# CHAPTER 1

# Marketing: Creating and Capturing Customer Value

## 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.

## PREVIEWING THE CONCEPTS

This chapter introduces 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 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 integrated marketing 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 Running Room, one of Canada's most successful specialty retailers. The secret to Running Room's success? It's really no secret at all. Customer service is an essential component of the company philosophy and is what keeps Running Room competitive. In return, customers reward Running Room with their brand loyalty and buying dollars. You'll see this theme of creating customer value in order to capture value in return repeated throughout the first chapter and the remainder of the text.

## **Running Room:** A Passion for Creating Customer Value and Relationships


Perhaps no Canadian retailer has experienced growth quite as remarkable as that of Running Room. Founded in Edmonton in 1984 by John Stanton, who was looking to purchase quality running shoes from someone knowledgeable about the sport, Running Room has grown to over 110 locations across Canada and the United States. While exact sales numbers are not available for this family-owned business, some analysts estimate sales of over $100 million annually.

Expansion to the U.S. market was one growth strategy of the company, but not its primary one. In 2004, Stanton announced the opening of Walking Room, which allowed the company to grow into smaller Canadian markets, such as Sudbury, Ontario, and Fredericton, New Brunswick, which would not have been financially feasible for Running Room alone. While expecting its new stores to cater to seniors and older baby boomers no longer able to handle the physical stress of running, the company soon found out that the new combined Running Room/Walking Room stores were attracting younger customers in their twenties and thirties who wanted to become more active. "A lot of younger people today work harder and longer, and they do that work in front of computers. As a result, they're more sedentary. They're looking at doing something active, but running can be intimidating," says Stanton. "Dealing with walkers of all ages was a huge learning curve for us. We discovered we weren't talking to walkers who would eventually become runners. Walkers made it clear to us that walking was their sport and that they had no intention of ever becoming runners."

In an interview with the *Calgary Herald*, Stanton was asked about the major reason his business was expanding:

> I think everybody is concerned about childhood obesity and the aging baby boomer, and the burden that our health-care system is under. People know they have to get fit and be active. The primary thing we try to do is to show people through our Learn To Run programs and training clinics that when you engage in exercise there's a natural transition to healthy eating, and pretty soon you start to take control of your own life just by the simple thing of going for a run. If someone's overweight, walking is sometimes a great option for them to get started. It's less daunting. The number one thing I've found that keeps people from exercising is fear of embarrassment. . . . By putting people in a group environment, it's like kids joining a soccer team, a ball team or a hockey team. All of a sudden you start having fun and enjoying it and it continues. That's what we've been able to do.

So, what factors led to the company's success? Running Room's reputation has been built on product innovation, quality, and the knowledge of the sport of running. Its private-label products have been developed to provide customers with the best in style, functionality, fabric innovations, and reasonable price, and have been developed with the input of customers and staff alike. The company even created a new clothing line for walkers, who require heavier, looser clothing in contrast to the close-fitting spandex garments favoured by runners. Even packs had to be specially designed for walkers. Runners may carry a nutrient bar, but walkers want room for more substantial snacks. While quality merchandise is one factor contributing to the company's success (judging by the rate at which runners and walkers alike purchase the products), it is not the main reason behind the explosive growth. In fact, Running Room's success can be summed up in one word: *relationships*. The deep connections cultivated among the owner and company, customers, and the broader community are the driving force behind Running Room's success.

Running Room has managed to create customer value and relationships in a number of ways. Service has always been an essential component of the company philosophy and is what keeps it competitive. All employees are considered Team Members, and all are runners. Who else but a runner is knowledgeable about the needs of runners, as well as the products that cater to those needs? Running Room's philosophy is that if you're out there running on the same roads as the customers, you can relate to their exact needs. Running Room is truly a store *for* runners *by* runners. Yet when the company opened the combined Running Room/Walking Room outlets, it had to overcome its own brand image to deal with the potential intimidation walkers may feel on entering a running store. The solution was to give equal prominence to the Walking Room brand on the exterior signs of the new combined stores. In-store signage also clearly differentiates walking and running gear.

In addition to its in-store service, Running Room offers an incredible number of clinics such as Walking, Learn to Run, Marathon, Half Marathon, 10K Training, Personal Best, and For Women Only Running Clinics. The tremendous success of these clinics is evident from the more than 800 000 clinic graduates to date. The Running Room clinic program is committed to a lifestyle of fitness. The various programs meet the needs of those just starting a fitness routine and of those contemplating a marathon. In addition, there is the Running Room Running Club, which has no membership fee and allows all levels of runners to run in a group setting twice weekly. The Running Room Running Club adds a social component to running since runners have an opportunity to run with a variety of people and receive great coaching on running techniques and training methods.

Finally, Running Room and its owner, John Stanton, are actively involved in building strong relationships in the community. Running Room sponsors and helps organize and promote more than 400 walks, runs, and events that annually raise millions of dollars for local charities and not-for-profit organizations. For example, Running Room hosts clinics across Canada for runners wishing to compete in the Scotiabank Toronto Waterfront Marathon, which raised more than $3.5 million in 2011 for 164 Canadian charities. It also partnered with Weight Watchers Canada to promote the country's first Walk-It Challenge, which saw over 7000 Canadians from coast to coast take their first steps toward physical activity. Stanton himself takes part in several of these events, from participating as the "pace bunny" in Halifax's Scotiabank Blue Nose Marathon to holding Q&A forums on *The Globe and Mail*'s website.

The company's hands-on approach and deep customer focus has led to some wonderful personal success stories, including the following:

- The Calgary writer whose longtime dream to finish a marathon alongside her husband finally came true. She first completed 16 weeks of marathon training offered by Running Room.
- Sudbury, Ontario, native Kandis Stoughton, who completed the 2010 Boston Marathon, known to be one of the most challenging marathons to even qualify for. Her passion for running began with a 5K clinic offered by Running Room.
- Darrel Wilkins of New Brunswick, who quit smoking after 33 years and has become an accomplished marathoner with more than 10 races behind him, including the Boston Marathon. The path to his success began with a 5K clinic offered by Running Room.

Personal achievements such as these have come as a result of the company's deep commitment to building lasting relationships not only with customers and community but also between customers. "We believe that the Running Room philosophy and our in-store environment are unlike any other retail business in North America. While we offer clothing, shoes, products and accessories for walkers and runners, we also help people to change their lives through fitness activities," said Stanton. "Through the Running Room and Walking Room, people can gain a tremendous sense of belonging that comes from walking or running alongside people who share similar goals: improving wellness, while having fun and adventure exploring our cities on foot. The Running Room becomes very important to our customers, because their well-being is very important to us."[1]

Today's successful companies have one thing in common: Like Running Room, 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.

Customer relationships and value are especially important today. As the nation's economy has recovered following the worst downturn since the Great Depression, more frugal consumers are spending more carefully and reassessing their relationships with brands. In turn, it's more important than ever to build strong customer relationships based on real and enduring value.

# 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.

For example, Walmart has become the world's largest retailer—and the world's largest company—by delivering on its promise: "Save money. Live better." Nintendo surged ahead in the video games market behind the pledge that "Wii would like to play," backed by its wildly popular Wii console and a growing list of popular games and accessories for all ages. And McDonald's fulfills its "I'm lovin' it" motto by being "our customers' favourite place and way to eat" the world over, giving it a market share greater than that of its nearest three competitors combined.[2]

Sound marketing is critical to the success of every organization. Canada's top five firms in 2011[3] (ranked according to profitability)—Royal Bank of Canada, Toronto-Dominion Bank, Bank of Nova Scotia, Suncor Energy, and Research In Motion—use 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 the ads 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 and online social networks to your cellphone. These new approaches do more than just blast out messages to the masses. They reach you directly and personally. Today's marketers want to become a part of your life and enrich your experiences with their brands—to help you *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.

## Marketing Defined

What *is* marketing? Many people think of marketing as only selling and advertising. We are bombarded every day with TV commercials, catalogues, 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."[4] 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 customer relationships.

**Marketing**
The process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.

Broadly defined, marketing is a social and managerial process by which individuals and organizations obtain what they need and want through creating and exchanging value with others. In a narrower business context, marketing involves building profitable, value-laden exchange relationships with customers. Hence we define **marketing** as the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.[5]


**Figure 1.1** A simple model of the marketing process

## 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, they in turn capture value *from* consumers 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 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 look more deeply at 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 in which they operate. We 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.

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

**Demands**
Human wants that are backed by buying power.

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. Marketers did not create these needs; 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. A Canadian *needs* food but *wants* a breakfast sandwich and a large double-double from Tim Hortons.Wants are shaped by one's society and are described in terms of objects that will satisfy those 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, Procter & Gamble (P&G) executives from the chief executive officer downward spend time with consumers in their homes and on shopping trips. P&G brand managers routinely spend a week or two living on the budget of low-end consumers to gain insights into what they can do to improve customers' lives.[6]

## Market Offerings—Products, Services, and Experiences

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

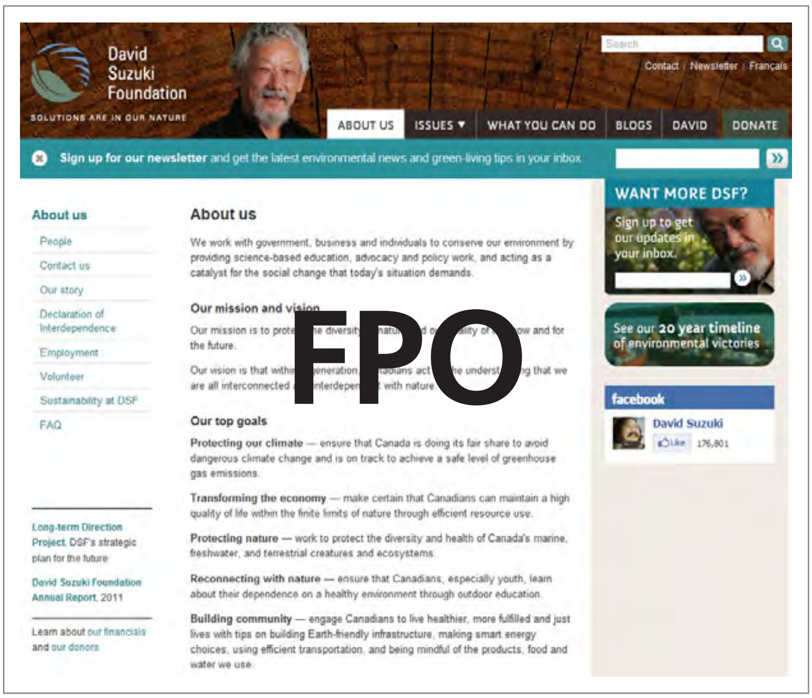
Consumers' needs and wants are fulfilled through **market offerings**—some combination of products, services, information, or experiences offered to a market to satisfy a need or a want. Market offerings are not limited to physical *products*. They also include *services*—activities or benefits offered 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.

