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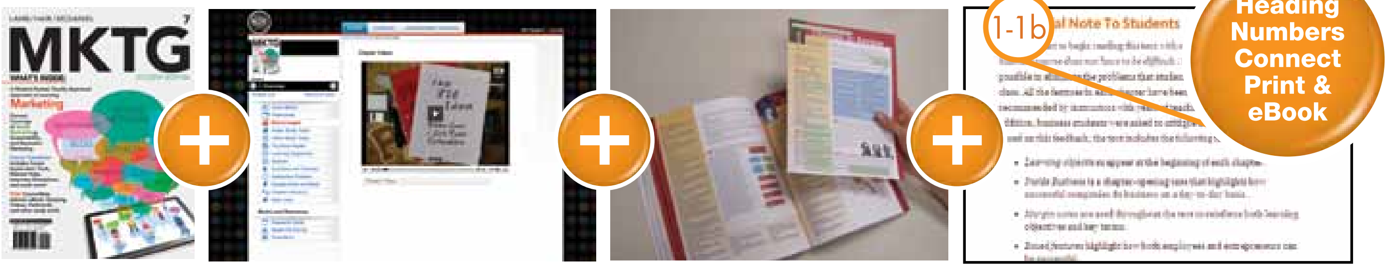

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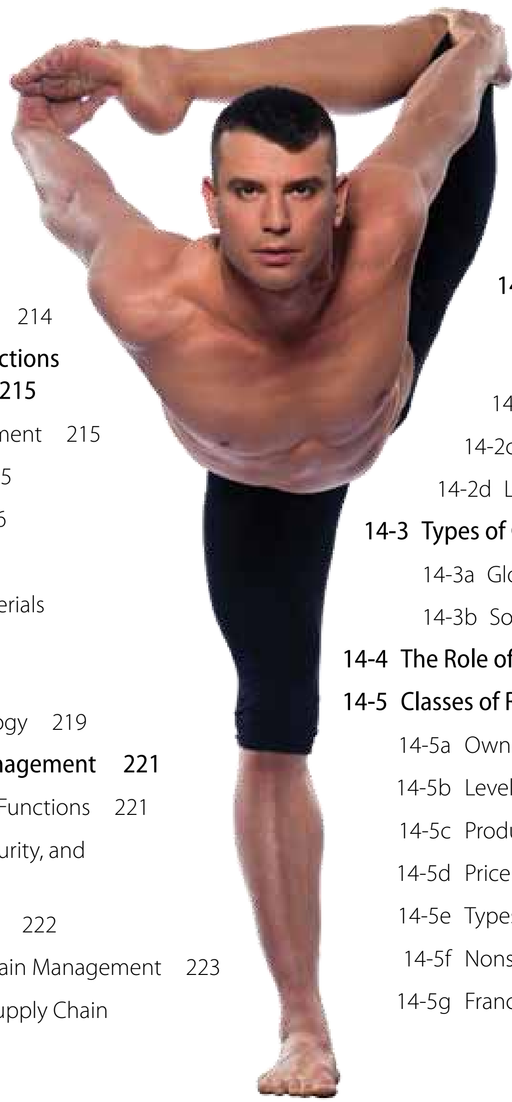

