CONCEPTS

In this chapter, we introduce you to the basic concepts of marketing. 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. Next, we discuss the five steps in the marketing process—from understanding customer needs, to designing customer-driven marketing strategies and programs, to building customer relationships and capturing value for the firm. Finally, we discuss the major trends and forces affecting marketing in this age of 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.

Let's start with a good story about marketing in action at Procter & Gamble, one of the world's largest and most respected marketing companies. P&G makes and markets a who's who list of consumer megabrands, including the likes of Tide, Crest, Bounty, Charmin, Puffs, Pampers, Pringles, Gillette, Dawn, Ivory, Febreze, Swiffer, Olay, CoverGirl, Pantene, Scope, NyQuil, Duracell, and hundreds more. P&G began manufacturing products in Canada in 1915, and in 2007 the company was named as one of the top 100 employers in Canada. It's also the world's largest advertiser, spending an eye-popping $8.2 billion each year on advertising worldwide, "telling and selling" consumers on the benefits of using its products. But look deeper and you'll see that this premier marketer does far more than just "tell and sell." The company's stated purpose is to provide products that "improve the lives of the world's consumers." P&G's products really do create value for consumers by solving their problems. In return, customers reward P&G with their brand loyalty and buying dollars. You'll see this theme of creating customer value to capture value in return repeated throughout the first chapter and throughout the text.

Creating customer value and building meaningful customer relationships sounds pretty lofty, especially for a company like P&G, which sells seemingly mundane, low-involvement consumer products such as detergents and shampoos, toothpastes and fabric softeners, and toilet paper and disposable diapers. Can you really develop a meaningful relationship with a laundry detergent? For P&G, the resounding answer is *yes*.

For example, take P&G's product Tide. Introduced in Canada in 1948, Tide revolutionized the industry as the first detergent to use synthetic compounds rather than soap chemicals for cleaning clothes. Tide really does get clothes clean. For decades, Tide's marketers have positioned the brand on superior functional performance, with hard-hitting ads showing before-and-after cleaning comparisons. But as it turns out, Tide means a lot more to consumers than just getting grass stains out of that old pair of jeans.

P&G's true strength lies in the relationships that it builds between brands and customers: "Tide knows fabrics best."

For several years, P&G has been on a mission to unearth and cultivate the deep connections that customers have with its products. Two years ago, P&G global marketing chief Jim Stengel mandated that the company's brands must "speak to consumers eye-to-eye" rather than relentlessly driving product benefits. "We need to think beyond consuming . . . and to really directly understand the role and the meaning the brand has in [consumers'] lives," says Stengel. Behind this strategy lies the realization that competitors can quickly copy product benefits, such as cleaning power. However, they can't easily copy how consumers *feel* about a brand. Consequently, P&G's true strength lies in the relationships that it builds between its brands and customers.

P&G is on a mission to unearth and cultivate the deep connections that customers have with its products. Can you really develop a meaningful relationship with a laundry detergent? For P&G, the resounding answer is *yes*.

Under this mandate, the Tide marketing team decided that it needed a new message for the brand. Tide's brand share, although large, had been stagnant for several years. Also, as a result of its hard-hitting functional advertising, consumers saw the Tide brand as arrogant, self-absorbed, and very male. The brand needed to recapture the hearts and minds of its core female consumers.

So the team set out to gain a deeper understanding of the emotional connections that women have with their laundry. Rather than conducting the usual focus groups and research surveys, however, marketing executives and strategists from P&G and its longtime ad agency, Saatchi & Saatchi, went into a two-week consumer immersion. They tagged along with women in North American cities as they worked, shopped, and ran errands, and they sat in on discussions to hear women talk about what's important to them. "We got to an incredibly deep and personal level," says a Tide marketing executive. "We wanted to understand the role of laundry in their life." But "one of the great things," adds a Saatchi strategist, "is we didn't talk [to consumers] about their laundry habits [and practices]. We talked about their lives, what their needs were, how they felt as women. And we got a lot of rich stuff that we hadn't tapped into before."

For members of the Tide team who couldn't join the two-week consumer odyssey, including Saatchi's creative people, the agency videotaped the immersions, prepared scripts, and hired actresses to portray consumers in an hour-long play entitled *Pieces of Her*. "They were actually very

Objectives

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

good actresses who brought to life many dimensions of women," says the Saatchi executive. "It's difficult to inspire creatives sometimes. And [their reaction to the play] was incredible. There was crying and laughing. And you can see it in the [later] work. It's just very connected to women."

From the customer immersions, the marketers learned that, although Tide and laundry aren't the most important things in customers' lives, women are very emotional about their clothing. For example, there was the joy a plus-size, divorced woman described when she got a whistle from her boyfriend while wearing her "foolproof (sexiest) outfit." According to one P&G account, "Day-to-day fabrics in women's lives hold meaning and touch them in many ways. Women like taking care of their clothes and fabrics because they are filled with emotions, stories, feelings, and memories. The fabrics in their lives (anything from jeans to sheets) allow them to express their personalities, their multidimensions as women, their attitudes." Such insights impacted everything the brand did moving forward. Tide, the marketers decided, can do more than solve women's laundry problems. It can make a difference in something they truly care about—the fabrics that touch their lives.

Based on these insights, P&G and Saatchi developed an award-winning advertising campaign built around the theme "Tide knows fabrics best." Rather than the unfeeling demonstrations and side-by-side comparisons of past Tide advertising, the new campaign employs rich visual imagery and meaningful emotional connections. For example, Toronto-based Saatchi & Saatchi Canada, which creates approximately 25 percent of Tide's advertising in North America, developed the campaign for the launch of 2x Ultra Tide featuring TV personality Kelly Ripa. This campaign has been among Tide's strongest and most unusual work in recent history, and Canadian consumers could relate to her and the values she personifies. The "Tide knows fabrics best" slogan says little about cleaning. Instead, the message is that Tide lets women focus on life's important things. "One of our rallying cries was to get out of the laundry basket and into [your] life," says a Tide marketer.

The "Tide knows fabrics best" ads have just the right mix of emotional connections and soft sell. In one TV commercial, a pregnant woman dribbles ice cream on the one last shirt that still fits. It's Tide with Bleach to the rescue, so that "your clothes can outlast your cravings." Another ad shows touching scenes of a woman first holding a baby and then cuddling romantically with her husband, all to the tune of "Be My Baby." Tide with Febreze, says the ad, can mean "the difference between smelling like a mom and smelling like a woman." In a third ad, a woman plays with her daughter at a park, still in her white slacks from the office, thanks to her confidence in Tide with Bleach: "Your work clothes. Your play clothes. Yup, they're the same clothes," the ad concludes. "Tide with bleach: For looking great, it's child's play." In all, the "Tide knows fabrics best" campaign shows women that Tide really does make a difference in fabrics that touch their lives.

So . . . back to that original question: Can you develop a relationship with a laundry detergent brand? Some critics wonder if P&G is taking this relationship thing too seriously. "Everybody wants to elevate their brand to this kind of more rarefied level," says one brand consultant, "but at the end of the day detergent is detergent." But it's hard to argue with success, and no brand is more successful than Tide. P&G's flagship brand captures an incredible 43 percent share of the cluttered and competitive laundry detergent market. That's right, 43 percent and growing—including a 7 percent increase in the year following the start of the "Tide knows fabrics best" campaign.

If you asked Jim Stengel, he'd say that this kind of success comes from deeply understanding consumers and connecting the company's brands to their lives. Stengel wants P&G to be more than a one-way communicator with customers. He wants it to be "a starter of conversations and a solver of consumers' problems." "It's not about telling and selling," he says. "It's about bringing a [customer] relationship mind-set to everything we do."[1]

Today's successful companies have one thing in common: Like Procter & Gamble, they are strongly customer-focused and heavily committed to marketing. These companies share a passion for understanding and satisfying customer needs in well-defined target markets. They motivate everyone in the organization to help build lasting customer relationships based on creating value. P&G's chief global marketer, Jim Stengel, puts it this way: "If we're going to make one big bet on our future—right here, right now—I'd say that the smart money is on building [customer] relationships."[2]

1 What Is Marketing?

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 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.

Walmart has become the world's largest retailer—and the world's largest company—by delivering on its promise, "Save money. Live Better." At Disney theme parks, "imagineers" work wonders in their quest to "make a dream come true today." Apple fulfills its motto to "Think Different" with dazzling, customer-driven innovation that captures customer imaginations and loyalty. Its wildly successful iPod grabs more than 70 percent of the music player market; its iTunes music store captures nearly 90 percent of the song download business.[3] Provigo, a supermarket chain owned by Loblaw that operates mainly in Quebec, now has 110 outlets and employs 5700 people. It has built its business by providing "quality, variety, and freshness throughout its stores," along with the promise to make the lives of its customers easier by offering quick, courteous service aligned with its customers' needs. The company also knows the importance of being involved in its customers' communities, and it focuses on providing financial assistance to the families of children who have physical or developmental challenges. These and other highly successful companies know that if they take care of their customers, market share and profits will follow.

Sound marketing is critical to the success of every organization. Canada's top five firms of 2008[4] (ranked according to profitability), RBC, Manulife Financial, Thomson Reuters, EnCana, and BCE, make extensive use of marketing. But so do not-for-profit organizations such as universities, hospitals, museums, symphony orchestras, and even churches.

You already know a lot about marketing—it's all around you. Marketing comes to you in traditional forms: You see it in the abundance of products at your nearby shopping mall and in the advertisements that fill your TV screen, spice up your magazines, or stuff your mailbox. But in recent years, marketers have assembled a host of new marketing approaches, everything from imaginative websites, Internet chat rooms, and social networks, to interactive TV and your cellphone. These new approaches aim to do more than just blast out messages to the masses. They aim to reach you directly and personally. Today's marketers want to become a part of your life and to enrich your experiences with their brands—to help you *live* their brands.

At home, at school, where you work, and where you play you see marketing in almost everything you do. Yet there is much more to marketing than meets the consumer's casual eye. Behind it all is a massive network of people 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.

Business principles, moral principles, and principles of teamwork have helped make RBC Canada's most profitable company.

Marketing Defined

What is marketing? Many people think of marketing only as selling and advertising. And no wonder—every day we are bombarded with TV commercials, direct-mail offers, sales calls, and email pitches. However, selling and advertising are only 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* in a socially responsible and ethical manner. If the marketer understands consumer needs; develops products that provide superior customer value; and prices, distributes, and promotes them effectively and ethically, these products will sell easily. In fact, according to management guru Peter Drucker, "The aim of marketing is to make selling unnecessary."[5] Thus, selling and advertising are only part of a larger "marketing mix"—a set of marketing tools that work together to satisfy customer needs and build lasting customer relationships.

Figure 1.1 A simple model of the marketing process

Marketing
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.

In 2007, the American Marketing Association revised its definition of **marketing**: "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."[6] Thus, though the focus of marketing is on customers and profitability, marketers must also recognize the needs and rights of other groups affected by marketing decisions—the firm's stakeholders. Stakeholder groups include employees, unions, customers, members of the distribution channel, competitors, activists, government, and the press. Thus, broadly defined, marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging value with others. See how RBC, Canada's most profitable company in 2008, captures the essence of this definition in its statement on corporate social responsibility made by its president and CEO, Gordon M. Nixon:

> I believe that a company's actions speak louder than its words. At RBC, corporate responsibility can be seen in how we govern our business with integrity, have a positive economic impact, operate with integrity in the marketplace, provide a supportive workplace, support environmental sustainability, and contribute to communities.

The company's actions are indeed being recognized, since in 2009 RBC was named one of the world's top 100 sustainable companies for the fifth consecutive year.[7]

The Marketing Process

Figure 1.1 presents a simple five-step model of the marketing process. In the first four steps, companies work to understand consumers, create customer value, and build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value. By creating value *for* consumers, companies capture value *from* consumers in return in the form of sales, profits, and long-term customer equity.

In this chapter and the next, we will examine the steps of this simple model of marketing. In this chapter, we will review each step but focus more on the customer relationship steps—understanding customers, building customer relationships, and capturing value from customers. In Chapter 2, we'll look more deeply into the second and third steps—designing marketing strategies and constructing marketing programs.

2

Understanding the Marketplace and Customer Needs

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

Customer Needs, Wants, and Demands

Needs
States of felt deprivation.

The most basic concept underlying marketing is that of human needs. Human **needs** are states of felt deprivation. They include basic *physical* needs for food, clothing, warmth, and safety; *social* needs for belonging and affection; and *individual* needs for knowledge and self-expression. These needs were not created by marketers; they are a basic part of the human makeup.

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

Demands
Human wants that are backed by buying power.