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

**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.

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.[7] 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, high-octane NASCAR experience. Similarly, Hewlett-Packard (HP) recognizes that a personal computer is much more than just a collection of wires and electrical components. It's an intensely personal user experience. As noted in one 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."[8]




Market offerings are not limited to physical products. The David Suzuki Foundation powerfully markets the idea that government, business, and individuals can be involved in creating a healthy and sustainable environment.

## 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 set 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, companies want to retain customers and grow their businesses. 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.

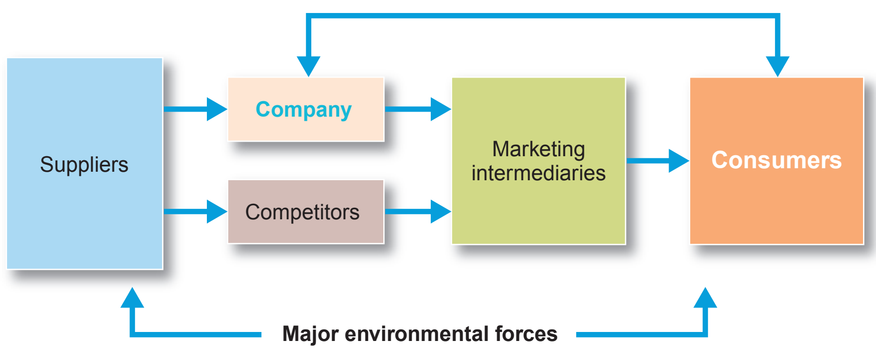
The concepts of exchange and relationships lead to the concept of a market. A **market** is the set of all actual and potential buyers of a product or service. These buyers share a particular need or want that can be satisfied through exchange relationships.

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 them, promote them, and store and deliver them. Activities such as consumer research, product development, communication, distribution, pricing, and service are core marketing activities.

Although we normally think of marketing as being carried out by sellers, buyers also carry out marketing. Consumers market when they search for products, interact with companies to obtain information, and make their purchases. In fact, today's digital technologies, from websites and online social networks to cellphones, have empowered consumers and made marketing a truly interactive affair. Thus, in addition to customer relationship management, today's marketers must also deal effectively with *customer-managed relationships*. Marketers are no longer asking only "How can we reach our customers?" but also "How 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

**Figure 1.2** A modern marketing system



marketing intermediaries. Each party in the system is affected by major environmental forces (demographic, economic, natural, technological, political, and social/cultural).

Each party in the system adds value for the next level. 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 unless its suppliers provide merchandise at low costs. And Ford cannot deliver a high-quality car ownership experience 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 Chapters 2 and 8.


Value propositions: Smart car suggests that you "open your mind"—"Sorry, big guy. Efficiency is in these days."

### Selecting Customers to Serve

The company must first decide *whom* 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.

Ultimately, marketing managers must decide which customers they want to target and decide on 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 brand's *value* *proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs. At TELUS, "The future is friendly" whereas Rogers Wireless promises "Canada's reliable network." The diminutive Smart car suggests that you "Open your mind to the car that challenges the status quo" whereas Infiniti "Makes luxury affordable" and BMW promises "the ultimate driving machine."

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. For example, the Smart car is positioned as compact yet comfortable, agile yet economical, and safe yet ecological. It's "sheer automotive genius in a totally fun, efficient package. Smart thinking, indeed."

## 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 in quality, performance, and innovative 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 doors." 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, a house cat, 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, such as insurance or blood donations. These industries must be good at tracking down prospects and selling them on a product's 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**
A philosophy that holds 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.

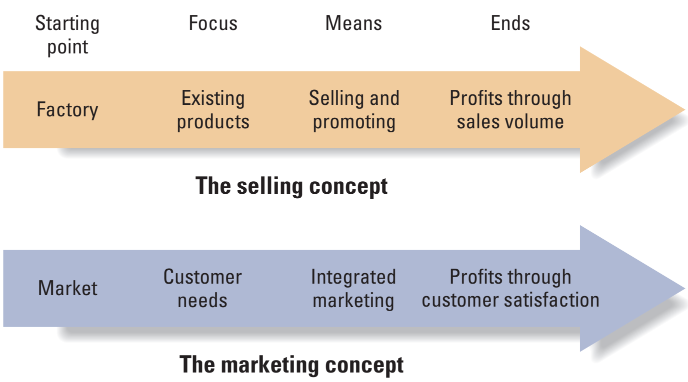
Figure 1.3 contrasts the selling concept and the marketing concept. The selling concept takes an *inside-out* perspective. It starts with the factory, focuses on the company's existing products, and calls for heavy selling and promotion to obtain profitable sales. It focuses primarily on customer conquest—getting short-term sales with little concern about who buys or why.

In contrast, the marketing concept takes an *outside-in* perspective. As Herb Kelleher, the colourful founder of Southwest Airlines 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 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 notebook computers, cellphones, digital 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

**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, notebook computers, iPods, and digital cameras? Marketers must often understand customer needs even better than the customers themselves do.

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 its 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 consumers' *and society's* well-being. It calls for *sustainable marketing*—socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.

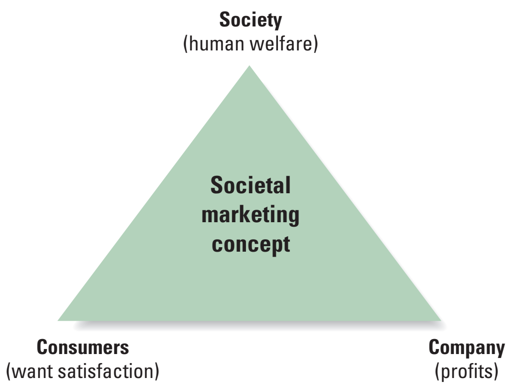
**Societal marketing concept**
The idea that a company's marketing decisions should consider consumers' wants, the company's requirements, consumers' long-run interests, and society's long-run interests.

Consider today's 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 bottled water industry may be causing environmental problems that run against society's long-run interests.

As Figure 1.4 shows, companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, *and* society's interests. UPS does this well. Its concern for societal interests has earned it the number one or number two spot in *Fortune* magazine's Most Admired Companies for Social Responsibility rankings in four of the past five years.

UPS seeks more than just short-run sales and profits. Its three-pronged corporate sustainability mission stresses *economic prosperity* (profitable growth through a customer focus), *social responsibility* (community engagement and individual well-being), and *environmental stewardship* (operating efficiently and protecting the environment). Whether it involves "greening up" its operations or urging employees to volunteer time in their

**Figure 1.4** Three Considerations Underlying the Societal Marketing Concept



communities, UPS proactively seeks opportunities to act responsibly. It knows that doing what's right benefits both consumers and the company. By operating efficiently and acting responsibly, it can "meet the needs of the enterprise . . . while protecting and enhancing the human and natural resources that will be needed in the future." Social responsibility "isn't just good for the planet," says the company. "It's good for business."[9]

## PREPARING AN INTEGRATED MARKETING PLAN AND PROGRAM

The company's marketing strategy outlines which customers it 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 each marketing mix tool 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 a marketing program—all lead 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 it 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.

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.

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

#### 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 give the company a larger share of their business.

**Customer-perceived value**
The customer's evaluation of the difference between all benefits and all costs of a marketing offer 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 benefits and all costs of a market offering relative to those of competing offers. Importantly, customers often do not judge values and costs "accurately" or "objectively." They act on *perceived* value.

To some consumers, value might mean sensible products at affordable prices, especially in the aftermath of the recent recession. To other consumers, however, value might mean paying more to get more. For example, despite the challenging economic environment, Canada Goose's sales "soared" in recent years when its market expanded from its more traditional role of outfitting arctic expeditions to include producing fashionable outerwear for stars, dignitaries, and other trendsetters. The Canadian manufacturer of high-quality, goose down—filled parkas produces more than 250 000 coats per year in its Toronto manufacturing facility. Some coats, such as the Snow Mantra, retail for $900 in many urban boutiques. Are Canada Goose coats worth the much higher price compared to less expensive coats? It's all a matter of personal value perceptions. For many consumers, the answer is no. But for the target segment of style-conscious, affluent buyers, the answer is yes (see Real Marketing 1.1).[10]

**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 and then delivering more than they promise. Delighted customers not only make repeat purchases but also become willing marketing partners and "customer evangelists" who spread the word about their good experiences to others.[11]

For companies interested in delighting customers, exceptional value and service become part of the overall company culture. For example, year after year, The 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 the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests."[12]


Customer satisfaction: The 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."