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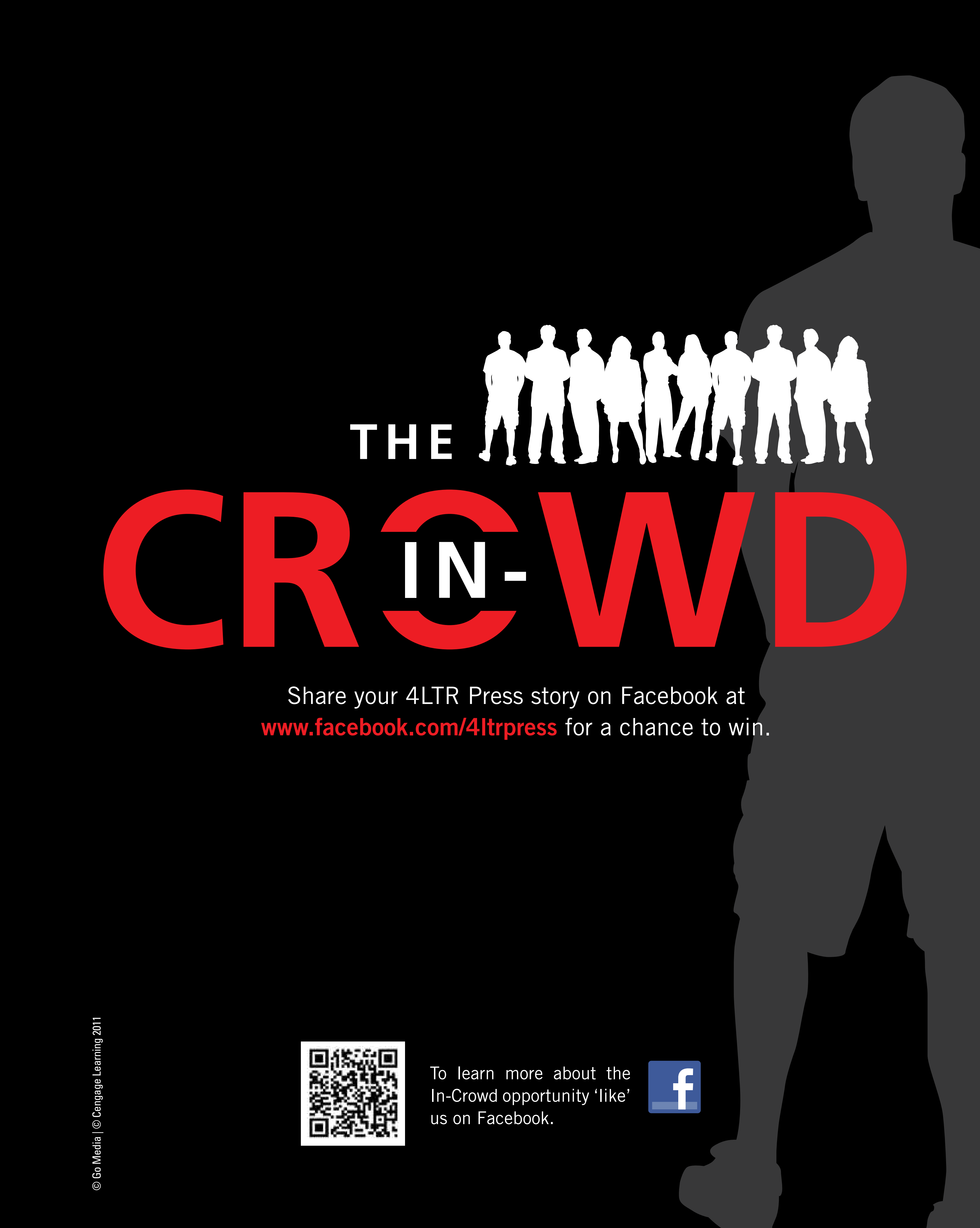
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1-1 WHAT IS MARKETING?

What does the term *marketing* mean to you? Many people think it means personal selling. Others think marketing means advertising. Still others believe marketing has to do with making products available in stores, arranging displays, and maintaining inventories of products for future sales. Actually, marketing includes all of these activities and more.

> "Marketing is too important to be left only to the marketing department." *David Packard*

marketing 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

Marketing has two facets. First, it is a philosophy, an attitude, a perspective, or a management orientation that stresses customer satisfaction. Second, marketing is an organization function and a set of processes used to implement this philosophy.

The American Marketing Association's definition of marketing focuses on the second facet. **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.[1]

Marketing involves more than just activities performed by a group of people in a defined area or department. In the often-quoted words of David Packard, co-founder of Hewlett-Packard, "Marketing is too important to be left only to the marketing department." Marketing entails processes that focus on delivering value and benefits to customers, not just selling goods, services, and/or ideas. It uses communication, distribution, and pricing strategies to provide customers and other stakeholders with the goods, services, ideas, values, and benefits they desire when and where they want them. It involves building long-term, mutually rewarding relationships when these benefit all parties concerned. Marketing also entails an understanding that organizations have many connected stakeholder "partners," including employees, suppliers, stockholders, distributors, and others.