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

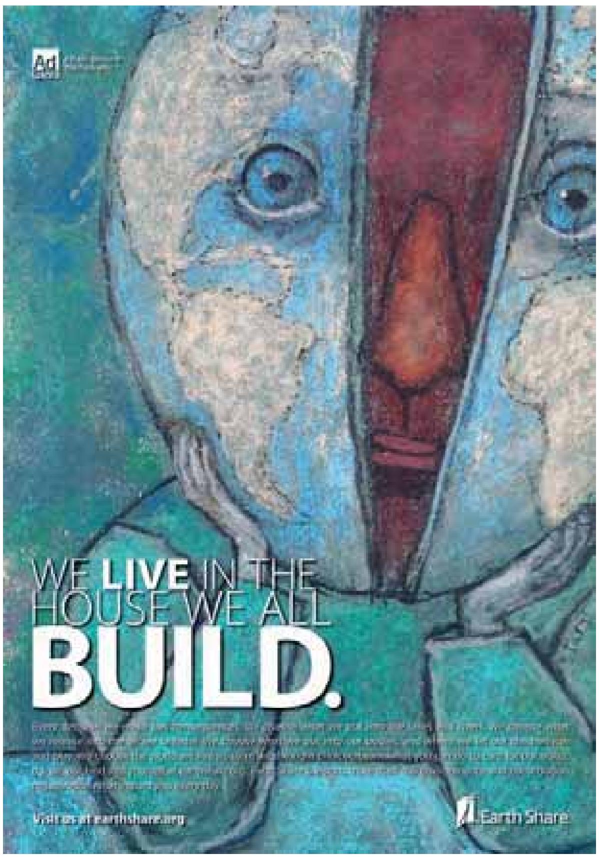
Marketing myopia
The mistake of paying more attention to the specific products a company offers than to the benefits and experiences produced by these products.

Wants are the form human needs take as they are shaped by culture and individual personality. A Canadian *needs* food but *wants* a breakfast sandwich and a large double-double from Tim Hortons. Wants are shaped by one's society as well as by marketing programs. They are described in terms of objects that will satisfy needs. When backed by buying power, wants become **demands**. Given their wants and resources, people demand products with benefits that add up to the most value and satisfaction.

Outstanding marketing companies go to great lengths to learn about and understand their customers' needs, wants, and demands. They conduct consumer research and analyze mountains of customer data. Their people at all levels—including top management—stay close to customers. For example, at Southwest Airlines, all senior executives handle bags, check-in passengers, and serve as flight attendants once every quarter. At P&G, executives from the CEO down routinely spend time with consumers in their homes and other settings. "We all go out and really spend time with consumers," notes P&G's global marketing officer, Jim Stengel, "just to look at the differences in how they [think] about brands [and what's] important in their lives."[8]

Market Offerings—Products, Services, and Experiences

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



Market offerings are not limited to physical products. EarthShare powerfully markets the idea that individuals and organizations can be involved in creating a healthy and sustainable environment.

More broadly, market offerings also include other entities, such as *people, places, organizations, information,* and *ideas*. For example, EarthShare powerfully markets the idea that individuals and organizations can be involved in creating a healthy and sustainable environment.

Many sellers make the mistake of paying more attention to the specific products they offer than to the benefits and experiences produced by these products. These sellers suffer from **marketing myopia**. They are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs.[9] They forget that a product is only a tool to solve a consumer problem. A manufacturer of quarter-inch drill bits may think that the customer needs a drill bit. But what the customer *really* needs is a quarter-inch hole. These sellers will have trouble if a new product comes along that serves the customer's need better or less expensively. The customer will have the same *need* but will *want* the new product.

Smart marketers look beyond the attributes of the products and services they sell. By orchestrating several services and products, they create *brand experiences* for consumers. For example, you don't just watch a NASCAR race, you immerse yourself in the exhilarating NASCAR experience. Similarly, Hewlett-Packard recognizes that a personal computer is much more than just a collection of wires and electrical components. It represents an intensely personal user experience. As noted in a recent HP ad, "There is hardly anything that you own that is *more* personal. Your personal computer is your backup brain. It's your life . . . It's your astonishing strategy, staggering proposal, dazzling calculation. It's your autobiography, written in a thousand daily words."[10]

Customer Value and Satisfaction

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

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

Exchanges and Relationships

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

Marketing occurs when people decide to satisfy needs and wants through exchange relationships. **Exchange** is the act of obtaining a desired object from someone by offering something in return. In the broadest sense, the marketer tries to bring about a response to some market offering. The response may be more than simply buying or trading products and services. A political candidate, for instance, wants votes, a church wants membership, an orchestra wants an audience, and a social action group wants idea acceptance.

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 goal is to retain customers and grow their business with the company. Marketers want to build strong relationships by consistently delivering superior customer value. We will expand on the important concept of managing customer relationships later in the chapter.

Markets

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

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

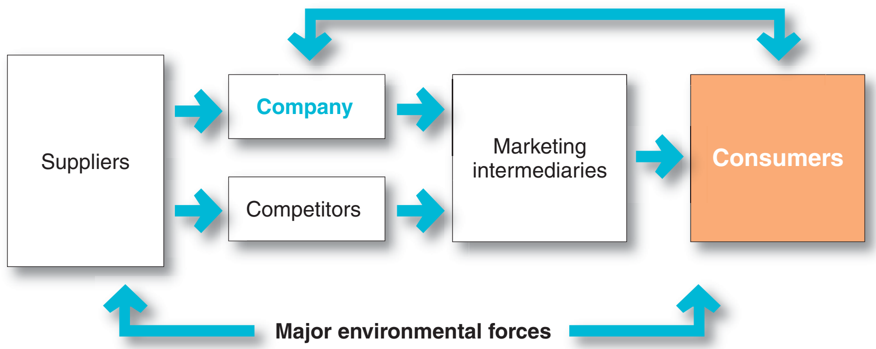
Marketing means managing markets to bring about profitable customer relationships. However, creating these relationships takes work. Sellers must search for buyers, identify their needs, design good market offerings, set prices for these offerings, promote them, and store and deliver them. Activities such as consumer research, product development, communication, distribution, pricing, and service are core marketing activities.

Although we normally think of marketing as being carried on by sellers, buyers also carry on marketing. Company purchasing agents do marketing when they track down sellers and bargain for good terms. Consumers do marketing when they search for products and interact with companies and obtain information and make their purchases. In fact, today's digital technologies, from websites and blogs to cellphones and other wireless devices, have empowered consumers and made marketing a truly interactive affair. Marketers are no longer asking only "How can we reach our customers?" but also "How should our customers reach us?" and even "How can our customers reach each other?"

Figure 1.2 shows the main elements in a marketing system. Marketing involves serving a market of final consumers in the face of competitors. The company and competitors research the market and interact with consumers to understand their needs. Then they create and 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. All of 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. Walmart cannot fulfill its promise of low prices

Figure 1.2 A modern marketing system



unless its suppliers provide merchandise at low costs. And Ford cannot deliver high quality to car buyers unless its dealers provide outstanding sales and service.

3

Designing a Customer-Driven Marketing Strategy

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

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

To design a winning marketing strategy, the marketing manager must answer two important questions: *What customers will we serve (what's our target market)?* and *How can we serve these customers best (what's our value proposition)?* We will discuss these marketing strategy concepts briefly here, and then look at them in more detail in the next chapter.

Selecting Customers to Serve

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 go after (*target marketing*). Some people think of marketing management as finding as many customers as possible and increasing demand. But marketing managers know that they cannot serve all customers in every way. By trying to serve all customers, they may not serve any customers well. Instead, the company wants to select only customers that it can serve well and profitably. For example, Holt Renfrew and Harry Rosen stores profitably target affluent professionals; Dollarama stores profitably target families with more modest means.

Value propositions: Land Rover lets you "go beyond"—to "get a taste of adventure, whatever your tastes."

Some marketers may even seek *fewer* customers and reduced demand. For example, many power companies have trouble meeting demand during peak usage periods. In these and other cases of excess demand, companies may practise *demarketing* to reduce the number of customers or to shift their demand temporarily or permanently. For instance, in March 2009 BC Hydro launched a campaign to get 210 000 British Columbians to reduce their power usage by 10 percent, with the goal of conserving the saved electricity to power the 2010 Olympic and Paralympic Winter Games. By joining "Team Power Smart," consumers can access tools to help track their conservation targets and have a chance to win Olympics tickets.[11]

Ultimately, marketing managers must decide which customers they want to target and on the level, timing, and nature of their demand. Simply put, marketing management is *customer management* and *demand management.*

Choosing a Value Proposition

The company must also decide how it will serve targeted customers—how it will *differentiate and position* itself in the marketplace. A company's *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs. BMW promises "the ultimate driving machine," whereas Land Rover lets you "go beyond"—to "get a taste of adventure, whatever your tastes." And with cellphones, Nokia is "connecting people—anyone, anywhere," whereas with Apple's iPhone, "touching is believing."

Such value propositions differentiate one brand from another. They answer the customer's question "Why should I buy your brand rather than a competitor's?" Companies must design strong value propositions that give them the greatest advantage in their target markets.

Marketing Management Orientations

Marketing management wants to design strategies that will build profitable relationships with target consumers. But what *philosophy* should guide these marketing strategies? What weight should be given to the interests of customers, the organization, and society? Very often, these interests conflict.

There are five alternative concepts under which organizations design and carry out their marketing strategies: the *production*, *product*, *selling*, *marketing*, and *societal marketing concepts.*

The Production Concept

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

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 orientations that guides sellers.

The production concept is still a useful philosophy in some situations. For example, computer maker Lenovo dominates the highly competitive, price-sensitive Chinese PC 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

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

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

Product quality and improvement are important parts of most marketing strategies. However, focusing *only* on the company's products can also lead to marketing myopia. For example, some manufacturers believe that if they can "build a better mousetrap, the world will beat a path to their door." But they are often rudely shocked. Buyers may be looking for a better solution to a mouse problem, but not necessarily for a better mousetrap. The better solution might be a chemical spray, an exterminating service, or something else that works even better than a mousetrap. Furthermore, a better mousetrap will not sell unless the manufacturer designs, packages, and prices it attractively; places it in convenient distribution channels; brings it to the attention of people who need it; and convinces buyers that it is a better product.

The Selling Concept

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

Many companies follow the **selling concept**, which holds that consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort. The selling concept is typically practised with unsought goods—those that buyers do not normally think of buying, like insurance, or things they don't normally think of doing, like giving blood. These industries must be good 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 don't like it, they will possibly forget their disappointment and buy it again later. These are usually poor assumptions.

The Marketing Concept

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

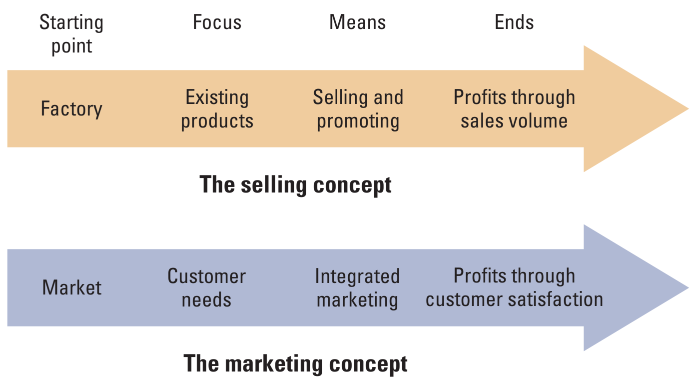
The **marketing concept** holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do. Under the marketing concept, customer focus and value are the paths to sales and profits. Instead of a product-centred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

Figure 1.3 contrasts the selling concept and the marketing concept. The selling concept takes an *inside-out* perspective. It starts with the factory, focuses on the company's existing products, and calls for heavy selling and promotion to obtain profitable sales. It focuses primarily on customer conquest—getting short-term sales with little concern about who buys or why. In contrast, the marketing concept takes an *outside-in* perspective. As Herb Kelleher, Southwest Airlines's colourful CEO, 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 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 *don't* know what they want or even what is possible. For example, even 20 years ago, how many consumers would have thought to ask for now-commonplace products such as cellphones, notebook computers, iPods, digital

Figure 1.3 The selling and marketing concepts contrasted



Customer-driving marketing: Even 20 years ago, how many consumers would have thought to ask for now-commonplace products such as cellphones, personal digital assistants, notebook computers, iPods, and digital cameras? Marketers must often understand customer needs even better than the customers themselves do.

cameras, 24-hour online buying, and satellite navigation systems in their cars? Such situations call for *customer-driving* 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*.

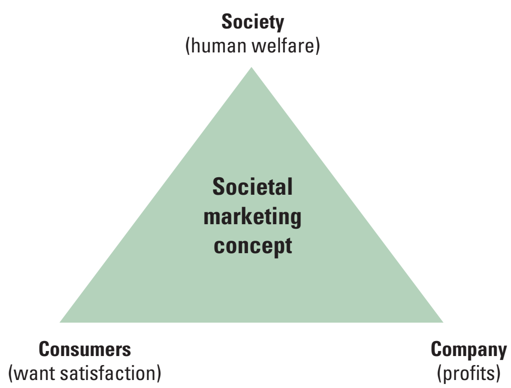
Is a firm that satisfies the immediate needs and wants of target markets always doing what's best for consumers in the long run? The societal marketing concept holds that marketing strategy should deliver value to customers in a way that maintains or improves both the consumer's *and society's* well-being.