> 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, the hotel seems to know that you're allergic to peanuts and want a king-size bed, a nonallergenic pillow, the blinds open when you arrive, 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 previously stayed at a Ritz-Carlton and prepares a list of suggested extra touches that might delight each guest.
>
> Once they identify a special customer need, 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

# Real Marketing 1.1

## Canada Goose: Authenticity Is Key to Customer Value

In 1957, Sam Tick founded Metro Sportswear, which produced a modest line of jackets and woollen shirts in a small manufacturing facility in Toronto. The 1970s saw the business expand to include the production of custom-ordered down-filled coats for Canadian Rangers, city police forces, and other government workers. In 1985, the company was renamed Snow Goose and in the early 1990s it began selling its products in Europe under the name Canada Goose. By the late 1990s the modern era of Canada Goose had begun and the real expansion of the brand began. Over the past 10 years or so, Canada Goose parka sales have soared within Canada and in more than 40 other countries worldwide. In fact, Canada Goose placed 152nd on the 2011 Profit 200 list of fastest growing Canadian companies, with 3000% growth in revenues over the last decade.

How did Canada Goose achieve such phenomenal growth? A number of factors contribute to the company's success. First, Canada Goose very carefully chose spokespeople who were highly credible users of the brand. Lance Mackey, a four-time Iditarod and Yukon Quest champion, grew up in Alaska and is known as one of the best dogsled mushers in the world. Ray Zahab, ultra marathon runner and adventurer, and Laurie Skreslet, the first Canadian to reach the summit of Mount Everest also joined the list of Canada Goose people who endorse the products. These individuals have enormous credibility with the company's core customer segment, which consists of polar expeditioners, oil riggers, and police departments alike.

Rather than using traditional advertising campaigns to build brand awareness, Canada Goose relied on consumer-driven marketing tactics to build its brand. About 10 years ago, product was placed on people who worked outside in cold environments, such as bouncers at nightclubs or door men at hotels who could give the brand credibility. Today, Canada Goose still employs several nontraditional forms of promotion to build brand awareness, from supplying Fairmont Hotels' doormen and valets with Expedition parkas to running a Canada Goose coat check at Toronto Maple Leafs and Toronto Raptors games where fans are offered the chance to try on parkas while checking their own garments.

Celebrities caught on camera and actors in feature films wearing the brand have also contributed to Canada Goose's success. Hayden Christiansen was photographed wearing one at the Vancouver 2010 Olympics. Daniel Radcliffe is often spotted wearing his Canada Goose parka. The brand has been used in the film industry for decades behind the scenes, but now appears on screen as well in such movies as *The Day After Tomorrow*, *Eight Below*, *National Treasure*, *Good Luck Chuck*, and *Whiteout*.

While Canada Goose has long been a bestseller in Europe, it has also been successful in the highly competitive U.S. fashion market. It currently sells its products at premium department stores such as Barneys and Saks Fifth Avenue, and is expanding its product offerings via collaborations with Italian cashmere and wool manufacturer Loro Piana and Japanese designer Yuki Matsuda.

Canada Goose is a company that has always chosen its own path and stayed true to its brand. As a result, it has attracted a very diverse customer base, one interested in everything from function to fashion. This is perhaps the biggest reason why Canada Goose has been able to build lasting customer relationships by creating superior customer value and satisfaction. Customers know what to expect when they buy a Canada Goose product. For example, despite the growing trend in the textile industry to ship production to overseas markets, Canada Goose still manufactures approximately 250 000 parkas per year at its plant in Toronto. An in-house designer cuts the fabric, and dozens of sewers assemble the coats in much the same way as they did from the beginning. While the production of some accessories, such as gloves and mittens, has been moved to overseas plants, the company opted not to move its manufacturing of coats to Asia because it realized early on that having its clothes made in Canada was integral to the authenticity of its brand.

Canada Goose has also faced criticism from animal rights groups protesting the use of coyote fur on its hoods and down feathers in its coats. The company adheres to very strict policies on the ethical procurement of these materials, which it outlines clearly on its corporate website. Because animal products are central to the quality and warmth of Canada Goose coats, the company has opted to continue their use and do so in an ethical and sustainable manner.

Quality, functionality, and style are central to the Canada Goose brand and are keys to building customer-perceived value.

Quality, functionality, and style are central to the Canada Goose brand, and maintaining these properties are key to the brand's authenticity. What does this mean for the customers' perceived value of the Canada Goose brand? It depends who you ask. While some consumers would question Canada Goose's hefty price tag and point to less expensive alternatives such as The North Face or Columbia, rarely would Canada Goose customers question the value of their chosen brand. For the extreme weather consumer, perceived value comes from the brand's functionality and protection from severe weather conditions. For the fashion-conscious consumer, the appeal is more than just about warmth. The premium pricing and limited availability (Canada Goose has deliberately undersupplied the market to protect against oversaturation) has led to Canada Goose becoming a symbol of status and wealth. So, whether you ask an adventurer trekking to the North Pole or a student trekking across the University of Alberta's campus if purchasing a Canada Goose jacket was worth it, the answer will most likely be yes!

***Sources:*** Grant Robertson, "Year of the Goose," *Globe and Mail*, February 25, 2010, at www.theglobeandmail.com/report-on-business/rob-magazine/year-of-the-goose/article1480120/; David Kaufman, "Northern Exposure," *Financial Times*, January 13, 2012, at www.ft.com/cms/s/2/b18d3dc8-36fb-11e1-b741-00144feabdc0.html#axzz1jSZ6VwAz; "Profit 200 Canada's Fastest-Growing Companies" at www.profitguide.com/awards/profit200_2011; and Canada Goose's corporate website, www.canada-goose.com/.

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 travelled to the guest's house and personally delivered a cheque reimbursing the guest for the cost of the suit. According to one Ritz-Carlton manager, if the chain gets hold of a picture of a guest's pet, it will make a copy, have it framed, and display it in the guest's room in whatever Ritz-Carlton the guest visits. 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.

However, although a 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, Nike does not phone or call on all of its consumers to get to know them personally. Instead, Nike creates relationships through brand-building advertising, public relations, and its website (www.nike.com). At the other extreme, in markets with few customers and high margins, sellers want to create *full partnerships* with key customers. For example, Nike sales representatives work closely with Sport Chek, Source For Sports, Foot Locker, and other large retailers. In between these two extremes, other levels of customer relationships are appropriate.

Beyond offering consistently high value and satisfaction, marketers can use specific marketing tools to develop stronger bonds with customers. For example, many companies offer *frequency marketing programs* that reward customers who buy frequently or in large amounts. Airlines offer frequent-flyer programs, hotels give room upgrades to their frequent guests, and supermarkets give patronage discounts to "very important customers." For example, WestJet now offers a frequent guest program where customers receive WestJet dollars that can be used anytime, to any destination, and with no blackout periods.

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


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 has more than 1500 local chapters and more than 1 million members.

"making the Harley-Davidson dream a way of life." H.O.G. membership benefits include a quarterly *HOG* magazine, the *Touring Handbook*, a roadside assistance program, a specially designed insurance program, theft reward service, a travel centre, and a "Fly & Ride" program that enables members to rent Harleys while on vacation. The worldwide club now has more than 1500 local chapters and more than 1 million members.[13]

## The Changing Nature of Customer Relationships

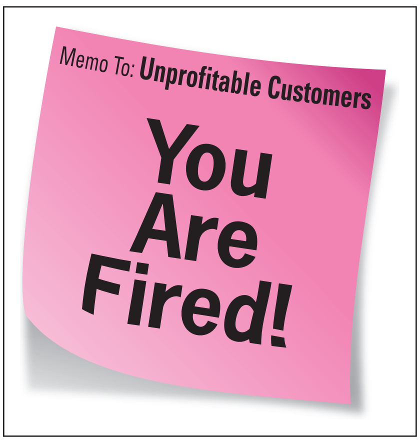
Significant changes are occurring in the ways in which companies are relating to their customers. Yesterday's big companies focused on mass marketing to all customers at arm's length. Today's companies are building deeper, more direct, and lasting relationships with more carefully selected customers. 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 target fewer, more profitable customers. "Not all customers are worth your marketing efforts," states one analyst. "Some are more costly to serve than to lose." Adds another marketing expert, "If you can't say who your customers *aren't*, you probably can't say who your customers *are*."[14]

Many companies now use customer profitability analysis to pass up or weed out losing customers and target winning ones for pampering. One approach is to pre-emptively screen out potentially unprofitable customers. Progressive Insurance does this effectively. It asks prospective customers a series of screening questions to determine if they are right for the firm. If they're not, Progressive will likely tell them, "You might want to go to Allstate." A marketing consultant explains: "They'd rather send business to a competitor than take on unprofitable customers." Screening out unprofitable customers lets Progressive provide even better service to potentially more profitable ones.[15]

But what should the company do with unprofitable customers that it already has? If it can't turn them into profitable ones, it may even want to dismiss customers that are too unreasonable or that cost more to serve than they are worth. "Like bouncers in glitzy nightspots," says another consultant, "executives will almost certainly have to 'fire' [those] customers." For example, American Express recently sent letters to some of its members offering them $300 in exchange for paying off their balances and closing their accounts. Reading between the lines, the credit card company was dumping unprofitable customers.[16]




Marketers don't want relationships with every possible customer. In fact, a company might want to "fire" customers that cost more to serve than to lose.

### 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 on one-way, mass-media messages only, today's marketers are incorporating new, more interactive approaches that help to build targeted, two-way customer relationships.

**Two-Way Customer Relationships** New technologies have profoundly changed the ways in which people relate to one another. New tools for relating include everything from email, websites, blogs, cellphones, and video sharing to online communities and social networks such as Facebook, YouTube, and Twitter.

This changing communications environment also affects how companies and brands relate to customers. The new communications approaches allow marketers to create deeper customer 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. Says another, "People today want a voice and a role in their brand experiences. They want co-creation."[17]

However, at the same time that the new technologies 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. Thus, the marketing world is now embracing not only customer relationship management, but also **customer-managed relationships.**

**Customer-managed relationships**
Marketing relationships in which customers, empowered by today's new digital technologies, interact with companies and with each other to shape their relationships with brands.