Research shows that companies that reward employees with incentives and recognition on a consistent basis are those that perform best.[2] Google captured the number one position in *Fortune*'s "100 Best Companies to Work For in 2011." The company pays 100 percent of health care premiums, offers paid sabbaticals, and provides boccie courts, a bowling alley, and twenty-five cafés, for free. Google has also never had a layoff. One so-called Googler reported that "employees are never more than 150 feet away from a well-stocked pantry."[3]

Chapter 1

An Overview of Marketing

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Learning Outcomes

After you finish this chapter go to
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exchange people giving up something in order to receive something they would rather have

production orientation a philosophy that focuses on the internal capabilities of the firm rather than on the desires and needs of the marketplace

Google offers many amenities to its employees, one reason *Fortune* ranked it as the best company to work for in 2011.

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One desired outcome of marketing is an **exchange**, people giving up something in order to receive something they would rather have. Normally, we think of money as the medium of exchange. We "give up" money to "get" the goods and services we want. Exchange does not require money, however. Two (or more) people may barter or trade such items as baseball cards or oil paintings. An exchange can take place only if the following five conditions exist:

1. **There must be at least two parties.**
2. **Each party has something that might be of value to the other party.**
3. **Each party is capable of communication and delivery.**
4. **Each party is free to accept or reject the exchange offer.**
5. **Each party believes it is appropriate or desirable to deal with the other party.[4]**

Exchange will not necessarily take place even if all these conditions exist. They are, however, necessary for exchange to be possible. For example, you may place an advertisement in your local newspaper stating that your used automobile is for sale at a certain price. Several people may call you to ask about the car, some may test-drive it, and one or more may even make you an offer. All five conditions are necessary for an exchange to exist. But unless you reach an agreement with a buyer and actually sell the car, an exchange will not take place. Notice that marketing can occur even if an exchange does not occur. In the example just discussed, you would have engaged in marketing by advertising in the local newspaper even if no one bought your used automobile.

1-2 MARKETING MANAGEMENT PHILOSOPHIES

Four competing philosophies strongly influence an organization's marketing processes. These philosophies are commonly referred to as production, sales, market, and societal marketing orientations.

1-2a Production Orientation

A **production orientation** is a philosophy that focuses on the internal capabilities of the firm rather than on the desires and needs of the marketplace. A production orientation means that management assesses its resources and asks these questions: "What can we do best?" "What can our engineers design?" "What is easy to produce, given our equipment?" In the case of a service organization, managers ask, "What services are most convenient for the firm to offer?" and "Where do our talents lie?" Some have referred to this orientation as a *Field of Dreams* orientation, from the well-known movie line, "If we build it, they will come." The furniture industry is infamous for its disregard of customers and for its slow cycle times. For example, most traditional furniture stores (think Ashley or Havertys) carry the same styles and varieties of furniture that they have carried for many years. They always produce and stock sofas, coffee tables, arm chairs, and end tables for the living room. Master bedroom suites always include at least a queen- or king-sized bed, two dressers, and two side tables. Regardless of what customers may actually be looking for, this is what they will find at these stores—and it works because what the stores produce has matched up with customer expectations. This has always been a production-oriented industry.

There is nothing wrong with assessing a firm's capabilities; in fact, such assessments are major considerations in strategic marketing planning (see Chapter 2). A production orientation falls short because it does not consider whether the goods and services that the firm produces most efficiently also meet the needs of the marketplace. Sometimes what a firm can best produce is exactly what the market wants. Apple has a history of production orientation, creating computers, operating systems, and other gadgetry because it can and hoping to sell the result. Some items have found a waiting market (early computers, iPod, iPhone). Other products, like the Newton, one of the first versions of a PDA, were simply flops. In other situations, as when competition is weak or demand exceeds supply, a production-oriented firm can survive and even prosper. More often, however, firms that succeed in competitive markets have a clear understanding that they must first determine what customers want and then produce it, rather than focus on what company management thinks should be produced and hope that product is something customers want.

1-2b Sales Orientation

A **sales orientation** is based on the ideas that people will buy more goods and services if aggressive sales techniques are used and that high sales result in high profits. Not only are sales to the final buyer emphasized, but intermediaries are also encouraged to push manufacturers' products more aggressively. To sales-oriented firms, marketing means selling things and collecting money.