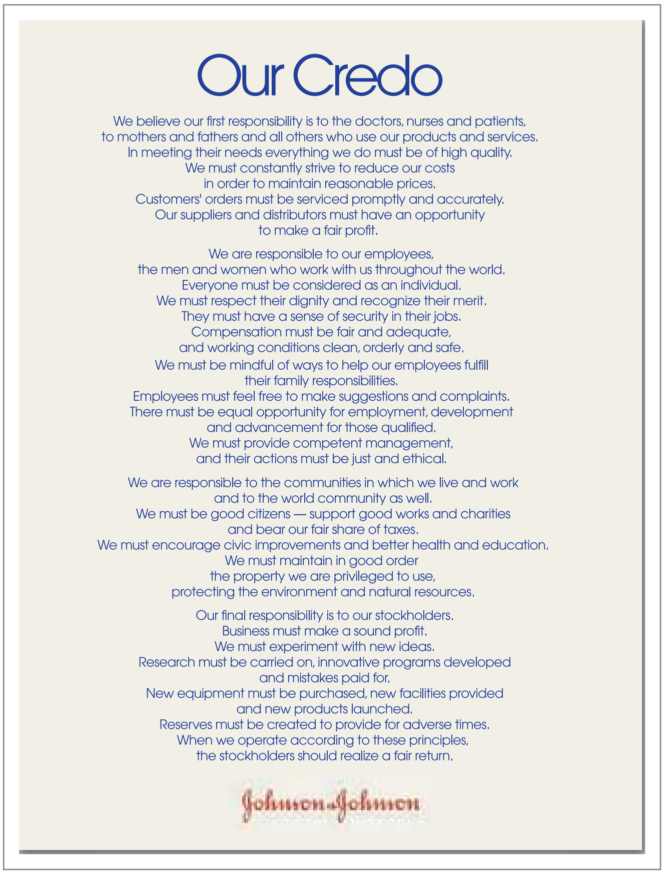
Societal marketing concept
The idea that a company's marketing decisions should consider consumers' wants, the company's requirements, consumers' long-run interests, and society's long-run interests.

Consider today's flourishing bottled water industry. You may view bottled water companies as offering a convenient, tasty, and healthy product. Its packaging suggests "green" images of pristine lakes and snow-capped mountains. Yet making, filling, and shipping billions of plastic bottles generates huge amounts of carbon dioxide emissions that contribute substantially to global warming. Further, the plastic bottles pose a substantial recycling and solid waste disposal problem. Thus, in satisfying short-term consumer wants, the highly successful bottled water industry may be causing environmental problems that run against society's long-run interests.[12]

As Figure 1.4 shows, companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, *and* society's interests. Johnson & Johnson does this well. Its concern for societal interests is summarized in a company document called "Our Credo," which stresses honesty, integrity, and putting people before profits. Under this credo, Johnson & Johnson would rather take a big loss than ship a bad batch of one of its products. Consider the tragic tampering case of Tylenol bottles (a Johnson & Johnson brand) in 1982, in which eight people died from swallowing cyanide-laced capsules. Although Johnson & Johnson believed that the pills had been altered in only a few stores, not in the factory, it quickly recalled all of its product and launched an information

Figure 1.4 The considerations underlying the societal marketing concept




Our Credo

We believe our first responsibility is to the doctors, nurses and patients,
to mothers and fathers and all others who use our products and services.
In meeting their needs everything we do must be of high quality.
We must constantly strive to reduce our costs
in order to maintain reasonable prices.
Customers' orders must be serviced promptly and accurately.
Our suppliers and distributors must have an opportunity
to make a fair profit.

We are responsible to our employees,
the men and women who work with us throughout the world.
Everyone must be considered as an individual.
We must respect their dignity and recognize their merit.
They must have a sense of security in their jobs.
Compensation must be fair and adequate,
and working conditions clean, orderly and safe.
We must be mindful of ways to help our employees fulfill
their family responsibilities.
Employees must feel free to make suggestions and complaints.
There must be equal opportunity for employment, development
and advancement for those qualified.
We must provide competent management,
and their actions must be just and ethical.

We are responsible to the communities in which we live and work
and to the world community as well.
We must be good citizens — support good works and charities
and bear our fair share of taxes.
We must encourage civic improvements and better health and education.
We must maintain in good order
the property we are privileged to use,
protecting the environment and natural resources.

Our final responsibility is to our stockholders.
Business must make a sound profit.
We must experiment with new ideas.
Research must be carried on, innovative programs developed
and mistakes paid for.
New equipment must be purchased, new facilities provided
and new products launched.
Reserves must be created to provide for adverse times.
When we operate according to these principles,
the stockholders should realize a fair return.

Johnson & Johnson

The societal marketing concept: Johnson & Johnson's credo stresses putting people before profits.

campaign to instruct and reassure consumers. The recall cost the company $100 million in earnings. In the long run, however, the company's swift recall of Tylenol strengthened consumer confidence and loyalty, and today Tylenol remains one of the nation's leading brands of pain reliever.

Johnson & Johnson's management has learned that doing what's right benefits both consumers and the company. Says former CEO Ralph Larsen, "The credo should not be viewed as some kind of social welfare program . . . it's just plain good business. If we keep trying to do what's right, at the end of the day we believe the marketplace will reward us." And the company stands behind this credo with action. For example, as the founding corporate sponsor of Safe Kids Canada, Johnson & Johnson continues to show its dedication to being a world leader in childcare. Thus, over the years, Johnson & Johnson's dedication to consumers and community service has made it one of North America's most admired companies *and* one of the most profitable.[13]

Preparing an Integrated Marketing Plan and Program

The company's marketing strategy outlines which customers the company will serve and how it will create value for these customers. Next, the marketer develops an integrated marketing program that will actually deliver the intended value to target customers. The marketing program builds customer relationships by transforming the marketing strategy into action. It consists of the firm's *marketing mix*, the set of marketing tools the firm uses to implement its marketing strategy.

The major marketing mix tools are classified into four broad groups, called the *four Ps* of marketing: product, price, place, and promotion. To deliver on its value proposition, the firm must first create a need-satisfying market offering (product). It must decide how much it will charge for the offering (price) and how it will make the offering available to target consumers (place). Finally, it must communicate with target customers about the offering and persuade them of its merits (promotion). The firm must blend all of these marketing mix tools into a comprehensive *integrated marketing program* that communicates and delivers the intended value to chosen customers. We will explore marketing programs and the marketing mix in much more detail in later chapters.

4

Building Customer Relationships

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 up to the fourth and most important step: building profitable customer relationships.

Customer Relationship Management

Customer relationship management is perhaps the most important concept of modern marketing. Some marketers define customer relationship management narrowly as a customer data management activity (a practice called *CRM*). By this definition, it involves managing detailed information about individual customers and carefully managing customer "touchpoints" to maximize customer loyalty. We will discuss this narrower CRM activity in Chapter 5 when dealing with marketing information.

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

Most marketers, however, give the concept of customer relationship management a broader meaning. In this broader 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.

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 company a larger share of their business.

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.

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.

For example, consider the "premium denim" trend that has recently sent the price of jeans skyrocketing. A pair of Paige Premium Denim jeans, for instance, starts at $169. A woman who buys a pair of Paige jeans gains a number of benefits. Owner and designer Paige Adams-Geller uses the knowledge she learned as a jeans model to design jeans from the female perspective: "Most of us weren't blessed with perfect genes but we're bringing you the next best thing: perfect jeans." Her denim "will lift the derriere, lengthen your legs, and slenderize your hips and thighs—all with an uncompromising commitment to feminine detail and quality." In all, says Adams-Geller, her jeans are a real value—they will fit you better and last longer. When deciding whether to purchase a pair, customers will weigh these and other perceived values of owning Paige jeans against the money and psychological costs of acquiring them.

Customers often do not judge values and costs "accurately" or "objectively." They act on *perceived* value. For example, as compared to a pair of less expensive jeans that you'd pull off the shelf at Gap, do Paige jeans really provide superior quality and that perfect fit and look? If so, are they worth the much higher price? It's all a matter of personal value perceptions, but for many women the answer is yes. One woman notes that, for her, premium jeans always seem to fit just right, making the price irrelevant. "I work, so I have the money to buy them," she says. "I think they're worth it."[14]

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

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 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 become willing marketing partners and "customer evangelists" who spread the word about their good experiences to others (see Real Marketing 1.1).[15]

For companies interested in delighting customers, exceptional value and service are more than a set of policies or actions—they are a companywide attitude, an important 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. Its passion for satisfying customers is summed up in the company's credo, which promises that its luxury hotels will deliver a truly memorable experience—one that "enlivens

Real Marketing 1.1

iRobot's Roomba: The Power of Customer Delight

When you were a child, you probably didn't like it much when your mother made you vacuum. You probably still don't like vacuuming much—it's a thankless, seemingly never-ending task. But there's one group of people who don't mind vacuuming at all. In fact, they're absolutely delighted about it. They are the folks who own an iRobot Roomba, the cute little robotic vacuum that zips around rooms, avoiding furniture and other obstacles, tirelessly sniffing up dirt, dust, and pet hair.

People love their little Roombas. They name them, talk to them, and even buy a second Roomba so that the first one won't be lonely. Many Roomba owners spend more time watching their little petlike robots than they would spend vacuuming a room themselves. Recognizing the strong attachments that many Roomba owners have to these personable little machines, iRobot does all it can to involve its customers in everything from product development to technical support, turning them into an army of Roomba consumer evangelists and marketing partners.

iRobot began building devices for the U.S. military in the 1990s—small robots called PackBots now used to defuse improvised explosive devices (IEDs) in Iraq or explore caves in Afghanistan. Based on this advanced technology, the company introduced its first Roomba in 2002. Made up of more than 100 plastic parts, motors, controllers, sensors, brushes, and a dustbin, the 10-pound Roomba uses a sophisticated algorithm to scoot around a room, even going under tables, chairs, sofas, and beds. When it runs into obstacles, it figures out how to clean around them. And when its rechargeable battery begins to lose its charge, the Roomba finds its way to its home base unit, plugs itself in, and recharges automatically. Owners can even program more expensive models to clean at certain times of the day or days of the week, even when no one is home.

In the summer of 2002, iRobot negotiated distribution deals with Brookstone and Sharper Image and Roomba sales took off. Soon, the company began getting calls from major chains such as Target, Kohl's, and Linens 'n Things. The factory churned out 50 000 units just to meet that year's holiday demand.

Then the real fun began. As iRobot received Roombas back for servicing, customer service reps noted that many owners were customizing and humanizing their little robotic assistants. Rather than just selling a high-tech household appliance, it seems that iRobot had invented a new kind of family pet. Reps reported that owners were often painting their Roombas and referring to them by name and gender. The most popular name was Rosie, after the robotic maid on the classic animated TV series *The Jetsons.*

Before long, delighted Roomba owners became iRobot's best marketing partners. An independent website sprang up, myRoomBud.com, offering RoomBud costumes that transform a Roomba from "just a naked vacuum" into a lovable character such as "Roobit the Frog," "Mooba the Cow," or "RoomBette La French Maid." The site even lets Roomba enthusiasts print out official-looking birth certificates for their newly adopted robotic pets.

Delighting customers: People love their pet-like little Roombas. They name them, talk to them, and even buy a second Roomba so that the first one won't be lonely. Recognizing this, iRobot has turned customers into an army of Roomba consumer evangelists.

Smitten Roomba owners by the hundreds began posting video clips of their Roombas in action on YouTube. One mounted a camera on his Roomba to create a RoombaCam. Other Roomba customers created the Roomba Review website (www.roombareviews.com), which features news, chats, product reviews, and hacker information. Billed as the official Roomba lovers' forum, Roomba Review is loaded with posts and comments on everything from shared Roomba experiences and adventures to information on differences between models, tips on finding a Roomba at a good price, and tech support questions and answers—all supplied by customers. A disclaimer at the bottom notes that the website "is not affiliated with iRobot Corporation (We're just really big fans of the Roomba vacuum!)"

Noting all of this customer enthusiasm and delight, iRobot developed programs to strengthen and organize the growing sense of community among Roomba owners. For example, it opened its programmatic interface, encouraging owners, amateur robotics enthusiasts, and others to develop their own programs and uses for the Roomba. It also set up an iRobot Create webpage on its website (irobot.com), where customers could show off their latest inventions. These actions turned Roomba owners into a community of amateur tinkerers and hobbyists. Customers themselves began to develop improved features that iRobot would later adopt.

By monitoring interactions with and among enthusiastic Roomba customers, iRobot was able to discover product problems and additional customer needs. Complaints that animal hair often clogged the machines led the company to introduce the Roomba for Pets model, featuring easy-to-clean brushes that make removing pet hair easier. For customers who wanted a robotic "floor mopper," iRobot introduced the Scooba floor washer, another personable little gizmo that preps, washes, scrubs, and squeegees tile, linoleum, and hardwood floors "so that you don't have to!" For customers who complained about cleaning gutters, iRobot developed the Looj Gutter Cleaning Robot. The Verro Pool Cleaning Robot "gets pools deep-down clean from floor to waterline—just drop it in and let it go!" Customers are now clamouring for a Roomba lawn mower!