Greater consumer control means that, in building customer relationships, companies can no longer rely on marketing by *intrusion*. Instead, marketers 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 brands are creating dialogues with consumers via their own or existing *online social networks.* To supplement their marketing campaigns, companies now routinely post their latest ads and made-for-the-Web videos on video-sharing sites. They join social networks. Or they launch their own blogs, online communities, or consumer-generated review systems, all with the aim of engaging customers on a more personal, interactive level.

Take Twitter, for example. Organizations ranging from Dell, West 49, and lululemon athletica to the Winnipeg Jets and Tourism Prince Edward Island have created Twitter pages and promotions. They use "tweets" to start conversations with Twitter's more than 6 million registered users, address customer service issues, research customer reactions, and drive traffic to relevant articles, websites, contests, videos, and other brand activities. For example, Dell monitors Twitter-based discussions and responds quickly to individual problems or questions, and in its first season back in the National Hockey League the Winnipeg Jets team had nearly 80 000 Twitter followers. Another marketer notes that companies can "use Twitter to get the fastest, most honest research any company ever heard—the good, bad, and ugly—and it doesn't cost a cent."[18]

Similarly, almost every company has some presence on Facebook these days. Starbucks has more than 6 million Facebook "fans"; Coca-Cola has more than 5 million. Networks like Facebook can get consumers involved with and talking about a brand. For example, Honda's "Everybody Knows Somebody Who Loves a Honda" Facebook page allows visitors to upload photos of their cars or link up with owners of their favourite old Hondas worldwide. It asks people to help prove that "we all really can be connected through Honda love." The campaign netted about 2 million Facebook friends in less than two months, more than double previous fan levels.[19]

IKEA used a simple but inspired Facebook campaign to promote the opening of a new store in Malmo, Sweden. It opened a Facebook profile for the store's manager, Gordon Gustavsson. Then it uploaded pictures of IKEA showrooms to Gustavsson's Facebook photo album and announced that whoever was first to tag a product in the photos with his or her name would win it. Thousands of customers rushed to tag items. Word spread quickly to friends and customers were soon begging for more pictures. More than just looking at an ad with IKEA furniture in it, the Facebook promotion had people pouring over the pictures, examining products item by item.[20]


Online social networks: Many organizations are creating dialogues via their own or existing networks. Tourism Prince Edward Island uses Twitter to promote events such as local golf tournaments and music festivals to visitors and Islanders alike.

Most marketers are still learning how to use social media effectively. The problem is to find unobtrusive ways to enter consumers' social conversations with engaging and relevant brand messages. Simply posting a humorous video, creating a social network page, or hosting a blog isn't enough. Successful social network marketing means making relevant and genuine contributions to consumer conversations. "Nobody wants to be friends with a brand," says one online marketing executive. "Your job [as a brand] is to be part of other friends' conversations."[21]

**Consumer-generated marketing**
Brand exchanges created by consumers themselves—both invited and uninvited—through which consumers are playing an increasing role in shaping their own brand experiences and those of other consumers.

**Consumer-Generated Marketing** A growing part of the new customer dialogue is **consumer-generated marketing,** through which consumers themselves are playing an increasing role in shaping their own brand experiences and those of other consumers. This might happen through uninvited consumer-to-consumer exchanges in blogs, video-sharing sites, and other digital forums. But increasingly, companies are *inviting* consumers to play a more active role in shaping products and brand messages.

Some companies ask consumers for new product ideas. For example, Coca-Cola's vitaminwater brand recently set up a Facebook app to obtain consumer suggestions for a new flavour, promising to manufacture and sell the winner ("Vitaminwater was our idea; the next one will be yours."). The new flavour—Connect (black cherry—lime with vitamins and a kick of caffeine)—was a big hit. In the process, vitaminwater doubled its Facebook fan base to more than 1 million.[22]

Other companies are inviting customers to play an active role in shaping ads. For example, PepsiCo, MasterCard, Unilever, H.J. Heinz, and many other companies have run contests for consumer-generated commercials that have been aired on national television. For the past several years, PepsiCo's Doritos brand has held a "Crash the Super Bowl" contest in which it invites 30-second ads from consumers and runs the best ones during the game. These consumer-generated ads have been a huge success. Last year, consumers


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

submitted nearly 4000 entries. The winning fan-produced Doritos ad (called "Underdog") placed number two in the *USA Today* Ad Meter ratings, earning the creator a $600 000 cash prize from PepsiCo. The lowest-rated of the four consumer-made ads came in 17th out of 65 Super Bowl ads.[23]

However, harnessing consumer-generated content can be a time-consuming and costly process, and companies may find it difficult to glean even a little gold amid all of the garbage. For example, when Heinz invited consumers to submit homemade ads for its ketchup on its YouTube page, it ended up sifting through more than 8000 entries, from which it posted nearly 4000. Some of the amateur ads were very good—entertaining and potentially effective. Most, however, were so-so at best, and others were downright dreadful. In one ad, a contestant chugged ketchup straight from the bottle. In another, the would-be filmmaker brushed his teeth, washed his hair, and shaved his face with Heinz's product.[24]

Consumer-generated marketing, whether invited by marketers or not, has become a significant marketing force. Through a profusion of consumer-generated videos, blogs, and websites, consumers are playing an increasing role in shaping their own brand experiences. Beyond creating brand conversations, customers are having an increasing say about everything from product design, usage, and packaging to pricing and distribution.

## Partner Relationship Management

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.

**Partner relationship management**
Working closely with partners in other company departments 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—no matter what your job is in a company—you must understand marketing and be customer focused. David Packard, the late co-founder of HP, wisely said, "Marketing is far too important to be left only to the marketing department."[25]

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, P&G 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 PCs 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, Toyota 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 only customer satisfaction but also customer delight.

The recent economic recession put strong pressures on customer loyalty. It created a new consumer frugality that will last well into the future. One recent study found that, even in an improved economy, 55 percent of consumers say they would rather get the best price than the best brand. Nearly two-thirds say they will now shop at a different store with lower prices even if it's less convenient. It's five times cheaper to keep an old customer than to acquire a new one. Thus, companies today must shape their value propositions even more carefully and treat their profitable customers well.[26]

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's offers a dramatic illustration of **customer lifetime value.**

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

> Stew Leonard, who operates a highly profitable four-store supermarket, says he sees US$50 000 flying out of his store every time he sees a sulking customer. Why? Because his average customer spends about $100 a week, shops 50 weeks a year, and remains in the area for about 10 years. If this customer has an unhappy experience and switches

> to another supermarket, Stew Leonard's has lost 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, 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: The customer is always right. Rule #2: If the customer is ever wrong, re-read rule #1."[27]

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. And the estimated lifetime value of a young mobile phone consumer is US$26 000.[28] In fact, a company can lose money on a specific transaction but still benefit greatly from a long-term relationship. This means that companies must aim high in building customer relationships. Customer delight creates an emotional relationship with a brand, not just a rational preference. And that relationship keeps customers coming back.

## Growing Share of Customer

**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 increase their **share of customer**—the portion of the customer's purchasing that a company gets in its 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 88 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, previous product searches, and other data, the company recommends related products that might be of interest. This recommendation system influences up to 30 percent of all sales.[29] In these ways, Amazon.com captures a greater share of each customer's spending budget.


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.

## Building Customer Equity

We can now see the importance of not only acquiring customers but also keeping and growing them. One marketing consultant puts it this way: "The only value your company will ever create is the value that comes from customers—the ones you have now and the ones you will have in the future. Without customers, you don't have a business."[30]

Managing customer equity: To increase customer lifetime value and customer equity, Cadillac needs to come up with more stylish models and marketing that can attract younger buyers.

Customer relationship management takes a long-term view. Companies want to not only create profitable customers but also "own" them for life, earn a greater share of their purchases, and capture their customer lifetime value.

## What Is Customer Equity?

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. As such, it's a measure of the future value of the company's customer base. Clearly, the more loyal the firm's profitable customers, the higher its 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 Cadillac.[32]

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

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 cars. 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.

In recent years, Cadillac has attempted to make the Caddy cool again by targeting a younger generation of consumers. Still, the average age of its buyers remains a less-than-youthful 62 (13 years older than typical BMW owners). Says one analyst, "no image remake can fully succeed until Cadillac comes up with more stylish models and marketing that can attract younger buyers. For now, the company's image will likely remain dinged as it continues churning out land yachts such as its DTS, which . . . appeals mainly to buyers in their 70s." It's a real "geezer-mobile." As a result, the brand's fortunes continue to fall; 2009 was its worst sales year since 1953. The moral: Marketers should care not just about current sales and market share. Customer lifetime value and customer equity are the name of the game.

## Building the Right Relationships with the Right Customers

Companies should manage customer equity carefully. They should view customers as assets that must 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?

The company can classify customers according to their potential profitability and manage its relationships with them accordingly. One classification scheme defines four relationship groups based on potential profitability and projected loyalty: strangers, butterflies, true friends, and barnacles.[33] Each group requires a different relationship management strategy. For example, "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 create satisfying and profitable transactions with them, capturing as much of their business as possible in the short time during which they buy from the company. Then it should 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," those who come back regularly and tell others about their good experiences with the company.

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

The point here is an important one: Different types of customers require different 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 HP observed, "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 five major developments: the uncertain economic environment, the digital age, rapid globalization, the call for more ethics and social responsibility, and the growth of not-for-profit marketing.

### The Uncertain Economic Environment

Beginning in 2008, world economies experienced a stunning economic meltdown, unlike anything since the Great Depression of the 1930s. Stock markets plunged, and trillions of dollars of market value simply evaporated. The financial crisis left shell-shocked consumers short of both money and confidence as they faced losses in income, a severe credit crunch, declining home values, and rising unemployment.