The fundamental problem with a sales orientation, as with a production orientation, is a lack of understanding of the needs and wants of the marketplace. Sales-oriented companies often find that, despite the quality of their sales force, they cannot convince people to buy goods or services that are neither wanted nor needed.

One of the dangers of a sales orientation is failing to understand what is important to the firm's customers. When that occurs, sales-oriented firms sometimes use aggressive incentives to drive sales. For example, after Nintendo faced a steep decline in Wii and 3DS sales, the company slashed the price on the portable, glasses-free 3DS from $250 to $170, hoping to spark sales of the game platform before releasing new games.[5]

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1-2c Market Orientation

The **marketing concept** is a simple and intuitively appealing philosophy that articulates a market orientation. It states that the social and economic justification for an organization's existence is the satisfaction of customer wants and needs while meeting organizational objectives. What a business thinks it produces is not of primary importance to its success. Instead, what customers think they are buying—the perceived value—defines a business. The marketing concept includes the following:

- **Focusing on customer wants and needs so that the organization can distinguish its product(s) from competitors' offerings**
- **Integrating all the organization's activities, including production, to satisfy customer wants**
- **Achieving long-term goals for the organization by satisfying customer wants and needs legally and responsibly**

The recipe for success is to develop a thorough understanding of your customers and your competition, your distinctive capabilities that enable your company to execute plans on the basis of this customer understanding, and how to deliver the desired experience using and integrating all of the resources of the firm.[6]

Firms that adopt and implement the marketing concept are said to be **market oriented**, meaning they assume that a sale does not depend on an aggressive sales force but rather on a customer's decision to purchase a product. Achieving a market orientation involves obtaining information about customers, competitors, and markets; examining the information from a total business perspective; determining how to deliver superior customer

sales orientation the ideas that people will buy more goods and services if aggressive sales techniques are used and that high sales result in high profits

marketing concept the idea that the social and economic justification for an organization's existence is the satisfaction of customer wants and needs while meeting organizational objectives

market orientation a philosophy that assumes that a sale does not depend on an aggressive sales force but rather on a customer's decision to purchase a product; it is synonymous with the marketing concept

societal marketing orientation the idea that an organization exists not only to satisfy customer wants and needs and to meet organizational objectives but also to preserve or enhance individuals' and society's long-term best interests

value; and implementing actions to provide value to customers.

Some firms are known for delivering superior customer value and satisfaction. The 2011 National Retail Federation Foundation/American Express Customer Service Survey listed Zappos.com, Amazon.com, L.L.Bean, Overstock.com, and Lands' End as the top five U.S. retailers for customer service.[7]

Understanding your competitive arena and competitors' strengths and weaknesses is a critical component of a market orientation. This includes assessing what existing or potential competitors might be intending to do tomorrow and what they are doing today. Western Union failed to define its competitive arena as telecommunications, concentrating instead on telegraph services, and was eventually outflanked by fax technology. Had Western Union been a market-oriented company, its management might have better understood the changes taking place, seen the competitive threat, and developed strategies to counter the threat. In contrast, American Express's success has rested largely on the company's ability to focus on customers and adapt to their changing needs over the past 160 years.[8]

1-2d Societal Marketing Orientation

The **societal marketing orientation** extends the marketing concept by acknowledging that some products that customers want may not really be in their best interests or in the best interests of society as a whole. This philosophy states that an organization exists not only to satisfy customer wants and needs and to meet organizational objectives but also to preserve or enhance individuals' and society's long-term best interests. Marketing products and containers that are less toxic than normal, are more durable, contain reusable materials, or are made of recyclable materials is consistent with a societal marketing orientation. The American Marketing Association's definition of marketing recognizes the importance of a societal marketing orientation by including "society at large" as one of the constituencies for which marketing seeks to provide value.

Although the societal marketing concept has been discussed for more than thirty years, it did not receive widespread support until the early 2000s. Concerns such as climate change, the depleting of the ozone layer, fuel shortages, pollution, and health concerns have caused consumers and legislators to be more aware of the need for companies and consumers to adopt measures that conserve resources and that cause less damage to the environment.