Based on interactions with its customer community, iRobot has also continued to improve the original Roomba. Last year it introduced the 500 series—even smarter Roombas that can free themselves from almost any jam, including rug tassels and power cords, reducing the need to prep a room before unleashing the little sniffer. The new model also features a built-in voice tutorial for new users that explains the Roomba's features right out of the box.

Thus, iRobot has discovered the power of customer delight. More than that, it's working to harness that power by partnering with its satisfied-customer community to improve current products, develop new ones, and help spread the word to new customers. So far, iRobot has sold more than 2 million Roombas. Last year, the company's sales reached nearly US$250 million, up 75 percent in only the last two years. Profits surged 175 percent. With the help of its delighted customers, iRobot is filling the vacuum and really cleaning up.

Sources: Based on information found in Paul Gillin, "Cleaning Up with Customer Evangelists," *BtoB*, August 13, 2007, p. 10; Ben McConnell, "Roomba Robot Love," December 30, 2006, accessed at **www.churchofthecustomer.com**; Faith Arner, "How the Roomba Was Realized," *BusinessWeek*, October 6, 2003, p. 10; Joel Garreau, "Robots That Fill an Emotional Vacuum," *Washington Post*, December 29, 2006, p. C1; "iRobot Corporation," *Hoover's Company Records*, August 1, 2008, p. 132607; and **www.myroombud.com** and **www.roombareviews.com**, accessed November 2008.

the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests."

Check into any Ritz-Carlton hotel around the world, and you'll be amazed by the company's fervent dedication to anticipating and meeting even your slightest need. Without ever asking, they seem to know that you want a king-size bed, a nonallergenic pillow, and breakfast with decaffeinated coffee in your room. Each day, hotel staffers—from those at the front desk to those in maintenance and housekeeping—discreetly observe and record even the smallest guest preferences. Then, every morning, each hotel reviews the files of all new arrivals who have stayed previously at a Ritz-Carlton and prepares a list of suggested extra touches that might delight each guest. And once they identify a special customer need, the Ritz-Carlton employees go to legendary extremes to meet it. For example, to serve the needs of a guest with food allergies, a Ritz-Carlton chef in Bali located special eggs and milk in a small grocery store in another country and had them delivered to the hotel. In another case, when the hotel's laundry service failed to remove a stain on a guest's suit before the guest departed, the hotel manager traveled to the guest's house and personally delivered a reimbursement check for the cost of the suit. As a result of such customer-service heroics, an amazing 95 percent of departing guests report that their stay has been a truly memorable experience. More than 90 percent of Ritz-Carlton's delighted customers return.[16]

THE RITZ-CARLTON®

CREDO

The Ritz-Carlton is a place where the genuine care and comfort of our guests is our highest mission.

We pledge to provide the finest personal service and facilities for our guests who will always enjoy a warm, relaxed, yet refined ambience.

The Ritz-Carlton experience enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests.

Customer satisfaction: Ritz-Carlton's passion for satisfying customers is summed up in its credo, which promises a truly memorable experience—one that "enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests."

However, although the customer-centred firm seeks to deliver high customer satisfaction relative to competitors, it does not attempt to *maximize* customer satisfaction. A company can always increase customer satisfaction by lowering its 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

Companies can build customer relationships at many levels, depending on the nature of the target market. At one extreme, a company with many low-margin customers may seek to develop *basic relationships* with them. For example, Procter & Gamble does not phone or call on all of its Tide consumers to get to know them personally. Instead, P&G creates relationships through brand-building advertising, sales promotions, and its Tide Fabric Care Network website (www.tide.ca). At the other extreme, in markets with few customers and high margins, sellers want to create *full partnerships* with key customers. For example, P&G customer teams work closely with Walmart and other large retailers. In between these two extreme situations, other levels of customer relationships are appropriate.

Today, most leading companies are developing customer loyalty and retention programs. Beyond offering consistently high value and satisfaction, marketers can use specific marketing tools to develop stronger bonds with consumers. For example, many companies now 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 give patronage discounts to "very important customers."

Other companies sponsor *club marketing programs* that offer members special benefits and create member communities. For example, Harley-Davidson sponsors the Harley Owners Group (H.O.G.), which gives Harley riders a way to share their common passion of "making the Harley-Davidson dream a way of life." H.O.G. membership benefits include two magazines (*Hog Tales* and *Enthusiast*), a 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 vacation. The worldwide club now numbers more than 1500 local chapters and more than 1 million members, and the Canadian market is expanding. In the first half of 2008, Harley-Davidson sold 10 870 bikes in Canada, an increase of over 13 percent from the previous year.[17]

Building customer relationships: Harley-Davidson sponsors the Harley Owners Group (H.O.G.), which gives Harley owners "an organized way to share their passion and show their pride." The worldwide club now numbers more than 1500 local chapters and 1 million members.

To build customer relationships, companies can add structural ties as well as financial and social benefits. A business marketer might supply customers with special equipment or online linkages that help them manage their orders, payroll, or inventory. For example, McKesson Corporation, a leading pharmaceutical wholesaler, has set up a supply management online system that helps retail pharmacy customers manage their inventories, order entry, and shelf space. The system also helps McKesson's medical-surgical supply and equipment customers optimize their supply purchasing and materials management operations.

The Changing Nature of Customer Relationships

Significant changes are occurring in the ways in which companies are relating to their customers. Yesterday's big companies focused on mass marketing

Best Buy's "customer-centricity" strategy serves its best customers (angels) and exorcises less profitable ones (demons). Clerks steer high-income "Barrys" into the store's Magnolia Home Theater Center, a comfy store-within-a-store that mimics the media rooms popular with home-theatre fans.

to all customers at arm's length. Today's companies are building deeper, more direct, and more lasting relationships with more carefully selected customers. Here are some important trends in the way companies and customers are relating to one another.

Relating with More Carefully Selected Customers

Few firms today still practise true mass marketing—selling in a standardized way to any customer who comes along. Today, most marketers realize that they don't want relationships with every customer. Instead, they now are targeting fewer, more profitable customers. Called *selective relationship management*, many companies now use customer profitability analysis to weed out losing customers and to target winning ones for pampering. Once they identify profitable customers, firms can create attractive offers and special handling to capture these customers and earn their loyalty.

But what should the company do with unprofitable customers? If it can't turn them into profitable ones, it may even want to "fire" customers that are too unreasonable or that cost more to serve than they are worth. For example, consumer electronics retailer Best Buy recently rolled out a new "customer-centricity" strategy that distinguishes between its best customers (called *angels*) and less profitable ones (called *demons*). The aim is to embrace the angels while ditching the demons.[18]

The *angels* include the 20 percent of Best Buy customers who produce the bulk of its profits. They snap up high-definition televisions, portable electronics, and newly released DVDs without waiting for markdowns or rebates. In contrast, the demons form an "underground of bargain-hungry shoppers intent on wringing every nickel of savings out of the big retailer. They load up on loss leaders . . . then flip the goods at a profit on eBay. They slap down rock-bottom price quotes from websites and demand that Best Buy make good on its lowest-price pledge."

To attract the angels, Best Buy stores now stock more merchandise and offer better service to these good customers. For example, the stores set up digital photo centres and offer Geek Squad services, one-on-one in-store or at-home computer assistance, to high-value buyers. Best Buy also set up a Reward Zone loyalty program in which regular customers can earn points toward discounts on future purchases. To discourage the demons, Best Buy removed them from its marketing lists, reduced the promotions and other sales tactics that tended to attract them, and installed a 15 percent restocking fee.

However, Best Buy didn't stop there. Customer analysis revealed that its best customers fell into five groups: "Barrys," high-income men; "Jills," suburban moms; "Buzzes," male technology enthusiasts; "Rays," young family men on a budget; and small business owners. Each customer-centricity store now aligns its product and service mix to reflect the make-up of these customers in its market area. Best Buy then trains store clerks in the art of serving the angels and exorcising the demons. At stores targeting Barrys, for example, blue-shirted sales clerks steer promising candidates to the store's Magnolia Home Theater Center, a comfy store-within-a-store that mimics the media rooms popular with home-theatre fans. With sales up more than $10 billion in just the past three years, the customer-centric strategy appears to be a winner for Best Buy and its customers. As one store manager puts it, "The biggest thing now is to build better relationships with [our best] customers."

Relating More Deeply and Interactively

Beyond choosing customers more selectively, companies are now relating with chosen customers in deeper, more meaningful ways. Rather than relying only on one-way, mass-media messages, today's marketers are incorporating new, more interactive approaches that help build targeted, two-way customer relationships.

The deeper nature of today's customer relationships results in part from the rapidly changing communications environment. New technologies have profoundly changed the ways in which people relate to one another. For example, thanks to explosive advances in Internet and computer technology, people can now interact in direct and surprisingly personal ways with large groups of others, whether nearby or scattered around the world. New tools for relating include everything from email, blogs, websites, and video sharing to online communities and social networks such as MySpace, Facebook, YouTube, and Second Life.

This changing communications environment also affects how consumers relate to companies and products. Increasingly, marketers are using the new communications approaches to build closer customer relationships. The aim is to create deeper consumer involvement and a sense of community surrounding a brand—to make the brand a meaningful part of consumers' conversations and lives. "Becoming part of the conversation between consumers is infinitely more powerful than handing down information via traditional advertising," says one marketing expert. "It [makes] consumers . . . a part of the process, rather than being dumb recipients of the message from on high—and that is of huge potential value to brands."[19]

However, at the same time that the new communications tools create relationship-building opportunities for marketers, they also create challenges. They give consumers greater power and control. Today's consumers have more information about brands than ever before, and they have a wealth of platforms for airing and sharing their brand views with other consumers. And more than ever before, consumers can choose the brand conversations and exchanges in which they will participate. According to Mark Parker, chief executive of Nike, the new power of the consumer is "the most compelling change we've seen over the past four or five years. They are dictating what the dialogue is, how we're conducting it, and it's definitely a two-way conversation."[20]

Greater consumer control means that, in building customer relationships, companies can no longer rely on marketing by *intrusion*. They must practise marketing by *attraction*—creating market offerings and messages that involve consumers rather than interrupt them. Hence, most marketers now augment their mass-media marketing efforts with a rich mix of direct marketing approaches that promote brand–consumer interaction. For example, many are participating in the exploding world of *online social networks* or creating online communities of their own. Molson Canadian maintains an active Facebook page where almost 28 000 consumers of the brand share information with the company and other consumers. The company's 2010 Mural Project, designed to build the largest photo mosaic ever constructed in Canada in support of Canada's Olympic athletes, encourages consumers to submit their photos online and become part of Olympic history.

Creating community with customers: Nike's new, more interactive media include in-person events and other activities designed to build brand community and deeper customer relationships.

In another example, Toyota, the world's fifth-largest advertiser, spends $3.1 billion a year on media advertising. But it also sells Scions at Second Life and maintains a Scion presence on MySpace, Gaia Online, and other cyber hangouts. And the company's Toyota.com/Hybrid website creates a community in which more than 17 500 Prius, Camry, and Highlander hybrid "believers" meet to share their reasons for buying hybrid vehicles and videos and messages on their experiences, both good and bad. "There's value in being totally authentic and transparent [with your customers]," says a manager of consumer-generated media at Toyota, "as much as it hurts sometimes."[21]

Similarly, Nike has recently shifted a bigger chunk of its media budget toward new, more direct interactions with consumers. It now spends just 33 percent of its almost $700 million annual ad budget on television and other traditional media, down 55 percent from 10 years ago. Nike's new media include not only the Internet, but also in-person events and other activities designed to build brand community and deeper customer relationships.[22]

Twice a week, 30 or more people gather at a Nike store and go for an evening run. Afterward the members of the Niketown running club chat in the store over refreshments. Nike's staff keeps track of their performances and hails members who have logged more than 100 miles. The event is a classic example of up-close-and-personal relationship building with core customers. Nike augments such events with an online social network aimed at striking up meaningful long-term interactions with even more runners. Its Nike Plus running website lets customers with iPod-linked Nike shoes upload, track, and compare their performances. More than 200 000 runners are now using the Nike Plus site and more than half visit the site at least four times a week. Nike's goal is to have 15 percent of the world's 100 million runners using the system.

As part of the new customer control and dialogue, consumers themselves are now creating brand conversations and messages on their own. And increasingly, companies are even *inviting* consumers to play a more active role in shaping brand messages and ads. For example, Frito Lay, Southwest Airlines, and Heinz have run contests for consumer-generated commercials that have been aired on national television. Other companies, including marketing heavyweights such as Coca-Cola, McDonald's, and Apple, have snagged brand-related consumer videos from YouTube and other popular video-sharing sites and turned them into commercial messages.

Consumer-generated marketing
Marketing messages, ads, and other brand exchanges created by consumers themselves—both invited and uninvited.

Consumer-generated marketing, whether invited by marketers or not, has become a significant marketing force. In fact, in 2006 *Advertising Age* magazine awarded its coveted Ad Agency of the Year designation to—you guessed it—the consumer. "The explosion of video, blogs, websites, [and consumer-generated ads] confirmed what we knew all along," says the magazine. When it comes to creative messages, "the consumer is king."[23] (See Real Marketing 1.2.)