The so-called Great Recession caused many consumers to rethink their spending priorities and cut back on their buying. After a decade of overspending, "frugality has made a comeback," says one analyst. More than just a temporary change, the new consumer buying attitudes and spending behaviour will likely remain for many years to come. "The 'new frugality,' born of the Great Recession, . . . is now becoming entrenched consumer behaviour that is reshaping consumption patterns in ways that will persist even as the economy rebounds," says another analyst.[34] Even in its aftermath, consumers are now spending more carefully. (See Real Marketing 1.2.)

In response, companies in all industries—from discounters such as Target, which will start to take over existing Zellers locations in Canada in 2013, to luxury brands such as Lexus—have aligned their marketing strategies with the new economic realities. More than ever, marketers are emphasizing the *value* in their value propositions. They are focusing on value for the money, practicality, and durability in their product offerings and marketing pitches. "Value is the magic word," says a P&G marketing executive. These days, "people are doing the math in their heads, and they're being much more thoughtful before making purchases. Now, we're going to be even more focused on helping consumers see value." For example, although it might cost a little more initially, P&G's Tide TOTALCARE proclaims that the product "helps keep clothes like new even after 30 washes."[35]

Similarly, in the past, discount retailer Target focused on the "expect more" side of its "Expect More. Pay Less." value proposition. But that has now changed.[36]

> For years, Target's carefully cultivated "upscale-discounter" image successfully differentiated it from Walmart's more hard-nosed "lowest price" position. But when the economy soured, many consumers believed that Target's trendier assortments and hip marketing also meant steeper prices, and Target's performance slipped relative to Walmart's. So Target shifted its focus more to the "pay less" half of the slogan. It's now making certain that its prices are in line with Walmart's and that customers are aware of it. Although still trendy, Target's ads feature explicit low-price and savings appeals. "We're . . . trying to define and find the right balance between 'Expect More. Pay Less.'" says Target's CEO.
>
> In adjusting to the new economy, companies were tempted to cut marketing budgets deeply and slash prices in an effort to coax cash-strapped customers into opening their wallets. However, although cutting costs and offering selected discounts can be important marketing tactics in a down economy, smart marketers understand that making cuts in the wrong places can damage long-term brand images and customer relationships. The challenge is to balance the brand's value proposition with the current times while also enhancing its long-term equity.

"A recession creates winners and losers just like a boom," notes one economist. "When a recession ends, when the road levels off and the world seems full of promise once more, your position in the competitive pack will depend on how skilfully you managed [during the tough times]."[37] Thus, rather than slashing prices, many marketers held the line on prices and instead explained why their brands are worth it. And rather than cutting their marketing budgets in the difficult times, companies such as Walmart, McDonald's, Hyundai, and General Mills maintained or actually increased their marketing spending. The goal in uncertain economic times is to build market share and strengthen customer relationships at the expense of competitors who cut back.


In tough economic times, companies must emphasize the *value* in their value propositions. Target is now focusing squarely on the "pay less" side of its "Expect More. Pay Less." positioning.

A troubled economy can present opportunities as well as threats. For example, the fact that 40 percent of consumers say they are eating out less poses threats for many full-service restaurants. However, it presents opportunities

# Real Marketing 1.2

## The New Era of Consumer Frugality

Frugality has made a comeback. Beaten down by the recent Great Recession, North Americans are showing an enthusiasm for thriftiness not seen in decades. This behavioural shift isn't simply about spending less. The new frugality emphasizes stretching every dollar. It means bypassing the fashion mall for the discount chain store, buying secondhand clothes and furniture, packing a lunch instead of eating out, or trading down to store brands. Consumers are clipping more coupons and swiping their credit cards less. Says one analyst:

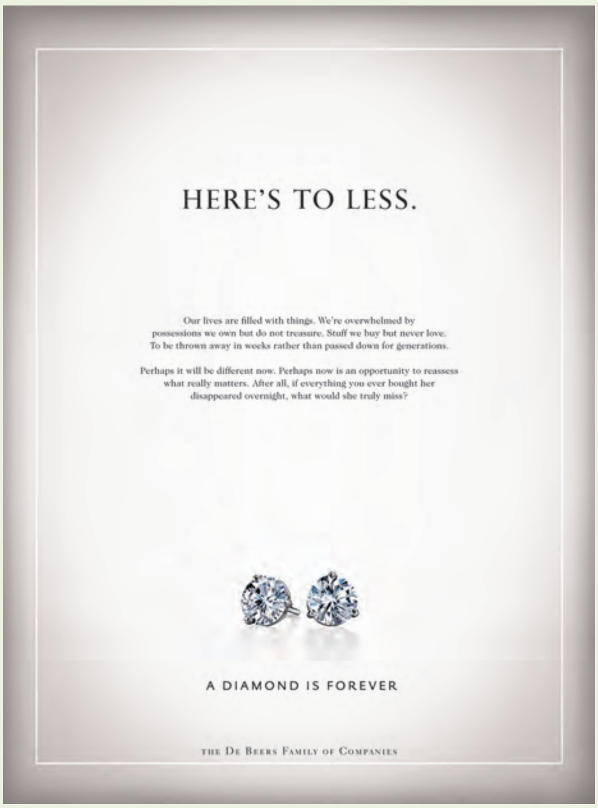
> A shift in behaviour has taken place. Consumers across all income segments have responded to the economy by reining in spending, postponing big purchases, and trading down when possible. Above all else, they're seeking out the best value for their money. Marketers must take a different tack to reach these increasingly pragmatic consumers: Forego the flash and prove your products' worth.

Frugality is likely to be more than a fad. "It is a whole reassessment of values," says a retailing consultant. "We had just been shopping until we drop, and consuming and buying it all, and replenishing before things wear out. People [have learned] again to say, 'No, not today.'" Even people who can afford to indulge themselves are doing so more sparingly and then bargain hunting to offset the big purchases.

When the recession hit, the housing bust, credit crunch, and stock market plunge ate away at the retirement savings and confidence of consumers who for years operated on a buy-now, pay-later philosophy, chasing bigger homes, bigger cars, and better brands. The new economic realities have forced families to bring their spending in line with their incomes and rethink priorities. Notes a market analyst, "The recession has tempered rampant and excessive consumption, which has given way to more mindful choices." Keeping up with the Joneses and conspicuous consumption have taken a backseat to practical consumption and stretching buying dollars.

Even as the economy has recovered, it's difficult to predict how long the pullback will last, particularly among generations of consumers who have never seen such a sharp economic downturn. But experts agree that the impact of the recession will last well into the future. "The newfound thrifty consumer is not going anywhere," declares one business writer. "Frugality's in. Value's under scrutiny. There's a new consumer in town who's adapting to circumstances by spending less and scrutinizing more." Says another, "consumers will continue to pinch their pennies long into the post-recession era." A recent survey conducted by Hyundai Canada revealed that Canadians have begun to put less emphasis on brand names when making large purchases, and that 1 in 4 admit that their definition of luxury has changed since the global economic crisis of 2008. In fact, 78% of Canadians surveyed feel that getting the features they want in a product is more important than the brand they buy.

Still, the new frugality doesn't mean that consumers have resigned themselves to lives of deprivation. As the economy improves, they're starting to indulge in luxuries and bigger-ticket purchases again, just more selectively. "We're seeing an emergence in what we call 'conscious recklessness,' where consumers actually plan out frivolous or indulgent spending," says the researcher. It's like someone on a diet who saves up calories by eating prudently during the week and then lets loose on Friday night. But "people




The new consumer frugality: Today, marketers in all industries must clearly spell out their value propositions. Even diamond marketer De Beers has adjusted its longstanding "a diamond is forever" promise to these more frugal times.

are more mindful now and aware of the consequences of their (and others') spending. So luxury is [again] on the 'to-do' list, but people are taking a more mindful approach to where, how, and on what they spend."

What does the new era of frugality mean to marketers? Whether it's for everyday products or expensive luxuries, marketers must clearly spell out their value propositions: what it is that makes their brands worth a customer's hard-earned money. "The saying has always been, 'Sell the sizzle, not the steak.' Well, I think there's been too much sizzle," says one luxury goods marketer. "Image alone doesn't sell anymore—consumers want to know what they're getting for their money."

Even diamond marketer De Beers has adjusted its longstanding "A diamond is forever" value proposition to these more frugal times. One ad, headlined "Here's to Less," makes that next diamond purchase seem—what else?—downright practical: "Our lives are filled with things. We're overwhelmed by possessions we own but do not treasure. Stuff we buy but never love. To be thrown away in weeks rather than passed down for generations. Perhaps it will be different now. Perhaps now is an opportunity to reassess what really matters. After all, if everything you ever bought her disappeared overnight, what would she truly miss? A diamond is forever."

*Sources:* Portions adapted from Dan Sewell, "New Frugality Emerges," *Washington Times*, December 1, 2008; with quotes, extracts, and other information from Noreen O'Leary, "Squeeze Play," *Adweek*, January 12, 2009, pp. 8—9; "Consumer 'New Frugality' May Be an Enduring Feature of Post-Recession Economy, Finds Booz & Company Survey," *Business Wire*, February 24, 2010; Piet Levy, "How to Reach the New Consumer," *Marketing News*, February 28, 2010, pp. 16—20; Mark Dolliver, "Will Traumatized Consumers Ever Recover?" *Adweek*, March 22, 2010, at www.adweek.com; "Is Shopping Behavior Permanently Muted?" *USA Today* (*Magazine*), April 2010, pp. 3—4; "Maybe Demand Isn't So Pent Up," *Adweek,* July 26, 2010, p. 19; and Steve Kelleher, "Luxury Is the New White Bread," *Vancouver Sun*, April 5, 2012, at www.canada.com/life/Luxury+white+bread/6415634/story.html.

for fast-food marketers. For instance, during the recession a Seattle McDonald's franchise operator took on Starbucks in its hometown with billboards proclaiming "Large is the new grande" and "Four bucks is dumb." Playing on its cheap-eats value proposition, McDonald's worldwide sales grew steadily through the worst of the downturn, whereas Starbucks sales stuttered. The premier coffee chain was forced to shutter many unprofitable stores.[38]

Similarly, the trend toward saving money by eating at home plays into the hands of name-brand food makers, who have positioned their wares as convenient and—compared with a restaurant meal—inexpensive. Rather than lowering prices, many food manufacturers have instead pointed out the value of their products as compared to eating out. For example, Kraft's Delissio pizza ads assert, "It's not delivery. It's Delissio," showing that the price of a Delissio pizza baked at home is half that of a delivery pizza.