Studies reporting consumers' attitudes toward, and intentions to buy, environmentally friendly products show widely varying results. A Nielsen study found that while 83 percent of consumers worldwide believe companies should have environmental programs, only 22 percent would pay more for an eco-friendly product. The key to consumer purchasing lies beyond labels proclaiming sustainability, natural ingredients, or "being green." Customers want sustainable products that perform better than their unsustainable counterparts.[9]

1-2e Who's in Charge?

The Internet and the widespread use of social media have accelerated the shift in power from manufacturers and retailers to consumers and business users. This shift began when customers started using books, electronics, and the Internet to access information, goods, and services. Customers use their widespread knowledge to shop smarter, leading executives such as former Procter & Gamble CEO A.G. Lafley to conclude that "the customer is boss."[10]

Sam Walton echoed this sentiment when he reportedly once said, "There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else."[11] Walmart's chief

© iStockphoto.com/attator / © Jozsef Bagota/Shutterstock.com marketing officer, Stephen Quinn, agrees. "It starts with the customer. You've got to be incredibly customer-focused nowadays because—it's been said many times—the customer is in control."[12] And as Internet use and mobile devices become increasingly pervasive, that control will continue to grow. This means that companies must create strategy from the outside in by offering distinct and compelling customer value.[13] This can only be accomplished by carefully studying customers and using deep market insights to inform and guide companies' outside-in view.[14] Jeff Bezos, founder and chairman of Amazon.com, calls this a "working backward" mentality.[15]

1-3 DIFFERENCES BETWEEN SALES AND MARKET ORIENTATIONS

The differences between sales and market orientations are substantial. The two orientations can be compared in terms of five characteristics: the organization's focus, the firm's business, those to whom the product is directed, the firm's primary goal, and the tools used to achieve the organization's goals.

1-3a The Organization's Focus

Personnel in sales-oriented firms tend to be inward looking, focusing on selling what the organization makes rather than making what the market wants. Many of the historic sources of competitive advantage—technology, innovation, economies of scale—allowed companies to focus their efforts internally and prosper. But that same inward focus characteristic of the sales orientation has also led to the demise of firms like 3D Realms, Steve and Barry's, and SeeqPod.

Today, many successful firms derive their competitive advantage from an external, market-oriented focus. A market orientation has helped companies such as Zappos.com and Bob's Red Mill Natural Foods outperform their competitors. These companies put customers at the center of their business in ways most companies do poorly or not at all.

CUSTOMER VALUE The relationship between benefits and the sacrifice necessary to obtain those benefits is known as **customer value**. Customer value is not simply a matter of high quality. A high-quality product that is available only at a high price will not be perceived as a good value, nor will bare-bones service or low-quality goods selling for a low price. Instead, customers value goods and services that are of the quality they expect and that are sold at prices they are willing to pay. Value can be used to sell a Mercedes-Benz as well as a Tyson frozen chicken dinner.

customer value the relationship between benefits and the sacrifice necessary to obtain those benefits

Lower-income consumers are price sensitive, but they will pay for products if they deliver a benefit that is worth the money.[16] While price conveys value (a $4,000 handbag is perceived as being more luxurious and of higher quality than one selling for $100), value is about more than just price. For example, the social shopping scene has been expanding for several years, but wealthy customers with money to spend are being courted by a new breed of social shopping site. The basic premise is that a well-known fashion name (be it a fashion editor, an elite socialite, or a celebrity) moderates sites by handpicking pieces from favorite retailers, such as Barneys New York or Saks Fifth Avenue. Shoppers then purchase the curated items, and the site receives a commission for each purchase. There are many of these sites: Moda Operandi has highlighted (and sold out of) woven skirts for $4,000 apiece, Motilo focuses on French fashion (including couture pieces), and *Fino File* is an online, shopable magazine, with pieces ranging from $80 tops to $1,000 boots. With reports of growing subscribers and sold-out merchandise, it is clear that these sites are attracting customers who value curated style.[17]

Marketers interested in customer value:

