Chapter 1: Marketing: Creating and Capturing Customer Value

We define **marketing** as the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.

The Marketing Process consists of:

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

In the first four steps, **companies work to understand consumers, create customer value, and build strong customer relationships.**

In the final step, **companies reap the rewards of creating superior customer value. By creating value *for* consumers, they in turn capture value *from* consumers in the form of sales, profits, and long-term customer equity.**

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

1) Customer Needs, Wants, and Demands

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

Human **needs** are states of felt deprivation. They include *physical, social, and individuals* needs. These needs were not created by marketers; they are a basic part of the human makeup.

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

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

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

2) Market Offerings—Products, Services, and Experiences

Needs and wants are fulfilled through market offerings—some combination of products, services, information, or experiences offered to a market to satisfy a need or want.

Market offerings include *products* and *services*—activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything.

Marketing myopia occurs when a company becomes so taken with their own products that they lose sight of underlying customer needs.

3) Customer Value and Satisfaction

Customers form expectations about the value and satisfaction that various market offerings will deliver and buy accordingly.

Satisfied customers buy again and tell others about their good experiences.

Dissatisfied customers switch to competitors and disparage the product to others.

Customer value and customer satisfaction are key building blocks for developing and managing customer relationships

4) Exchanges and Relationships

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

Marketing consists of actions taken to build and maintain desirable exchange *relationships* with target audiences.

5) Markets

A **market** is the set of actual and potential buyers of a product.

Marketing means managing markets to bring about profitable customer relationships.

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

The marketing manager must answer two important questions:

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

Demarketing is the act of purposefully reducing the number of customers or to shift their demand temporarily or permanently.

Marketing management is *customer management* and *demand management.*

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.")

Such value propositions *differentiate* one brand from another.

Marketing Management Orientations

Marketing management wants to design strategies that will build profitable relationships with target consumers.

There are five alternative concepts under which organizations design and carry out their marketing strategies:

1) The Production Concept

The **production concept** holds that consumers will favor products that are available and highly affordable.

Management should focus on improving production and distribution efficiency.

2) The Product Concept

The **product concept** holds that consumers will favor products that offer the most in quality, performance, and innovative features.

Under this concept, marketing strategy focuses on making continuous product improvements.

3) The Selling Concept

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

The concept is typically practiced with unsought goods—those that buyers do not normally think of buying, such as insurance or blood donations.

These industries must be good at tracking down prospects and selling them on product benefits.

4) The Marketing Concept

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

Under the marketing concept, customer focus and value are the *paths* to sales and profits.

It views marketing not as "hunting," but as "gardening."

The job is not to find the right customers for your product but to find the right products for your customers.

Customer-driven companies research current customers deeply to learn about their desires, gather new product and service ideas, and test proposed product improvements.

Customer-driving marketing is understanding customer needs even better than customers themselves do and creating products and services that meet existing and latent needs.

5) The Societal Marketing Concept

The **societal marketing concept** questions whether the pure marketing concept overlooks possible conflicts between consumer *short-run wants* and consumer *long-run welfare*.

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 the society's* well-being.

PREPARING AN INTEGRATED MARKETING PLAN AND PROGRAM

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

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

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

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

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

BUILDING CUSTOMER RELATIONSHIPS

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

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

Relationship Building Blocks: Customer Value and Satisfaction

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

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

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

Customers act on **customer perceived value**.

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

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

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

Customer Relationship Levels and Tools

Companies can build customer relationships at many levels.

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

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

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

Companies sponsor *club marketing programs* that offer members special benefits and create member communities

Relating with More Carefully Selected Customers

Called *selective relationship management*, many companies now use customer profitability analysis to weed out losing customers and to target winning ones for pampering.

Relating More Deeply and Interactively

Today's marketers are incorporating interactive approaches that help build targeted, two-way customer relationships.

Partner Relationship Management

Partners Inside the Company

Every employee must be customer focused.

David Packard, late co-founder of Hewlett-Packard, said, "Marketing is far too important to be left only to the marketing department."

Today, 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.

Marketing Partners Outside the Firm

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

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

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

Creating Customer Loyalty and Retention

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

This means that companies must aim high in building customer relationships.

Customer delight creates an emotional relationship with a product or service, not just a rational preference.

Companies are realizing that losing a customer means losing more than a single sale. It means losing **customer lifetime value.**

S**hare of customer** is defined as the share the company gets of customers purchasing in their product categories. (Thus, banks want to increase "share of wallet.")

Customer equity is the total combined customer lifetime values of all of the company's current and potential customers.

Clearly, the more loyal the firm's profitable customers, the higher the firm's customer equity.

Customer equity may be a better measure of a firm’s performance than current sales or market share.

Building the Right Relationships with the Right Customers

“Strangers” show low potential profitability and little projected loyalty. The relationship management strategy for these customers is simple: Don’t invest anything in them.

“Butterflies” are potentially profitable but not loyal. The company should use promotional blitzes to attract them, create satisfying and profitable transactions with them, and then cease investing in them until the next time around.

“True friends” are both profitable and loyal. There is a strong fit between their needs and the company’s offerings. The firm wants to make continuous relationship investments to delight these customers and retain and grow them.

“Barnacles” are highly loyal but not very profitable. There is a limited fit between their needs and the company’s offerings.

Important point: Different types of customer require different relationship management strategies.

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

THE CHANGING MARKETING LANDSCAPE

The Digital Age

The recent technology boom has created a digital age.

The most dramatic new technology is the **Internet**

Rapid Globalization

Marketers are now connected *globally* with their customers and marketing partners.

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

The Call for More Ethics and Social Responsibility

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.

<u>The Growth of Not-for-Profit Marketing</u>