## 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 via 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. For better or worse, technology has become an indispensable part of our lives.[39]

> Carl and Maggie Frost of Regina, Saskatchewan, can remember simpler mornings not too long ago. They sat together and chatted as they ate breakfast and read the newspaper and competed only with the television for the attention of their two teenage sons. That was so last century. Today, Carl wakes around 6:00 a.m. to check his work email and his Facebook and Twitter accounts. The two boys, Cole and Brian, start each morning with text messages, video games, and Facebook. Maggie cracks

Web 3.0—the third coming of the Web—"will bring you a virtual world you can carry in your pocket."

> open her laptop right after breakfast. The Frosts' sons sleep with their phones next to their beds, so they start the day with text messages in place of alarm clocks. Carl, an instructor at the local university, sends text messages to his two sons to wake them up. "We use texting as an in-house intercom," he says. "I could just walk upstairs, but they always answer their texts." This is morning in the Internet age. After six to eight hours of network deprivation—also known as sleep—people are increasingly waking up and lungeing for cellphones and laptops, sometimes even before swinging their legs to the floor and tending to more biologically important activities.

The digital age has provided marketers with exciting new ways to learn about and track customers and create products and services tailored to individual customer needs. It's helping marketers to communicate with customers in large groups or one-to-one. Through videoconferencing, marketing researchers at a company's headquarters in Vancouver can look in on focus groups in Halifax or Paris without ever stepping into a plane. With only a few clicks of a mouse, 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, and cellphones to web apps 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 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 efforts at customer relationship building.

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

The most dramatic digital technology is the **Internet.** The number of Internet users worldwide now stands at more than 1.8 billion and will reach an estimated 3.4 billion by 2015. On a typical day, 58 percent of adults check their email, 50 percent use Google or another search engine to find information, 38 percent get the news, 27 percent keep in touch with friends on social networking sites such as Facebook and LinkedIn, and 19 percent watch a video on a video-sharing site such as YouTube. And by 2020, many experts believe, the Internet will be accessed primarily via a mobile device operated by voice, touch, and even thought or "mind-controlled human-computer interaction."[40]

Whereas *Web 1.0* connected people with information, the next generation *Web 2.0* has connected people with people, employing a fast-growing set of new web technologies such as blogs, social networking sites, and video-sharing sites. *Web 3.0* puts this information and these people connections together in ways that will make our Internet experience more relevant, useful, and enjoyable.[41]

In Web 3.0, small, fast, customizable Internet applications, accessed through multifunction mobile devices, "will bring you a virtual world you can carry in your pocket. We will be carrying our amusements with us—best music collections, video collections, instant news access—all tailored to our preferences and perpetually updatable. And as this cooler stuff [evolves], we won't be connecting to this new Web so much as walking around inside it."[42] The interactive, community building nature of these new web technologies makes them ideal for relating with customers.

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 bricks-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. In 2010, 51 percent of Canadian online users use the Internet to shop, spending approximately $15.3 billion. Projected Canadian sales for 2012 are expected to top $18.5 billion.[43] Business-to-business (B-to-B) online commerce is also booming. It seems that almost every business has created shops on the Web.

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

## Rapid Globalization

As they are redefining their customer relationships, 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, companies 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 market with giant Korean 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, and Samsung have often outperformed their North American competitors in their home markets. Similarly, Canadian companies in a wide range of industries have developed truly global operations, making and selling their products worldwide. Quebec-based Bombardier has become a leader in the aviation and rail transportation industries, with manufacturing, engineering, and service facilities throughout the world. British Columbia—based lululemon athletica manufactures its yoga-inspired athletic apparel in seven different countries and operates 235 stores in Canada, the U.S., Australia, China, and New Zealand.

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.


Companies in a wide range of industries have developed truly global operations. Quebec-based Bombardier has become a leader in the aviation and rail transportation industries, with manufacturing, engineering, and service facilities throughout the world.

## Sustainable Marketing: The Call for More 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 to develop *sustainable marketing* practices. 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. Today's customers expect companies to deliver value in a socially and environmentally responsible way.

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 to by legislation or organized consumer outcries. More forward-looking companies, however, readily accept their responsibilities to the world around them. They view sustainable marketing as an opportunity to do well by doing good. They seek ways to profit by serving immediate needs and the best long-run interests of their customers and communities.

Some companies, such as Patagonia, Ben & Jerry's, Timberland, Method, and others, practise "caring capitalism," setting themselves apart by being civic minded and responsible. They build 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.[44] We will revisit the topic of sustainable marketing in greater detail in Chapter 4.


Sustainable marketing: Patagonia believes in "using business to inspire solutions to the environmental crisis." It backs these words by pledging at least 1 percent of its sales or 10 percent of its profits, whichever is greater, to the protection of the natural environment.

## The Growth of Not-for-Profit Marketing

In recent years, marketing also has 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 attract membership and support.[45] Consider the marketing efforts behind the growing success of Bust a Move for Breast Health.[46]

A grassroots initiative that began in Halifax in 2009, Bust a Move for Breast Health is poised to take the country by storm. The one-day fundraising event was established by the Queen Elizabeth


Not-for-profit marketing: After beginning as a grassroots initiative in Halifax, Bust a Move for Breast Health has now raised nearly $5 million for breast cancer programs in five Canadian cities.

II (QEII) and IWK foundations to fund an integrated, world-class Breast Health Centre in Nova Scotia. Participants enter as a team or individual and are required to raise $1000 through sponsorships. In return, they experience an unforgettable day, which includes six hours of exercise with leading fitness trainers, music and entertainment, and plenty of fun. The success of this event stems from the way the QEII and IWK foundations were able to reach out to potential participants. They quickly realized that everyone in the local community has been, or knows someone who has been, affected by breast cancer. Using social media sites like Facebook and Twitter and backed by TV ads, word of the event quickly spread in the local community. Celebrity hosts Richard Simmons (2010), Paula Abdul (2011), and Canadian comedian Andrea Martin (2012) brought instant publicity to the events and helped raise awareness across the country. In 2012, 600 Haligonians raised over $600 000, bringing the three-year total donations for the Breast Health Centre in Nova Scotia to $3.4 million. The movement has expanded to four other Canadian cities: St. John's ($350 000), Montreal ($212 000), Ottawa (figure not available), and Edmonton ($400 000).

Government agencies have also shown an increased interest in marketing. For example, the Canadian military has a marketing plan to attract recruits to its 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. Recent reports show that the Canadian government ad expenditure has nearly tripled in recent years, growing to $136.3 million in 2009—2010.[47]

## 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 1-5 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 chosen, the company now constructs an integrated marketing program—consisting of a blend of the four marketing mix elements—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 customers 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 its 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 buy again. This helps the company capture customer lifetime value and greater share of customer. The result is increased long-term customer equity for the firm.