- **OFFER PRODUCTS THAT PERFORM: This is the bare minimum requirement. After grappling with the problems associated with its Vista operating system, Microsoft listened to its customers and made drastic changes for Windows 7, which received greatly improved reviews.**
- **EARN TRUST: A stable base of loyal customers can help a firm grow and prosper. Residents in Brooklyn are fiercely loyal to their neighborhood's businesses. So, as part of their product introductions, Sixpoint Craft Ales brewery and Crop to Cup coffee did extensive sidewalk brand introduction in Brooklyn, offering passersby samples and personally developing relationships with local retailers to get their products on shelves and in restaurants. Both have made a huge market impact in Brooklyn through their constant presence, and Crop to Cup has opened its first store.[18]**
- **AVOID UNREALISTIC PRICING: E-marketers are leveraging Internet technology to redefine how prices are set and negotiated. With lower costs,**

customer satisfaction customers' evaluation of a good or service in terms of whether it has met their needs and expectations

e-marketers can often offer lower prices than their brick-and-mortar counterparts. The enormous popularity of auction sites such as eBay and the customer-bid model used by Priceline and uBid.com illustrates that online customers are interested in bargain prices. In fact, as Smartphone usage grows, brick-and-mortar stores are fighting customers who price compare using their Smartphones and purchase items for less online while standing in the store.

- **GIVE THE BUYER FACTS:** Today's sophisticated consumer wants informative advertising and knowledgeable salespeople. It is becoming very difficult for business marketers to differentiate themselves from competitors. Rather than trying to sell products, salespeople need to find out what the customer needs, which is usually a combination of products, services, and thought leadership.[19] In other words, salespeople need to start with the needs of the customer and work toward the solution.
- **OFFER ORGANIZATION-WIDE COMMITMENT IN SERVICE AND AFTER-SALES SUPPORT:** The Arizona Cardinals realized that their competitors were not only other NFL teams but also every organization that competes for the customers' entertainment dollars. The team hired Disney Institute, the professional development unit of The Walt Disney Company that helps other companies learn how to adopt Disney best practices and transform how they approach business. The Cardinals wanted Disney Institute to show them how to keep everyone in the organization focused on great customer service and help them draw in more customers.[20]
- **CO-CREATION:** Some companies and products allow customers to help create their own experience. For example, Case-Mate, a firm that makes formfitting cases for cell phones, laptops, and other personal devices, allows customers to design their own cases by uploading their own photos. Customers who don't have designs of their own can manipulate art from designers using the "design with" feature at case-mate.com. Either way, customers produce completely unique covers for their devices.

CUSTOMER SATISFACTION The customers' evaluation of a good or service in terms of whether that good or service has met their needs and expectations is called **customer satisfaction**. Failure to meet needs and expectations results in dissatisfaction with the good or service. Some companies, in their passion to drive down costs, have damaged their relationships with customers. Comcast, Bank of America, and Sprint Nextel are examples of companies where executives lost track of the delicate balance between efficiency and service.[21] Firms that have a reputation for delivering high levels of customer satisfaction do things differently from their competitors. Top management is obsessed with customer satisfaction, and employees throughout the organization understand the

AMAZON.COM'S PLOY AGAINST PHYSICAL RETAILERS

Amazon.com is a target for bargain-minded shoppers. The Internet retailer offers great prices and quick shipping from the comfort of home. But now, it wants customers to find the lowest prices on the go. Amazon's latest Smartphone app, Price Check, allows customers to scan a barcode and compare store prices to other locations and on Amazon.com. To encourage customers to use the app and to increase its pricing database, Amazon offered a promotion—scan a barcode at any store, buy the product from Amazon instead, and get 5 percent off that item. Brick-and-mortar stores cried foul, stating that Amazon is encouraging customers to use stores as show rooms, where customers try out products while comparison shopping on Smartphones. But with customers placing a premium on getting the best value and being able to access prices from mobile devices, Amazon may prove to be the first of many price-comparison apps.

Source: Janet Novack, "Amazon Price Check Flap Is No Strategic Blunder," *Forbes*, December 12, 2011, www.forbes.com/sites/janetnovack/2011/12/12/amazon-price-check-flap-is-no-strategic-blunder (Accessed March 27, 2012).