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 that they can't go it alone. They must work closely with a variety of marketing partners. In addition to being good at *customer relationship management*, marketers must also be good at **partner relationship management**. Major changes are occurring in how marketers partner with others inside and outside the company to jointly bring more value to customers.

Partners Inside the Company

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 every employee must be customer-focused. David Packard, late co-founder of Hewlett-Packard, wisely said, "Marketing is far too important to be left only to the marketing department."[24]

Today, rather than letting each department go its own way, firms are linking all departments in the cause of creating customer value. Rather than assigning only sales and marketing people to customers, they are forming cross-functional customer teams. For example,

Real Marketing 1.2

Consumer-Generated Marketing: Ad Agency of the Year? YOU!

Advertising Age*, a must-read magazine for advertising professionals, recently awarded its prestigious Ad Agency of the Year award not to the usual big Madison Avenue agency, but to you, the consumer. Here's its explanation of why it picked consumer-generated advertising content over that prepared by seasoned advertising professionals.*

Stop me if you've heard this one before. A pair of Maine theatre geeks decide to film an experiment in which a certain mint is dropped into a bottle of a certain no-calorie soft drink, unleashing a foamy geyser. Flavouring this bit of schoolyard chemistry lore with Vegas showmanship, they produce a cola version of the Bellagio fountain and put the clip on the Web, where it goes viral. Really viral. So viral, in fact, that millions watch it, hundreds of media outlets cover it, and the mint in question enjoys a 15 percent spike in sales.

It's a sign of our times: The most important piece of commercial content last year was created by a juggler named Fritz Grobe and a lawyer, Stephen Voltz. "The Diet Coke & Mentos Experiment" sensation raises a key question that gnaws at just about every company that wants to sell a product to consumers in the twenty-first century: Should I try to get my consumers to do something like this? Even if they haven't worked out exactly how to make that happen, many leading marketers have already answered with a resounding yes. Company after company, including the makers of blue-chip brands such as Pepsi, Jeep, Heinz, Sprint, and Converse, have given up at least some control and turned their brands over to consumers.

In truth, consumers have always had some measure of control, and a brand has only ever been as good as consumers' experiences with it. The difference today is that consumers have lots of ways of communicating those experiences, and they trust each other's views above marketers' overt sales pitches. Consequently, consumers are influencing marketing strategy as never before. And that's why last year's Advertising Age Ad Agency of the Year was (drum roll, please) . . . the consumer. A portfolio of consumer-generated commercial content over the past few years would easily beat out any single advertising agency's offering.

Today, as in our cola fountain story, not only do everyday people make the videos that earn that oh-so-coveted water-cooler buzz, they also reign supreme as distributors of content of all kinds. YouTube's explosion glopped a big new pile of distractions into an already cluttered communications world, which means that if you want anybody to see your ad, you'd better hope people are frenetically emailing links to it.

Here are just a few examples of consumer-generated marketing content. Two moonlighting comedians threw together video of themselves amateurishly rapping about Chicken McNuggets and slapped it on the Internet—McDonald's used the video in a popular New York-area commercial. Apple discovered an amateur video produced by a British teenager on YouTube. With the teen's permission, Apple recreated the ad for TV. MasterCard invited customers to help create a new "priceless" commercial, received 100 000 submissions, and showed the winning ad on regular TV. The credit card giant's Priceless.com website is now loaded with good consumer video.

And then there's the Super Bowl. Long a showcase for ad agencies' finest productions, the 2007 ad spectacular was invaded successfully by the unwashed masses. Frito Lay's Doritos solicited 30-second ads from consumers and ran the best two during the game. One of the ads, which showed a supermarket checkout girl getting frisky with a shopper, was judged in one poll as 67 percent more effective than the average Super Bowl ad in improving viewer opinion of the advertised product. The other Doritos ad, showing a young driver flirting with a pretty girl, cost only $12.79 to produce (the cost of four bags of chips) but was judged 45 percent more effective than other ads. The ads were extremely popular with viewers, both during and after the big game. "What this means is: You've got some kid with a video camera and he's playing on the same field as everyone else," says one ad agency veteran. Frito Lay followed up in 2008 by inviting consumers to submit original songs at SnackStrongProductions.com—its Second Life–inspired Doritos Web environment. Frito Lay then gave winner Kina Grannis the stage of a lifetime by airing a 60-second music video featuring her winning song during the Super Bowl.

Does the new wave of consumer-generated marketing mean the end of the big ad agency as we know it? Not likely. But the fact that an amateur could turn out a winning Doritos ad for $12.79, versus the $1 million or more that many large agencies spent crafting more spectacular but less effective ads, suggests that there are some lessons to be learned. As one ad agency creative executive suggests, "It's gonna keep professional idea makers on their toes." Marketers now "perk up when you talk about this stuff," he says.

The big question is how to harness consumer-generated creativity—so unpolished and unaccountable—and deploy it in the service of a brand. There's a big potential downside to putting your brand in the hands of consumers. For every Diet Coke & Mentos clip that's grown into a viral craze, there are several marketer-led disasters. For example, General Motors's Chevy Tahoe off-roaded into the consumer-content arena and, to its shock, found that some people aren't so crazy about the gas-guzzling SUV. At Chevy's invitation, consumers created some very creative ads, but many of the ads centred on the big vehicle's poor gas mileage and negative environmental impact.

Harnessing consumer-generated content can be time consuming and costly, and companies may find it difficult to glean even a little gold from all the garbage. H. J. Heinz recently invited consumers to submit homemade ads for its ketchup brand on its YouTube page, offering a $57 000 top prize and the promise of airing the winning ad on primetime TV. Heinz sifted through more than 8000 entries, of which nearly 4000 are posted on YouTube. Some of the amateur ads are very good—entertaining and potentially effective. Most, however, are so-so at best, and others are downright dreadful. In one ad, a contestant chugs ketchup straight from the bottle. In another, a teen contestant rubs ketchup over his face like acne cream, then puts pickles on his eyes. In still another, the would-be filmmaker brushes his teeth, washes his hair, and shaves his face with Heinz's product.

Harnessing consumer-generated marketing: When H. J. Heinz recently invited consumers to submit homemade ads for its ketchup brand on YouTube, it received more than 8000 entries—some very good but most only so-so or even downright dreadful.

Heinz had to reject many of the submitted ads because they include copyrighted songs, displayed other brands, or "wouldn't be appropriate to show mom." But rejected submissions continue showing up on YouTube anyway. One of the most viewed Heinz videos, seen more than 12 800 times, ends with a close-up of a mouth with crooked, yellowed teeth—oops. Despite such problems, however, Heinz continues to invite consumers to submit their masterpieces. In all, the campaign has been very successful. Within only a few months, consumers had logged more than 2.3 million views of the spots on YouTube and spent more than 80 000 hours watching them. The YouTube exposure gives the venerable old brand lots of contemporary attention.

Today, more and more big marketers are loosening up and turning at least a piece of their brand marketing over to consumers. At a recent Association of National Advertisers meeting, P&G's CEO, A. G. Lafley, urged companies to invite more customer interaction and to "let go" of their brands. Coming from the normally tightly controlling P&G, such a provocative statement deeply impacted the advertiser audience. The same could be said of Lafley showing an animated Pringles commercial made by a U.K. teen to the audience full of advertisers. And you know what? The clip was pretty good.

Sources: Portions adapted from Matthew Creamer, "John Doe Edges Out Jeff Goodby," *Advertising Age*, January 8, 2007, pp. S4–S5; with information from Frank Ahrens, "$2 million Airtime, $13 Ad: In the YouTube Era, Even Super Bowl Advertisers Are Turning to Amateurs," *Washington Post*, January 31, 2007, accessed at www.washingtonpost.com; Elinor Mills, "Frito-Lay Turns to Netizens for Ad Creation," *CNET News*, March 21, 2007, accessed at www.cnetnews.com; Laura Petrecca, "Amateurs' Ad Ideas Come Up with Winners," *USA Today*, February 13, 2007, p. 2B; Gavin O'Malley, "Entries Pour in for Heinz Catsup Commercial Contest," August 13, 2007, accessed at http://publications.mediapost.com; and "Fans Vote 22-Year-Old Singer/Songwriter Kina Grannis Winner in Doritos Crash the Super Bowl Challenge," *PR* Newswire, February 3, 2008.

Procter & Gamble assigns "customer development teams" to each of its major retailer accounts. These teams—consisting of sales and marketing people, operations specialists, market and financial analysts, and others—coordinate the efforts of many P&G departments toward helping the retailer be more successful.

Marketing Partners Outside the Firm

Changes are also occurring in how marketers connect with their suppliers, channel partners, and even competitors. Most companies today are networked companies, relying heavily on partnerships with other firms.

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. For example, the supply chain for personal computers consists of suppliers of computer chips and other components, the computer manufacturer, and the distributors, retailers, and others who sell the computers.

Through *supply chain management*, many companies today are strengthening their connections with partners all along the supply chain. They know that their fortunes rest not just on how well they perform. Success at building customer relationships also rests on how well their entire supply chain performs against competitors' supply chains. These companies don't just treat suppliers as vendors and distributors as customers. They treat both as partners in delivering customer value. On the one hand, for example, Lexus works closely with carefully selected suppliers to improve quality and operations efficiency. On the other hand, it works with its franchise dealers to provide top-grade sales and service support that will bring customers in the door and keep them coming back.

Capturing Value from Customers

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 creating superior customer value, the firm creates highly satisfied customers who stay loyal and buy more. This, in turn, means greater long-run returns for the firm. Here, we discuss the outcomes of creating customer value: customer loyalty and retention, share of market and share of customer, and customer equity.

Creating Customer Loyalty and Retention

Good customer relationship management creates customer delight. In turn, delighted 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 just customer satisfaction, but customer delight.[25]

Customer lifetime value
The value of the entire stream of purchases that a customer would make over a lifetime of patronage.

Companies are realizing that losing a customer means losing more than a single sale. It means losing the entire stream of purchases that the customer would make over a lifetime of patronage. For example, Stew Leonard, who operates a highly profitable four-store supermarket, offers a dramatic illustration of **customer lifetime value**. He believes that US$50 000 flies 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 US$50 000 in 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 the *New York Times* has dubbed the "Disneyland of Dairy Stores," complete with costumed characters,

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

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 29 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 at Stew Leonard's: The customer is always right. Rule #2: If the customer is ever wrong, reread rule #1![26]

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 US$600 000 in lifetime sales.[27] Thus, working to retain and grow customers makes good economic sense. 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.

L.L.Bean, which regularly rates among the top five brands in the Brand Keys Customer Loyalty Engagement Index, was founded on a philosophy of customer satisfaction and long-term customer relationships. Founder L.L.Bean posted the following notice on the wall of his first store: "NOTICE: I do not consider a sale complete until goods are worn out and customer still satisfied." The company still preaches the following "golden rule": "Sell good merchandise, treat your customers like human beings, and they'll always come back for more."[28]

Growing Share of Customer

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

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

To increase share of customer, firms can offer greater variety to current customers. Or they can create programs to cross-sell and up-sell to market more products and services to existing customers. For example, Amazon.com is highly skilled at leveraging relationships with its 66 million customers to increase its share of each customer's purchases. Originally an online bookseller, Amazon.com now offers customers music, videos, gifts, toys, consumer electronics, office products, home improvement items, lawn and garden products, apparel and accessories, jewellery, tools, and even groceries. In addition, based on each customer's purchase history, the company recommends related products that might be of interest. This recommendation system may influence up to 30 percent of all sales.[29] In these ways, Amazon.com captures a greater share of each customer's spending budget.

Building Customer Equity

We can now see the importance of not just acquiring customers, but of keeping and growing them as well. 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 don't have a business."[30] 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.

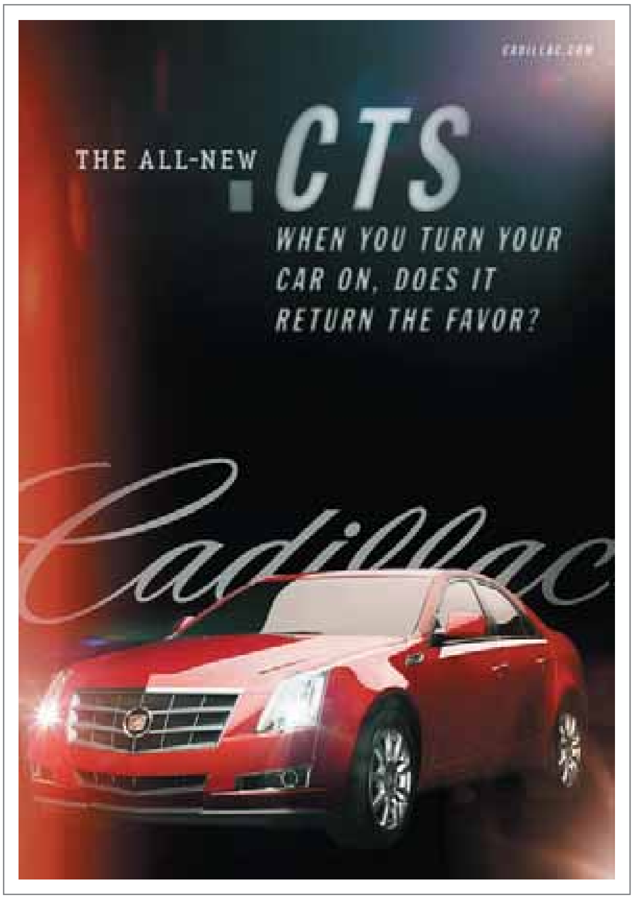
The ultimate aim of customer relationship management is to produce high **customer equity**.[31] Customer equity is the total combined customer lifetime values of all of the company's current and potential customers. Clearly, the more loyal the firm's profitable customers, the higher the firm's customer equity. Customer equity may be a better measure of a firm's performance than current sales or market share. Whereas sales and market share reflect the past, customer equity suggests the future.