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

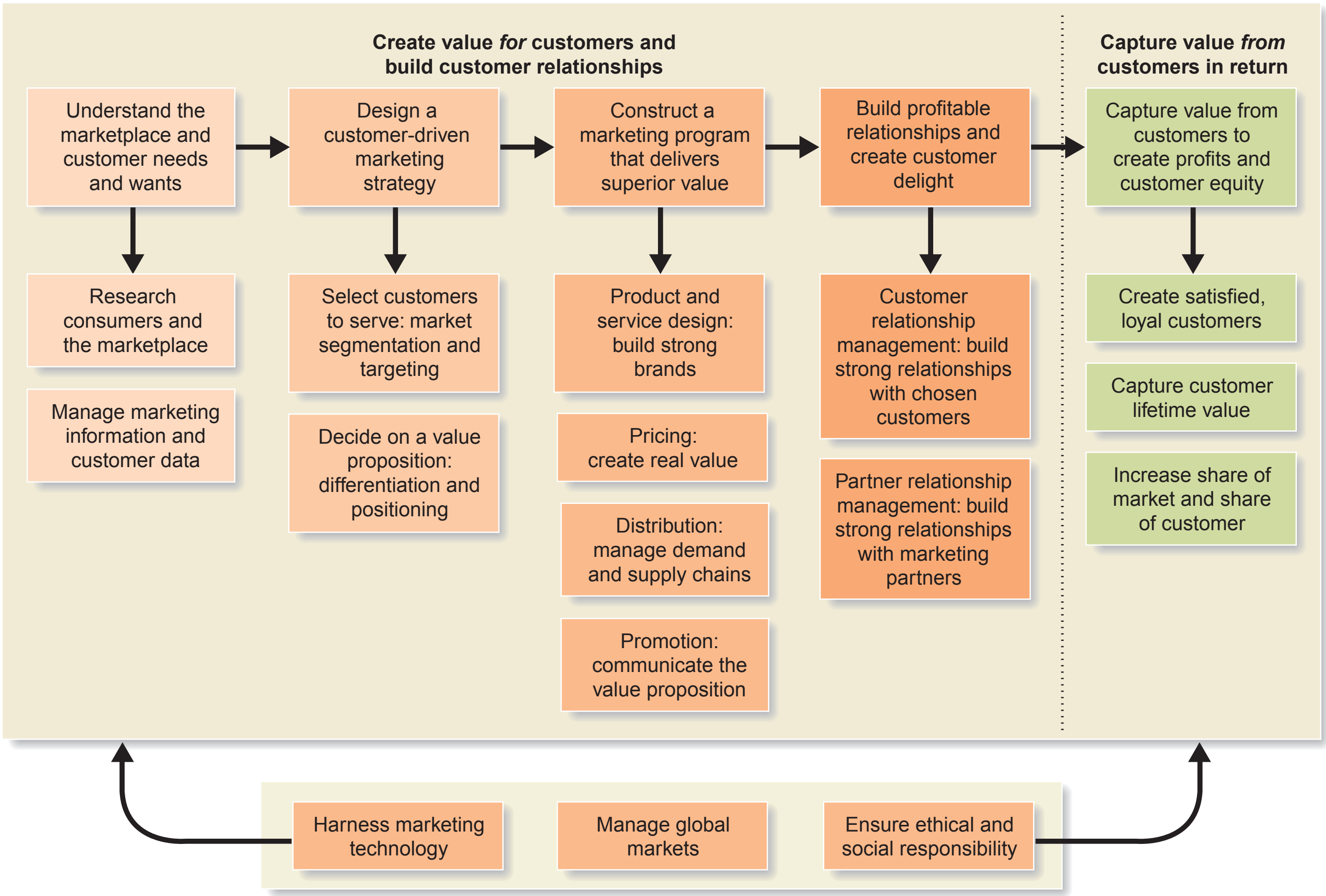



**Figure 1.5** An expanded model of the marketing process

Figure 1.5 provides a good road map to future chapters of this text. Chapters 1 and 2 introduce the marketing process, with a focus on building customer relationships and capturing value from customers. Chapters 3 through Chapter 7 address the first step of the marketing process—understanding the marketing environment, managing marketing information, and understanding consumer and business buyer behaviour. Chapter 4 also addresses the important concept of sustainable marketing. In Chapter 8, we look more deeply into the two major marketing strategy decisions: selecting which customers to serve (segmentation and targeting) and determining a value proposition (differentiation and positioning). Chapters 9 through Chapter 17 discuss the marketing mix variables, one by one. Chapter 18 sums up customer-driven marketing strategy and creating competitive advantage in the marketplace. The final chapter 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.



### 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 in order to capture value from customers in return.

The marketing process involves five steps. The first four steps create value *for* customers. First, marketers need to understand the marketplace and customer needs and wants. Next, marketers design a customer-driven marketing strategy with the goal of getting, keeping, and growing target customers. In the third step, marketers construct a marketing program that actually delivers superior value. All 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 through 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 *whom* 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 an 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 through sustainable marketing strategies are key 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 to not only acquire profitable customers but also 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 recent Great Recession left many consumers short of both money and confidence, creating a new age of consumer frugality that will last well into the future. More than ever, marketers must now emphasize the *value* in their value propositions. The challenge is to balance a brand's value proposition with current times while also enhancing its long-term equity.

The boom in computer, telecommunications, information, transportation, and other technologies has created exciting new ways to learn about and relate to individual customers. It has also allowed new approaches by which marketers can target consumers more selectively and build closer, two-way customer relationships in the Web 3.0 era.

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 to take greater responsibility for the social and environmental impact of their actions. Finally, in recent years, marketing also has become a major part of the strategies of many not-for-profit organizations, such as colleges, 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

**Marketing** 5
**Needs** 6
**Wants** 6
**Demands** 6
**Market offerings** 6
**Marketing myopia** 7
**Exchange** 7
**Market** 7
**Marketing management** 8
**Production concept** 9
**Product concept** 9
**Selling concept** 10
**Marketing concept** 10
**Societal marketing concept** 11
**Customer relationship management** 12
**Customer-perceived value** 12
**Customer satisfaction** 13
**Customer-managed relationships** 17
**Consumer-generated marketing** 18
**Partner relationship management** 19
**Customer lifetime value** 20
**Share of customer** 21
**Customer equity** 21
**Internet** 26

# DISCUSSING & APPLYING THE CONCEPTS

## Discussing the Concepts

**1.** Define marketing and discuss how it is more than just "telling and selling."

**2.** Marketing has been criticized because it "makes people buy things they don't really need." Refute or support this accusation.

**3.** Discuss the two important questions a marketing manager must answer when designing a winning marketing strategy. How should a manager approach finding answers to these questions?

**4.** What are the five different marketing management orientations? Which orientation do you believe Apple follows when marketing products such as the iPhone and iPad?

**5.** Explain the difference between *share of customer* and *customer equity*. Why are these concepts important to marketers?

**6.** Discuss trends affecting marketing and the implications of these trends on how marketers deliver value to customers.

# APPLYING THE CONCEPTS

**1.** Talk to five people, varying in age from young adult to senior citizen, about their automobiles. Ask them what value means to them with regard to an automobile and how the manufacturer and dealer create such value. Write a brief report of what you learned about customer value.

**2.** Select a retailer and calculate how much you are worth to that retailer if you continue to shop there for the rest of your life (your customer lifetime value). What factors should you consider when deriving an estimate of your lifetime value to a retailer? How can a retailer increase your lifetime value?

**3.** Read Appendix 4 or go online to learn about careers in marketing. Interview someone who works in one of the marketing jobs described in the appendix and ask him or her the following questions:

a. What does your job entail?
b. How did you get to this point in your career? Is this what you thought you'd be doing when you grew up? What influenced you to get into this field?
c. What education is necessary for this job?
d. What advice can you give to university students?
e. Add one additional question that you create.

Write a brief report of the responses to your questions and explain why you would or would not be interested in working in this field.

# FOCUS ON TECHNOLOGY

In only a few short years, *consumer-generated marketing* has increased exponentially. It's also known as *consumer-generated media* and *consumer-generated content*. More than 100 million websites contain user-generated content. You may be a contributor yourself if you've ever posted something on a blog; reviewed a product at Amazon.com; uploaded a video to YouTube; or sent a video from your mobile phone to a news website such as CBC.ca or CTV.ca. This force has not gone unnoticed by marketers—and with good reason. Nielsen, the TV ratings giant, found that most consumers trust consumer opinions posted online. As a result, savvy marketers encourage consumers to generate content. For example, Coca-Cola has more than 3.5 million "fans" on Facebook, mothers can share information at Pampers Village (www.pampers.com), and Doritos scored a touchdown with consumer-created advertising during the past several Super Bowls. Apple even encourages iPhone users to develop apps for its device. However, consumer-generated marketing is not without problems—just search for "I hate (insert company name)" with any search engine!

**1.** Find two examples (other than those discussed in the chapter) of marketer-supported, consumer-generated content and two examples of consumer-generated content that is not officially supported by the company whose product is involved. Provide the weblink to each and discuss how the information affects your attitude toward the companies involved.

**2.** Discuss the advantages and disadvantages of consumer-generated marketing.

# FOCUS ON ETHICS

Sixty years ago, about 45 percent of North Americans smoked cigarettes, but now the smoking rate is less than 20 percent. This decline results from acquired knowledge on the potential health dangers of smoking and marketing restrictions for this product. Although smoking rates are declining in most developed nations, more and more consumers in developing nations, such as Russia and China, are puffing away. Smoker rates in some countries run as high as 40 percent. Developing nations account for more than 70 percent of world tobacco consumption, and marketers are fuelling this growth. Most of these nations do not have the restrictions prevalent in developed nations, such as advertising bans, warning labels, and distribution restrictions. Consequently, it is predicted that 1 billion people worldwide will die this century from smoking-related ailments.

1. Given the extreme health risks, should marketers stop selling cigarettes even though they are legal and demanded by consumers? Should cigarette marketers continue to use marketing tactics that are restricted in one country in other countries where they are not restricted?
2. Research the history of cigarette marketing in North America. Are there any new restrictions with respect to marketing this product?

# MARKETING BY THE NUMBERS

Marketing is expensive! A 30-second advertising spot during the 2010 Super Bowl cost US$3 million, which doesn't include the $500 000 or more necessary to produce the commercial. Anheuser-Busch usually purchases multiple spots each year. Similarly, sponsoring one car during one NASCAR race costs US$500 000. But Sprint, the sponsor of the popular Sprint Cup, pays much more than that. What marketer sponsors only one car for only one race? Do you want customers to order your product by phone? That will cost you $8 to $13 per order. Do you want a sales representative calling on customers? That's about $100 per sales call, and that's if the sales rep doesn't have to get on an airplane and stay in a hotel, which can be very costly considering some companies have thousands of sales reps calling on thousands of customers. What about the $1 off coupon for Tropicana orange juice that you found in the Sunday newspaper? It costs Tropicana more than $1 when you redeem it at the store. These are all examples of just one marketing element: promotion. Marketing costs also include the costs of product research and development (R&D), the costs of distributing products to buyers, and the costs of all employees working in marketing.

1. Select a publicly traded company and research how much the company spent on marketing activities in the most recent year of available data. What percentage of sales does marketing expenditures represent? Have these expenditures increased or decreased over the past five years? Write a brief report of your findings.
2. Search the Internet for salary information regarding jobs in marketing. What is the national average for five different jobs in marketing? How do the averages compare in different areas of the country? Write a brief report on your findings.

# COMPANY CASE

## JetBlue: Delighting Customers Through Happy Jetting

In 2007, JetBlue Airways was a thriving young airline with a strong reputation for outstanding service. In fact, the low-fare airline referred to itself as a customer service company that just happened to fly planes. But on Valentine's Day 2007, JetBlue was hit by a perfect storm—literally—of events that led to an operational meltdown. One of the most severe storms of the decade covered JetBlue's main hub at New York's John F. Kennedy International Airport (JFK) with a thick layer of snow and ice. Small JetBlue did not have the infrastructure to deal with such a crisis. The severity of the storm, coupled with a series of poor management decisions, left JetBlue passengers stranded in planes on the runway for up to 11 hours. Worse still, the ripple effect of the storm created major JetBlue flight disruptions for six more days.