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relationship marketing a strategy that focuses on keeping and improving relationships with current customers

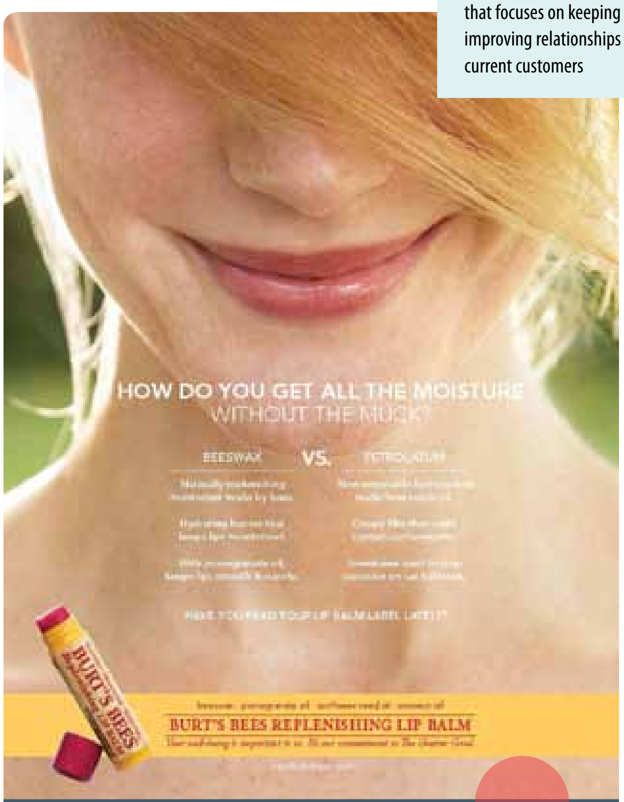
link between their job and satisfied customers. The culture of the organization is to focus on delighting customers rather than on selling products.

Coming back from customer dissatisfaction can be tough, but there are some key ways that companies begin to improve customer satisfaction. Forrester Research discovered that when companies experience gains in the firm's Customer Experience Index (CxPi), they have implemented one of two major changes. Aetna, a major health insurance provider, executed the first type of change—changing its decentralized part-time customer service group into a full-time, centralized customer service team. Aetna's CxPi score rose six points in one year. Office Depot executed the second type of change—addressing customer "pain points" and making sure that what customers need is always available to them. By streamlining its supply chain and adding more stylish office products, Office Depot satisfied business customers and female shoppers, increasing its CxPi by nine points.[22]

BUILDING RELATIONSHIPS Attracting new customers to a business is only the beginning. The best companies view new-customer attraction as the launching point for developing and enhancing a long-term relationship. Companies can expand market share in three ways: attracting new customers, increasing business with existing customers, and retaining current customers. Building relationships with existing customers directly addresses two of the three possibilities and indirectly addresses the other.

Relationship marketing is a strategy that focuses on keeping and improving relationships with current customers. It assumes that many consumers and business customers prefer to have an ongoing relationship with one organization rather than switch continually among providers in their search for value. USAA is a good example of a company focused on building long-term relationships with customers. In an annual Customer Service Champs survey conducted by *Bloomberg Businessweek* and J.D. Power and Associates, USAA has been the only company to be ranked in the top two for four years running. Not only does USAA have an incredible 97.8 percent client retention rate, but 87 percent of the respondents in the survey said they would purchase from USAA again. Clearly, USAA provides services to its customers that make their lives easier, and the customers respond very positively.[23]

Most successful relationship marketing strategies depend on customer-oriented personnel, effective training programs, employees with authority to make decisions and solve problems, and teamwork.



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Burt's Bees, a popular beauty brand, assures each customer that "Your well-being is important to us." Such commitment helps retain existing customers.

CUSTOMER-ORIENTED PERSONNEL For an organization to be focused on building relationships with customers, employees' attitudes and actions must be customer oriented. An employee may be the only contact a particular customer has with the firm. In that customer's eyes, the employee is the firm. Any person, department, or division that is not customer oriented weakens the positive image of the entire organization. For example, a potential customer who is greeted discourteously may well assume that the employee's attitude represents the whole firm.

Customer-oriented personnel come from an organizational culture that supports its people. Southwest Airlines has been operating with high levels of customer satisfaction for forty years (forty years of love, as the airline quips). Not only does the airline have low fares, charge few fees (first two bags fly free!), and apologize via e-mail or phone for any delays or mishaps, it also receives tons of fan mail about its employees. The secret? Executives say they "hire nice people" and "empower employees to make decisions, and we support them."[24] Listed on several customer service "Best of" lists, Southwest's nice people are definitely popular with their customers.