Consider the case of Cadillac and BMW. In the 1970s and 1980s, Cadillac had some of the most loyal customers in the industry. To an entire generation of car buyers, the name "Cadillac" defined luxury. Cadillac's share of the luxury car market reached a whopping 51 percent in 1976. Based on market share and sales, the brand's future looked rosy. However, measures of customer equity would have painted a bleaker picture. Cadillac customers were getting older (average age 60) and average customer lifetime value was falling. Many Cadillac buyers were on their last car. Thus, although Cadillac's market share was good, its customer equity was not. Compare this with BMW. Its more youthful and vigorous image didn't win BMW the early market share war. However, it did win BMW younger customers with higher customer lifetime values. The result: In the years that followed, BMW's market share and profits soared while Cadillac's fortunes eroded badly. Thus, market share is not the answer. We should care not just about current sales but also about future sales. Customer lifetime value and customer equity are the name of the game.

Recognizing this, in recent years Cadillac has attempted to make the Caddy cool again by targeting a younger generation of consumers with new high-performance models and more vibrant advertising. The average consumer aspiring to own a Cadillac is now about 36 years old.[32]

Building the Right Relationships with the Right Customers

Companies should manage customer equity carefully. They should view customers as assets that need to be managed and maximized. But not all customers, not even all loyal customers, are good investments. Surprisingly, some loyal customers can be unprofitable, and some disloyal customers can be profitable. Which customers should the company acquire and retain?



To increase customer lifetime value and customer equity, Cadillac is cool again. Its highly successful ad campaigns target a younger generation of consumers.

The company can classify customers according to their potential profitability and manage its relationships with them accordingly. Figure 1.5 classifies customers into one of four relationship groups, according to their profitability and projected loyalty.[33] Each group requires a different relationship management strategy. "Strangers" show low potential profitability and little projected loyalty; there is little fit between the company's offerings and their needs. The relationship management strategy for these customers is simple: Don't invest anything in them.

"Butterflies" are potentially profitable but not loyal. There is a good fit between the company's offerings and their needs. However, like real butterflies, we can enjoy them for only a short while and then they're gone. An example is stock market investors who trade shares often and in large amounts but who enjoy hunting out the best deals without building a regular relationship with any single brokerage company. Efforts to convert butterflies into loyal customers are rarely successful. Instead, the company should enjoy the butterflies for the moment. It should use promotional blitzes to attract them, create satisfying and profitable transactions with them, and then cease investing in them until the next time around.

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

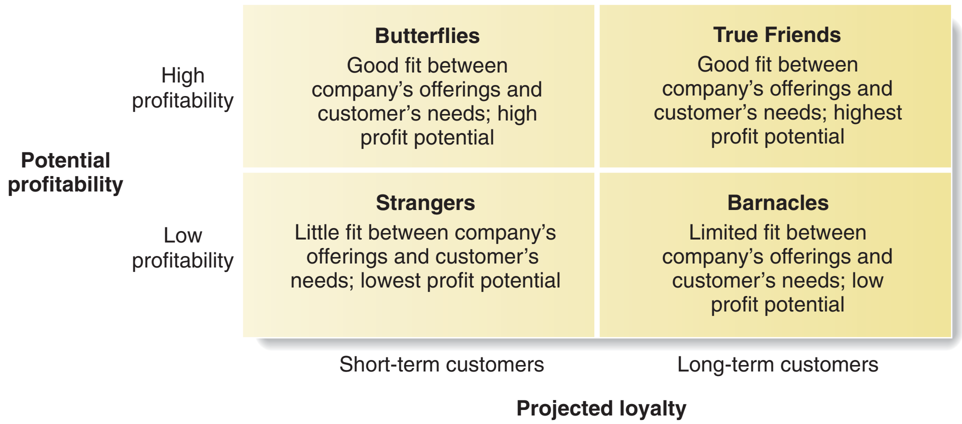


Figure 1.5 Customer relationship groups

Source: Reprinted by permission of *Harvard Business Review*. Adapted from "Mismanagement of Customer Loyalty" by Werner Relnartz and V. Kumar, July 2002, p. 93. Copyright © by the president and fellows of Harvard College; all rights reserved.

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

5

The Changing Marketing Landscape

Every day dramatic changes are occurring in the marketplace. Richard Love of Hewlett-Packard observes, "The pace of change is so rapid that the ability to change has now become a competitive advantage." Yogi Berra, the legendary New York Yankees catcher and manager, summed it up more simply when he said, "The future ain't what it used to be." As the marketplace changes, so must those who serve it.

In this section, we examine the major trends and forces that are changing the marketing landscape and challenging marketing strategy. We look at four major developments: the digital age, rapid globalization, the call for more ethics and social responsibility, and the growth of not-for-profit marketing.

The Digital Age

The recent technology boom has created a digital age. The explosive growth in computer, communications, information, and other digital technologies has had a major impact on the ways companies bring value to their customers. Now more than ever before we are all connected to each other and to information anywhere in the world. Where it once took days or weeks to receive news about important world events, we now learn about them as they are occurring through live satellite broadcasts and news websites. Where it once took weeks to correspond with others in distant places, they are now only moments away by cellphone, email, or webcam.

The digital age has provided marketers with exciting new ways to learn about and track customers and to create products and services tailored to individual customer needs. It's helping marketers communicate with customers in large groups or one-to-one. Through web videoconferencing, marketing researchers at a company's headquarters in Vancouver can look in on focus groups in Halifax or Paris without ever stepping onto a plane. With only a few clicks of a mouse button, a direct marketer can tap into online data services to learn anything from what car you drive to what you read to what flavour of ice cream you prefer. Or, using today's powerful computers, marketers can create their own detailed customer databases and use them to target individual customers with offers designed to meet their specific needs.

Digital technology has also brought a new wave of communication, advertising, and relationship building tools—ranging from online advertising, video sharing tools, cellphones, and video games to web widgets and online social networks. The digital shift means that marketers can no longer expect consumers to always seek them out. Nor can they always control conversations about their brands. The new digital world makes it easy for consumers to take marketing content that once lived only in advertising or on a brand website with them wherever they go and to share it with friends. More than just add-ons to traditional marketing channels, the new digital media must be fully integrated into the marketer's customer-relationship-building efforts. Says one marketer, "We're [now] building a network of experiences."[34]

Perhaps the most dramatic new digital technology is the Internet. The number of Internet users worldwide now stands at more than 1.2 billion and will reach an estimated 3.4 billion by 2015. Today's typical Internet users spend 47 percent of their time online—watching video, reading the news, or getting the lowdown on friends and celebrities on MySpace or Facebook. They spend another 33 percent of their online time communicating with each other, 15 percent shopping, and 5 percent googling or using other search engines. Computers and the Internet have become an indispensable part of our lives.[35]

> What do we value most? Judging by how we spend our time, our computers. Most people spend more time with their computers than with their spouse or significant other. More than 80 percent report that they grow more dependent on their computer every year. Computers are also a growing source of stress. The average consumer experiences frustrating computer problems twice a month and wastes 12 hours a month due to computer problems. Eleven percent say they'd be willing to implant a device in their brains that would allow them to access the Internet. Twenty-four percent say the Internet can serve as a substitute for a significant other. Ten percent say the Web brings them closer to God.[36]

Internet usage surged in the 1990s with the development of the user-friendly World Wide Web. During the overheated Web frenzy of the late 1990s, dot-coms popped up everywhere. The frenzy cooled during the "dot-com meltdown" of 2000, when many poorly conceived etailers and other Web start-ups went out of business.

Web 2.0—a "second coming" of the Internet—offers a fast-growing set of new Web technologies for connecting with customers. Here, Dunkin' Donuts offers a popular YouTube space where people can share their "that's why America runs on Dunkin'" stories and videos.

Today, a new version of the Internet has emerged—a "second coming" of the Web, often referred to as Web 2.0. Web 2.0 involves a more reasoned and balanced approach to marketing online. It also offers a fast-growing set of new Web technologies for connecting with customers, such as weblogs (blogs) and vlogs (video-based blogs), social networking sites, and video-sharing sites. The interactive, community-building nature of these new technologies makes them ideal for relating with consumers.[37]

Online marketing is now the fastest-growing form of marketing. These days it's hard to find a company that doesn't use the Web in a significant way. In addition to the "click-only" dot-coms, most traditional "brick-and-mortar" companies have now become "click-and-mortar" companies. They have ventured online to attract new customers and build stronger relationships with existing ones. Canada has the highest

Internet penetration rate in the world: Roughly 85 percent of the population has Internet access and a large percentage of them are shopping online.[38] Business-to-business online commerce is also booming. It seems that almost every business has set up shop on the Web.

Thus, the technology boom is providing exciting new opportunities for marketers. We will explore the impact of the new digital marketing technologies in future chapters, especially Chapter 17.

Rapid Globalization

As they are redefining their relationships with customers and partners, marketers are also taking a fresh look at the ways in which they relate with the broader world around them. In an increasingly smaller world, many marketers are now connected *globally* with their customers and marketing partners.

Today, almost every company, large or small, is touched in some way by global competition. A neighbourhood florist buys its flowers from Mexican nurseries, and a large Canadian electronics manufacturer competes in its home markets with giant Japanese rivals. A fledgling Internet retailer finds itself receiving orders from all over the world at the same time that a Canadian consumer-goods producer introduces new products into emerging markets abroad.

North American firms have been challenged at home by the skilful marketing of European and Asian multinationals. Companies such as Toyota, Nokia, Nestlé, Sony, and Samsung have often outperformed their North American counterparts. Similarly, Canadian companies in a wide range of industries have developed truly global operations, making and selling their products worldwide.

Companies in a wide range of industries have developed truly global operations. The Waterloo-based company Research In Motion has truly evolved into a global company. With corporate offices in North America, Europe, and Asia, it now sells a wide variety of BlackBerry smartphones in countries around the globe.

The Waterloo-based company Research In Motion has truly evolved into a global company. With corporate offices in North America, Europe, and Asia, it now sells a wide variety of BlackBerry devices in countries around the globe. British Columbia–based lululemon, a yoga-inspired athletic apparel company, manufactures its products in seven countries and has over 100 retail locations in Canada, the United States, Australia, and Hong Kong.

Today, companies are not only trying to sell more of their locally produced goods in international markets, they are also buying more supplies and components abroad. For example, Alfred Sung, one of Canada's top fashion designers, may choose cloth woven from Australian wool with designs printed in Italy. He will design a dress and email the drawing to a Hong Kong agent, who will place the order with a Chinese factory. Finished dresses will be air-freighted to Toronto, where they will be redistributed to department and specialty stores around the country.

Thus, managers in countries around the world are increasingly taking a global, not just local, view of the company's industry, competitors, and opportunities. They are asking: 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"? We will discuss the global marketplace in more detail in Chapter 18.

The Call for More Ethics and Social Responsibility

Marketers are re-examining their relationships with social values and responsibilities and with the very Earth that sustains us. As the worldwide consumerism and environmentalism movements mature, today's marketers are being called upon to take greater responsibility for the social and environmental impact of their actions. Corporate ethics and social responsibility have become hot topics for almost every business. And few companies can ignore the renewed and very demanding environmental movement. Every company action can affect customer relationships:

> There is an unwritten contract today between customers and the brands they buy. First, they expect companies to consistently deliver what they advertise. Second, they expect the companies they do business with to treat them with respect and to be honourable and forthright. . . . Everything a company does affects the brand in the eyes of the customer. For example, Celestial Seasonings incurred customers' wrath by ignoring its advertised corporate image of environmental stewardship when it poisoned prairie dogs on its property. By contrast, Google's decision to use solar energy for its server farms reinforces what Google stands for and strengthens the Google brand.[39]

The social responsibility and environmental movements will place even stricter demands on companies in the future. Some companies resist these movements, budging only when forced by legislation or organized consumer outcries. More forward-looking companies, however, readily accept their responsibilities to the world around them. They view socially responsible actions as an opportunity to do well by doing good. They seek ways to profit by serving the best long-run interests of their customers and communities.