Understandably, customers were livid. JetBlue's efforts to clean up the mess following the six-day nightmare cost over US$30 million in overtime, flight refunds, vouchers for future travel, and other expenses. But the blow to the company's previously stellar customer service reputation stung far more than the financial fallout. JetBlue became the butt of jokes by late night talk show hosts. Some industry observers even predicted that this would be the end of the seven-year-old airline.

But just three years later, the company was not only still flying, it was growing, profitable, and hotter than ever. During the recent economic downturn, even as most competing airlines were cutting routes, retiring aircraft, laying off employees, and losing money, JetBlue was adding planes, expanding into new cities, hiring thousands of new employees, and turning profits. Even more, JetBlue's customers adore the airline. For the fifth consecutive year (even including 2007), JetBlue had the highest J.D. Power and Associates customer satisfaction score for the entire airline industry. Not only did JetBlue recover quickly from the Valentine's Day hiccup, it's now stronger than ever.

## Truly Customer Focused

What's the secret to JetBlue's success? Quite simply, it's an obsession with making sure that every customer experience lives up to the company slogan, "Happy Jetting." Many companies say they focus on customers. But at JetBlue, customer well-being is ingrained in the corporate culture.

From the beginning, JetBlue set out to provide features that would delight customers. For example, most air travellers expect to be squashed when flying coach. But JetBlue has configured its seats with 8 centimetres (3 inches) of additional legroom compared to the average airline seat. That may not sound like much, but that extra space allowed six-foot three-inch Arianne Cohen, author of *The Tall Book: A Celebration of Life from on High*, to stretch out and even cross her legs. If that's not enough, for as little as $10 per flight, travellers can reserve one of JetBlue's "Even More Legroom" seats, which offer even more space and a flatter recline position. Add the fact that every JetBlue seat is well padded and covered in leather and you have an air travel experience that rivals first-class accommodations (something JetBlue doesn't offer).

Food and beverage is another perk that JetBlue customers enjoy. The airline doesn't serve meals, but it offers the best selection of free beverages and snacks to be found at 30 000 feet. In addition to the standard soft drinks, juices, and salty snacks, JetBlue flyers enjoy Terra Blues chips, Immaculate Baking's Chocobilly cookies, and Dunkin' Donuts coffee. But it isn't just the selection; it's the fact that customers don't feel as if they have to beg for a nibble. One customer describes snacking on JetBlue as an "open bar for snacks. They are constantly walking around offering it. I never feel thirsty. I never feel hungry. It's not 'Here, have a little sip,' and 'Goodbye, that's all you get.'"

Airlines often can't control flight delays, especially at busy airports like JFK. So JetBlue wants to be sure that customers will be entertained even in the event of a delay. That's why every seat has its own LCD entertainment system. Customers can watch any of 36 channels on DIRECTV or listen to 100-plus channels on SiriusXM radio, free of charge. If that isn't enough, $6 will buy a movie or your favourite television show. JetBlue rounds out the amenities with free Wi-Fi in terminals and free sending and receiving of emails and instant messages in the air.

Even JetBlue's main terminal, the new state-of-the-art T5 terminal at JFK, is not the usual airline experience. With more security lanes than any terminal in the country, travellers scurry right through. High-end dining (tapas, lobster tempura, and Kobe sliders, just to name a few options) can be found among the terminal's 22 restaurants. And its 25 retail stores are characteristic of the latest mall offerings. A children's play zone, comfortable lounge areas, work spaces, and piped in music from SiriusXM radio make travellers hesitant to leave.

## More Than Amenities

Although the tangible amenities that JetBlue offers are likely to delight most travellers, CEO David Barger recognizes that these things are not nearly enough to provide a sustainable competitive advantage. "The hard product—airplanes, leather seats, satellite TVs, bricks and mortar—as long as you have a checkbook, they can be replicated," Barger tells a group of new hires in training. "It's the culture that can't be replicated. It's how we treat each other. Do we trust each other? Can we push back on each other? The human side of the equation is the most important part of what we're doing."

It's that culture that gives JetBlue customer service unlike that of any other airline. Taking care of customers starts as early as a customer's first encounter with a JetBlue call centre. Many callers feel as if they are talking to the lady next door. That's because, in all likelihood, they are. JetBlue's founder pioneered a reservation system that employs part-time reps working from home. Mary Driffill is one of 700 at-home reservations agents in Salt Lake City alone. She logs on to her computer and receives calls in her four-year-old daughter's bedroom, under the watchful eye of Raggedy Ann, Potbelly Bear, and Chewy, the family's Pomeranian-Chihuahua mix. "It's the best job I've ever had," says Driffill. "Every day I talk to people who love the company as much as I do. That reminds me I'm part of this."

JetBlue employees are well acquainted with the company's core values: safety, integrity, caring, passion, and fun. If that sounds like an awful lot of warm fuzzies, it's intentional. But JetBlue hires the types of employees that fit these values. The values then provide the basis for what Robin Hayes, JetBlue's chief commercial officer, calls the company's S.O.C.I.A.L. currency program. In JetBlue's words:

*Standing for something*. JetBlue was formed with the idea of bringing humanity back to travel, and our engagement with our customers is central to that mission.

*Operationalizing the brand*. Whether it be in the airport, on the planes, on the phones, or online, the connection with our customers is a key factor in how we do business.

*Conversing with customers, broadly*. To be properly in touch with the community, it requires the ability to understand and react to the collective conversation that occurs.

*Involving, immersing employees*. Social media involvement requires understanding and involvement from all aspects and departments of the company.

*Advocating the brand*. For JetBlue, we understand the ability to market to a social community is dependent on our customers' willingness to hear and spread those marketing messages.

*Listening*. Waiving the carry-on bike fee . . . shows we quickly identify and adapt new policies based on feedback we receive through social media channels. It demonstrates our ability to listen and react holistically.

### When You Love Your Customers, They Love You Back

Customers who spread positive word of mouth are called many names—true friends, angels, apostles, evangelists. The religious overtones of such labels come from the idea that loyal customers are like true believers who share the good word like a missionary would. JetBlue has an unusually high ratio of such customers. Most airline customers are loyal because they have frequent-flyer points. If not for those points, most couldn't care less with whom they fly. For most, flying is a generally unpleasant experience regardless of who operates the plane.

However, JetBlue customers are so enthralled by what the airline has to offer that they look forward to flying. And they want to keep in touch with the brand even when they aren't flying. JetBlue has 1.1 million followers on Twitter, more than any other company except Whole Foods Market and Zappos.com, two other customer service legends. Twitter even features JetBlue as a case study on smart corporate twittering. More broadly, by the metric of social currency (a fancy term for networks of customers spreading by word of mouth), JetBlue is the strongest U.S. brand, outperforming even Apple.

JetBlue's strong word of mouth has been fuelled by the company's ability to delight customers.

> People love to talk about JetBlue because the experience is so unexpected. Most airline travel has a particular pattern: small seats, bad entertainment, and little (if any) food. JetBlue breaks this pattern. Leather seats, your own entertainment system with dozens of channels, and at least some choice of food. People can't stop talking about the experience because they have to express their surprise, especially given the "value" price. They are so used to airline travel being poor, late, or uncomfortable these days that cases where a company seems to care and provide good service seems noteworthy. Satisfaction itself is unexpected.

In 10 short years, JetBlue has proven that an airline can deliver low fares, excellent service, and steady profits. It has shown that even in the airline business, a powerful brand can be built. Few other airlines have been able to write this story. If you're thinking of Southwest Airlines, you'd be on target. In fact, JetBlue's founders modelled the airline after Southwest, and JetBlue has often been called "the Southwest of the Northeast." JetBlue's onboard crews even greet customers with jokes, songs, and humorous versions of the safety routine, something Southwest has been known for since the 1970s. But where Southwest has made customers happy with no frills, JetBlue is arguably doing it all, including the frills.

Until 2009, Southwest and JetBlue steered clear of each other. But then both airlines added a Boston—Baltimore route. Boston is a JetBlue stronghold; Baltimore is Southwest's biggest market. But with JetBlue's younger workforce and newer, more fuel-efficient planes, its cost per available seat mile is 8.88 cents, whereas it's 9.76 cents for Southwest. That has allowed JetBlue to do something that no other airline has done to Southwest: undercut it on price with $39 tickets that are $20 cheaper than Southwest's lowest fare. It's not clear yet how the battle of the low-fare, high-service airlines will play out. But it may well turn out that as JetBlue and Southwest cross paths on more routes, the losers will be the other airlines.

## Questions for Discussion

1. Give examples of needs, wants, and demands that JetBlue customers demonstrate, differentiating these three concepts. What are the implications of each for JetBlue's practices?
2. Describe in detail all facets of JetBlue's product. What is being exchanged in a JetBlue transaction?
3. Which of the five marketing management concepts best applies to JetBlue?
4. What value does JetBlue create for its customers?
5. Is JetBlue likely to continue being successful in building customer relationships? Why or why not?

*Sources:* Stuart Elliott, "JetBlue Asks Its Fliers to Keep Spreading the Word," *New York Times*, May 10, 2010, p. B7; Marc Gunther, "Nothing Blue About JetBlue," *Fortune*, September 14, 2009, p. 114; Chuck Salter, "Calling JetBlue," *Fast Company*, May 1, 2004, at www.fastcompany.com/magazine/82/jetblue_agents.html; Kevin Randall, "Red, Hot, and Blue: The Hottest American Brand Is Not Apple," *Fast Company*, June 3, 2010, at www.fastcompany.com/1656066/apple-jetblue-social-currency-twitter.