Some companies—such as Patagonia, Ben & Jerry's, Timberland, EnCana, and others—are practising "caring capitalism," setting themselves apart by being civic-minded and responsible. They are building social responsibility and action into their company value and mission statements. For example, when it comes to environmental responsibility, outdoor gear marketer Patagonia is "committed to the core." "Those of us who work here share a strong commitment to protecting undomesticated lands and waters," says the company's website. "We believe in using business to inspire solutions to the environmental crisis." Patagonia backs these words with actions. Each year it pledges at least 1 percent of its sales or 10 percent of its profits, whichever is greater, to the protection of the natural environment.[40] We will revisit the topic of marketing and social responsibility in greater detail in Chapter 4.

The Growth of Not-for-Profit Marketing

In the past, marketing has been most widely applied in the for-profit business sector. In recent years, however, marketing has also become a major part of the strategies of many not-for-profit organizations, such as universities, hospitals, museums, zoos, symphony orchestras, and even churches. The nation's not-for-profits face stiff competition for support and membership. Sound marketing can help them to attract membership and support.[41] Organizations as diverse as the Sierra Club of Canada, the Heart and Stroke Foundation, and the Ivey School of Business at the University of Western Ontario are using marketing techniques to build better relationships with key stakeholders, such as donors, volunteers, and prospective students and alumni. They are hiring experienced marketers from the for-profit sector to help them accomplish their mission. Consider the experience of Caroline Riseboro. When she decided to leave one of Canada's largest advertising agencies to accept a job with World Vision Canada, many of her colleagues thought she was crazy. However, Riseboro wanted to use her marketing skills to give back to society. And she certainly had a chance to put them to work. Selling an intangible product to people with only a limited marketing budget is the first obvious challenge. The more subtle hurdle, however, is the fierce competition for a small share of consumers' discretionary income. As Riseboro noted,

As not-for-profit organizations like World Vision Canada increasingly use marketing techniques, marketing professionals like Caroline Riseboro are drawn to the sector.

"It's not easy to convince Canadians to forgo a daily latte to give a needy child overseas the opportunity for an education . . . try highlighting the benefits of self-sacrifice; it's not so sexy of a sell." Not-for-profit marketers also need impeccable ethics. Donors constantly look for assurance that their charitable dollars are not being wasted on needless marketing expenses. Thus, as Riseboro has learned, if you can successfully market charitable giving, you can market just about anything.[42]

Government agencies have also shown an increased interest in marketing. For example, both the Canadian military and the Royal Canadian Mounted Police have marketing plans to attract recruits to their different services, and various government agencies are now designing *social marketing campaigns* to encourage energy conservation and concern for the environment or to discourage smoking, excessive drinking, and drug use. According to *Strategy Magazine*, public sector advertising is annually among the top three categories of television advertising in English Canada.[43]

So, What is Marketing? Pulling It All Together

At the start of this chapter, Figure 1.1 presented a simple model of the marketing process. Now that we've discussed all of 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.

The first four steps of the marketing process focus on creating value for customers. The company 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). Good marketing companies know that 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 to win target customers.

With its marketing strategy decided, the company now constructs an integrated marketing program—consisting of a blend of the four marketing mix elements, or the four Ps—that transforms the marketing strategy into real value for customers. The company develops product offers 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 the 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

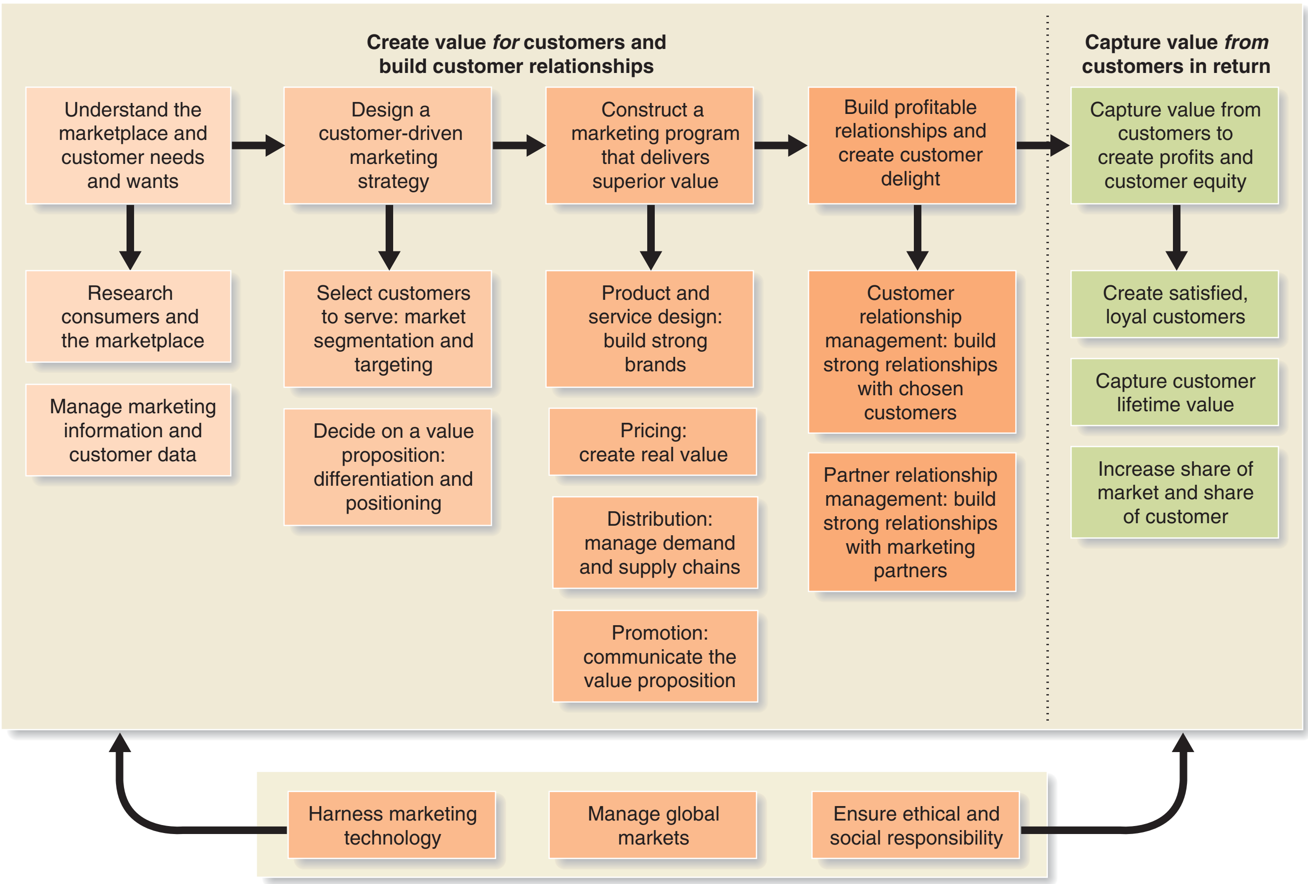


Figure 1.6 An expanded model of the marketing process

harness marketing technology, take advantage of global opportunities, and ensure that they act in an ethical and socially responsible way.

Figure 1.6 provides a good road map to future chapters of the text. Chapters 1 and 2 introduce the marketing process, with a focus on building customer relationships and capturing value from customers. Chapters 3 and 4 address the first steps of the marketing process—understanding the marketing environment, and understanding the impact marketing has on society and the ethical concerns associated with marketing practice. Chapter 5 focuses on managing marketing information. Chapters 6 and 7 are designed to help you understand consumer and business buying behaviour, respectively. In Chapter 8, we look more deeply into the two major marketing strategy decisions: selecting which customers to serve (segmentation and targeting) and deciding on a value proposition (differentiation and positioning). Chapters 9 through 17 discuss the marketing mix variables, one by one. Chapter 18 examines special marketing considerations related to global marketing.

REVIEWING OBJECTIVES AND KEY TERMS

Today's successful companies—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. Marketing seeks to attract new customers by promising superior value and to keep and grow current customers by delivering satisfaction. To be successful, companies will have to be strongly market focused.

OBJECTIVE 1 **Define marketing and outline the steps in the marketing process.**

Marketing is the process by which companies create value for customers and build strong customer relationships 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 of 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.

OBJECTIVE 2 **Explain the importance of understanding customers and the marketplace, and identify the five core marketplace concepts.**

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 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 that they promise to consumers to satisfy their needs. The value proposition is fulfilled through a market offering, which delivers customer value and satisfaction, resulting in long-term exchange relationships with customers.

OBJECTIVE 3 **Identify the key elements of a customer-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.**

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 organization's products unless it undertakes a large-scale selling and promotion effort. The *marketing concept* holds that achieving organizational 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* holds that generating customer satisfaction *and* long-run societal well-being are the keys to both achieving the company's goals and fulfilling its responsibilities.

OBJECTIVE 4 **Discuss customer relationship management and identify strategies for creating value *for* customers and capturing value *from* customers in return.**

Broadly defined, *customer relationship management* is the process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. The aim of customer relationship management 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*.

Companies want not only to acquire profitable customers but also to build relationships that will keep them and grow "share of customer." Different types of customers require different customer relationship management strategies. The marketer's aim is to build the *right relationships* with the *right customers*. In return for creating value *for* targeted customers, the company captures value *from* customers in the form of profits and customer equity.

In building customer relationships, good marketers realize that they cannot go it alone. They must work closely with marketing partners inside and outside the company. In addition to being good at customer relationship management, they must also be good at *partner relationship management*.

OBJECTIVE 5 **Describe the major trends and forces that are changing the marketing landscape in this age of relationships.**

Dramatic changes are occurring in the marketing arena. The boom in computer, telecommunications, information, transportation, and other technologies has created exciting new ways to learn about and track customers, and to create products and services tailored to individual customer needs. It has also allowed new approaches by which marketers can target consumers more selectively and build closer two-way customer relationships.

In an increasingly smaller world, many marketers are now connected *globally* with their customers and marketing partners. Today, almost every company, large or small, is touched in some way by global competition. 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. Finally, in the past marketing has been most widely applied in the for-profit business sector. In recent years, however, marketing has also become a major part of the strategies of many not-for-profit organizations, such as universities, hospitals, museums, zoos, symphony orchestras, and even churches.

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

KEY TERMS

Objective 1
Marketing 00
Objective 2
Needs 00
Wants 00
Demands 00
Market offerings 00
Marketing myopia 00
Exchange 00
Market 00
Objective 3
Marketing management 00
Production concept 00
Product concept 00
Selling concept 00
Marketing concept 00
Societal marketing concept 00
Objective 4
Customer relationship management 00
Customer-perceived value 00
Customer satisfaction 00
Consumer-generated marketing 00
Partner relationship management 00
Customer lifetime value 00
Share of customer 00
Customer equity 00

DISCUSSING THE CONCEPTS

1. What is marketing and what is its primary goal?
2. Compare and contrast customer needs, wants, and demands. Describe the need versus the want for the following products: Gatorade, Nike shoes, and an iPod.
3. Explain how a company designs a customer-driven marketing strategy.
4. What are the five different marketing management orientations? Which orientation do you believe your school follows when marketing itself?
5. Explain the difference between share of customer and customer equity. Why are these concepts important to marketers?
6. How has the Internet changed consumers? Marketers?

APPLYING THE CONCEPTS

1. Ask five businesspeople from different industries (for example, food service, retailing, consumer-product manufacturing, industrial-product manufacturing, education, and so on) what they think marketing is. Evaluate their definitions and discuss whether or not they are consistent with the goal of creating customer value and managing profitable customer relationships.
2. In a small group, develop a marketing plan for a pet boarding service. Who is your target market? How will you enable customers to get the best value? Define what you mean by value and develop the value proposition of your offering for this target market.
3. Define the different relationship levels companies can build with customers. Pick a company and describe the types of relationships you have with it.

FOCUS ON TECHNOLOGY

Embracing the marketing concept is one thing; implementing it is another. How do marketers know what consumers' needs and wants are so that they can develop a marketing strategy and mix to satisfy those needs and wants? Research, of course. But that takes time and resources, so many companies are turning to the Internet to get continuous, timely, and innovative information from customers. For example, software maker SAP developed its Business Process Expert (BPX) community in which customers share feedback in forums, blogs, and articles. Procter & Gamble wants you to "Share Your Thoughts" at www.pg.com/getintouch. But if you have a really good idea, perhaps you should look into licensing with P&G (see https://secure3.verticali.net/pg-connection-portal/ctx/noauth/PortalHome.do).

1. Explore the websites of other companies to learn how they get feedback from customers. Start by clicking on "Contact Us," then dig deeply to see if you can find a place where each company seeks or accepts feedback and ideas. Write a brief report of what you find.
2. Discuss other ways in which businesses can use the Internet to create greater customer value.

FOCUS ON ETHICS

Did you drive a car today? Use a laptop computer? Buy a product in a store? If so, you emitted carbon dioxide (CO_2) and created a carbon footprint. All of us do that every day. Many consumers feel badly about doing this; others expect companies to take action. What's the answer? Reducing carbon emissions is one solution, but another one is to offset your carbon emissions by purchasing carbon offsets and renewable energy certificates (RECs). Individual consumers do this, and companies are flocking to purchase carbon offsets for themselves or to offer to their customers, resulting in an estimated $100 million market. And experts predict exponential growth over the next few years. Airlines routinely offer flyers the option of paying a few extra dollars to offset their carbon emissions. For example, JetBlue Airways introduced its "Jetting to Green" program, which allows flyers to make their flight "carbon-neutral" for as little as $2.00. Flyers' donations will then support reforestation, wind, and waste management projects.

1. Learn more about carbon offsets and discuss four examples of how businesses are using them. In your opinion, are these companies embracing the societal marketing concept?
2. One criticism of carbon offsetting is that companies are not really helping the environment by changing their behaviour; instead, they're merely buying "environmental pardons." Do you think carbon offsets are a responsible solution to environmental concerns? Write a brief essay debating this issue.

MARKETING BY THE NUMBERS

How much are you worth to a given company if you continue to purchase its brand for the rest of your life? Many marketers are grappling with that question, but it's not easy to determine how much a customer is worth to a company over his or her lifetime. Calculating customer lifetime value can be very complicated. Intuitively, however, it can be a fairly simple net present value calculation. To determine a basic customer lifetime value, each stream of profit is discounted back to its present value (PV) and then summed. The basic equation for calculating net present value (NPV) is as follows:

$$NPV = \sum_{t=0}^{N} \frac{C_t}{(1+r)^t}$$

Where,

t = time of the cash flow
N = total customer lifetime
r = discount rate
Ct = net cash flow (the profit) at time t (The initial cost of acquiring a customer would be a negative profit at time 0.)

NPV can be calculated easily on most financial calculators or by using one of the calculators available on the Internet, such as the one found at www.investopedia.com/calculator/NetPresentValue.aspx. For more discussion of the financial and quantitative implications of marketing decisions, see Appendix 3: Marketing by the Numbers.

1. Assume that a customer shops at a local grocery store spending an average of $150 a week and that the retailer earns a 5 percent margin. Calculate the customer lifetime value if this shopper remains loyal over a 10-year lifespan, assuming a 5 percent annual interest rate and no initial cost to acquire the customer. (AACSB Communication; Analytic Reasoning)
2. Discuss how a business can increase a customer's lifetime value. (AACSB: Communication; Reflective Thinking)

VIDEO CASE

Harley-Davidson

Few brands engender such intense loyalty as that found in the hearts of Harley-Davidson owners. Long ago, the folks at Harley-Davidson realized that the best way to create lasting relationships with customers was to understand them on their own terms. The company spends a great deal of time and money in pursuit of that goal. It wants to know who its customers are, how they think and feel, and why they buy a Harley. That customer-centric strategy has helped build Harley-Davidson into a multibillion-dollar company with the largest company-sponsored owner's group in the world.

Harley-Davidson has learned that it sells much more than motorcycles. The company sells a feeling of independence, individualism, and freedom. These strong emotional connections have made Harley-Davidson ownership much more of a lifestyle than merely a product consumption experience. To support that lifestyle, Harley-Davidson recognizes that its most important marketing tool is the network of individuals who ride Harleys. For this reason, Harley-Davidson engages its customer base through company-sponsored travel adventures, events, and other things, such as clothes and accessories both for riders and for those who simply like to associate with the brand.

After viewing the video featuring Harley-Davidson, answer the following questions about managing profitable customer relationships:

1. How does Harley-Davidson build long-term customer relationships?
2. What is Harley-Davidson's value proposition?
3. Relate the concept of customer equity to Harley-Davidson. How does Harley-Davidson's strategy focus on the right relationships with the right customers?

Visit MyMarketinglab at www.pearsoned.ca/mymarketinglab to view the video segment related to this case.

COMPANY CASE

Build-A-Bear: Build-A-Memory

In the late 1990s, it was all about the dot-com. While venture capital poured into the high-tech sector and the stock prices of dot-com start-ups rose rapidly, the performance of traditional companies paled in comparison. That era seemed like a bad time to start a chain of brick-and-mortar mall stores selling stuffed animals. Indeed, when Maxine Clark founded Build-A-Bear Workshop in 1996, many critics thought that she was making a poor business decision.

But with its first decade of doing business behind it, Build-A-Bear Workshop now has more cheerleaders than naysayers. In the last few years, it has won numerous awards, including being named one of the five hottest retailers by one retail consultancy. The company hit number 25 on *BusinessWeek*'s Hot Growth list of fast-expanding small companies. And founder and CEO Maxine Clark won *Fast Company*'s Customer-Centered Leader Award. How does a small start-up company achieve such accolades?

THE PRODUCT

On paper, it all looks simple. Maxine Clark opened the first company store in 1996. Since then, the company has opened more than 370 stores and has custom-made tens of millions of teddy bears and other stuffed animals. Annual revenues reached US$474 million in 2007 and are growing at a steady and predictable 15 percent annually. After going public in November 2004, the company's stock price soared 56 percent in just two years. Annual sales per square foot are $600, roughly double the average for U.S. mall stores. In fact, Build-A-Bear Workshop typically earns back almost all of its investment in a new store within the first year, a feat unheard of in retailing. On top of all this, the company's Internet sales are exploding.

But what all these numbers don't illustrate is how the company is achieving such success. That success comes not from the tangible object that children clutch as they leave a store. It comes from what Build-A-Bear is really selling: the experience of participating in the creation of personalized entertainment.

When children enter a Build-A-Bear store, they step into a cartoon land, a genuine fantasy world organized around a child-friendly assembly line composed of clearly labelled work stations. The process begins at the "Choose Me" station where customers select an unstuffed animal from a bin. At the "Stuff Me" station, the animal comes to life as the child operates a foot pedal that blows in the amount of "fluff" that she or he (25 percent of Build-A-Bear customers are boys) chooses. Other stations include "Hear Me" (where customers decide whether or not to include a "voice box"), "Stitch Me" (where the child stitches the animal shut), "Fluff Me" (where the child can give the animal a blow-dry spa treatment), "Dress Me" (filled with accessories galore), and "Name Me" (where a birth certificate is created with the child-selected name).

Unlike at most retail stores, waiting in line behind other customers is not an unpleasant activity. In fact, because the process is much of the fun, waiting actually enhances the experience. By the time children leave the store, they have a product unlike any they've ever bought or received. They have a product that they have created. More than just a stuffed animal that they can have and hold, it's imbued with the memory created on their visit to the store. And because of the high price-to-delight ratio (bears start as low as $10 and average $25), parents love Build-A-Bear as much as the kids do.

WHY THE CONCEPT WORKS

The outside observer might assume that Build-A-Bear is competing with other toy companies or with other makers of stuffed animals, such as the Vermont Teddy Bear Company. Touting its product as the only bear made in America and guaranteed for life, Vermont Teddy Bear hand-makes all of its bears at a central factory in Vermont. Customers choose their bears through a catalogue or website, receiving their bear in the mail without the experience of having taken part in the creation of the bear. Quality is the key selling point (reinforced by its price of US$50–$100).

Although Vermont Teddy Bear has achieved great success since it sold its first bear in 1981, Maxine Clark does not consider it to be a serious Build-A-Bear competitor. "Our concept is based on customization," says Clark. "Most things today are high-tech and hard-touch. We are soft-touch. We don't think of ourselves as a toy store—we think of ourselves as an experience." It is widely recognized in many industries that the personalization feature builds fiercely loyal customers. As evidence, Clark points out that unlike the rest of the toy industry, Build-A-Bear sales do not peak during the holiday season, but are evenly distributed throughout the year.

Although not very common in the toy industry, Maxine Clark asserts that personalization is emerging because it lets customers be creative and express themselves. It provides far more value for the customer than they receive from mass-produced products. "It's empowerment—it lets the customer do something in their control," she adds. Build-A-Bear has capitalized on this concept by not just allowing for customization, but by making it a key driver of customer value. The extensive customer involvement in the personalization process is more of the "product" than the resulting item.

Although Build-A-Bear has performed impressively, some analysts question whether or not it is just another toy industry fad, comparing the brand to Beanie Babies and Cabbage Patch Kids. Although Maxine Clark has considered this, she is confident that the Build-A-Bear product and experience will evolve as quickly as the fickle tastes of children. Whereas some outfits and accessories might be trendy (the company added Spider-Man costumes to the bear-size clothing line at the peak of the movie's popularity), the assortment of available accessories changes 11 times each year.

KNOWING THE CUSTOMER

Maxine Clark has been viewed as the strategic visionary—and even the genius—who has made the Build-A-Bear concept work. But her success as CEO derives from more than just business skills relating to strategy development and implementation. Clark attributes her success to "never forgetting what it's like to be a customer." Given that Clark has no children of her own, this is an amazing feat indeed. Although understanding customers is certainly not a new concept, Clark has employed both low-tech and high-tech methods for making Build-A-Bear a truly customer-centric organization.

To put herself in the customer's shoes, Clark walks where they walk. Every week, she visits two or three of the more than 370 Build-A-Bear stores. She doesn't do this just to see how the stores are running operationally. She takes the opportunity to interact with her customer base by chatting with preteens and parents. She actually puts herself on the front line, assisting employees in serving customers. She even hands out business cards.

As a result, Clark receives thousands of emails each week, and she's been added to the buddy lists of preteens all over the world. Clark doesn't take this honour lightly and tries to respond to as many of those messages as possible via her BlackBerry. Also, to capitalize on these customer communications, she has created what she calls the "Virtual Cub Advisory Council," a panel of children on her email list. And what does Clark get in return from all this high-tech communication? "Ideas," she says. "I used to feel like I had to come up with all the ideas myself but it's so much easier relying on my customers for help."

From the location of stores to accessories that could be added to the Build-A-Bear line, Build-A-Bear actually puts customer ideas into practice. As the ideas come in, Clark polls the Cub Council to get real-time feedback from customers throughout the areas where the company does business. Mini-scooters, Hello Kitty bears, mascot bears at professional sports venues, and sequined purses are all ideas generated by customers that have become very successful additions.

Clark sees accessories as a tool for building the child/bear relationship. Build-A-Bear Workshops house in-store galleries of bear-sized furniture designed by kids for kids. An exclusive partnership with Skechers shoes makes Build-A-Bear Workshop the seller of more bear shoes, sandals, boots, and slippers than any other company worldwide. And with the sports licensing agreements that it has with the NBA, WNBA, MLB, NHL, NFL, and NASCAR, Build-A-Bear's offspring can become part of a child's affinity for a sports team. Clark's research efforts have also led to a media campaign focusing on the tween segment by playing up ideas of fashion and imagination.

As a means of further expanding the Build-A-Bear experience beyond the retail store, the company has created a website that connects real-world toys with the online world. Dubbed "BuildABearVille.com," the interactive site contains games and activities that feature the same themes as the brick-and-mortar stores. "The new virtual world was carefully created so that it reflects the core values of Build-A-Bear Workshop," Clark said. "It allows children to have fun as they grow their friendships and learn about being an active participant in the community." Although any child can register, the premium content is only accessible via a code that comes with the purchase of a bear from one of the chain's retail stores.

But growth for Build-A-Bear will come from more than just these improvements to same-store sales. Clark's expansion efforts include building a base of at least 350 stores in the United States and 120 stores in Europe, and franchising an additional 300 stores in other parts of the world. And Clark is taking action on the flood of "build-your-own" concepts that have come across her desk since the first Build-A-Bear Workshop opened. She will give much more attention to a new line of stores called "Friends 2B Made," a concept built around the personalization of dolls rather than stuffed animals. She's opened up the first Build-A-Dino stores. And Build-A-Bear has a 25 percent ownership stake in the start-up Ridemakerz, a make-and-outfit your own toy car shop.

Although Maxine Clark may communicate with only a fraction of her customers, she sees her efforts as the basis for a personal connection with all customers. "With each child that enters our store, we have an opportunity to build a lasting memory," she says. "Any business can think that way, whether you're selling a screw, a bar of soap, or a bear."

Questions for Discussion

1. Give examples of needs, wants, and demands that Build-A-Bear customers demonstrate, differentiating each of these three concepts. What are the implications of each on Build-A-Bear's actions?
2. In detail, describe all facets of Build-A-Bear's product. What is being exchanged in a Build-A-Bear transaction?
3. Which of the five marketing management concepts best describes Build-A-Bear Workshop?
4. Discuss in detail the value that Build-A-Bear creates for its customers.
5. Is Build-A-Bear likely to be successful in continuing to build customer relationships? Why or why not?

Sources: James Bickers, "Virtual Friends," *Retail Customer Experience*, April 2008, p. 20; Joanne Kaufman, "After Build-A-Bear, Build-A-Toy-Car," *New York Times*, May 29, 2007, p. C3; "Build-A-Bear Brings Out the Bulls," *BusinessWeek*, June 28, 2007, accessed at www.businessweek.com; Lucas Conley, "Customer-Centered Leader: Maxine Clark," *Fast Company*, October 2005, p. 54; Staff writer, "This Bear Doesn't Hibernate," *Business-Week*, June 6, 2005, accessed at www.businessweek.com; and Roger Crockett, "Build-A-Bear Workshop: Retailing Gets Interactive with Toys Designed by Tots," *BusinessWeek*, June 6, 2005, p. 77.