Chapter 11: Marketing: Building Profitable Customer Connections (pp. 168-0)

LEARNING OBJECTIVES

After studying this chapter, you will be able to...

LO1 Discuss the objectives, the process, and the scope of marketing
LO2 Identify the role of the customer in marketing
LO3 Explain each element of marketing strategy
LO4 Describe the consumer and business decision-making process
LO5 Discuss the key elements of marketing research
LO6 Explain the roles of social responsibility and technology in marketing
LO1 Marketing: Getting Value by Giving Value

What comes to mind when you hear the term *marketing*? Most people think of the radio ad they heard this morning, or the billboard they saw while driving to school. But advertising is only a small part of marketing; the whole story is much bigger. The American Marketing Association defines marketing as the *activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.*

The ultimate benefit that most businesses seek from marketing is long-term profitability. But attaining this benefit is impossible without first delivering value to customers and other stakeholders. A successful marketer delivers value by filling customer needs in ways that exceed their expectations. As a result, you get sales today and sales tomorrow and sales the next day—which—across the days and months and years—can translate into long-term profitability. Alice Foote MacDougall, a successful entrepreneur in the 1920s, understood this thinking early on: “In business you get what you want by giving other people what they want.” *Utility* is the ability of goods and services to satisfy these wants. And since there is a wide range of wants, products can provide utility in a number of different ways:

- **Form utility** satisfies wants by converting inputs into a finished form. Clearly, the vast majority of products provide some kind of form utility. For example, Jamba Juice pulverizes fruit, juices, and yogurt into yummy smoothies, and UGG Australia stretches, treats, and sews sheepskins into comfortable, stylish boots.
- **Time utility** satisfies wants by providing goods and services at a convenient time for customers. For example, FedEx delivers some parcels on Sunday, LensCrafters makes eyeglasses within about an hour, 7-Eleven opens early and closes late, and e-commerce, of course, provides the ultimate 24-7 convenience.
- **Place utility** satisfies wants by providing goods and services at a convenient place for customers. For example, ATMs offer banking services in many large supermarkets, Motel 6 lodges tired travelers at the bottom of highway off-ramps, and vending machines refuel tired students on virtually every college campus.
- **Ownership utility** satisfies wants by smoothly transferring ownership of goods and services from seller to buyer. Virtually every product provides some degree of ownership utility, but some offer more than others. Apple, for example, has created a hassle-free purchase process that customers can follow by phone, by computer, and in person.

Satisfying customer wants—in a way that exceeds expectations—is a job that never ends. Jay Levinson, a recognized expert in breakthrough marketing, comments, “Marketing is … a process. You improve it, perfect it, change it, even pause it. But you never stop it completely.”

**The Scope of Marketing: It's Everywhere!**

For many years, businesspeople have actively applied the principles of marketing to goods and services that range from cars, to fast food, to liquor, to computers, to movies. But within the last decade or two, other organizations have successfully adopted marketing strategies and tactics to further their goals.
Nonprofit organizations—in both the private and public sectors—play a significant role in our economy, employing more people than the federal government and all 50 state governments combined (not to mention an army of volunteers!). These organizations use marketing, sometimes quite assertively, to achieve their objectives. The U.S. Army’s advertising budget, for example, sometimes hits as much as $300 million per year, which ranks on the list of top U.S. advertisers. Your own college probably markets itself to both prospective students and potential alumni donors. Private-sector nonprofit organizations also use marketing strategies for everything from marshalling AYSO soccer coaches for kids, to boosting attendance at the local zoo, to planning cultural events.¹

Nonprofit organizations play a pivotal role in the expansion of marketing across our economy to include people, places, events, and ideas. But for-profit enterprises have also begun to apply marketing strategies and tactics beyond simply goods and services.

People Marketing: Sports, politics, and art dominate this category, but even some businesspeople merit mentioning. Top banking executives, for instance, took a beating from a marketing standpoint during the financial meltdown at the end of 2008. Also in 2008, President Barack Obama was named Ad Age Marketer of the Year, edging out powerhouse consumer brands that were also on the short list, such as Apple, Nike, and Coors. He became a living symbol of change in the minds of the electorate. Countless entertainers and athletes have used people marketing to their advantage as well. Consider, for example, Paris Hilton, who appeared to build her career on promotion alone. In fact, as you pursue your personal goals—whether you seek a new job or a Friday night date—people marketing principles can help you achieve your objective. Start by figuring out what your “customer” needs, and then ensure that your “product” (you!) delivers above and beyond expectations.²

Place Marketing: This category involves drawing people to a particular place. Cities and states use place marketing to attract businesses. Delaware, for instance, the second-smallest state in the Union, is home to more than half of the Fortune 500 firms because it deliberately developed a range of advantages for corporations. But more visibly, cities, states, and nations use place marketing to attract tourists. Thanks to powerful place marketing, most people have probably heard that “What happens in Vegas stays in Vegas.” But in late 2008, Las Vegas shelved the high-rolling campaign in favor of a more recession-proof strategy: the “Take a Break USA” campaign. While the campaign features traditional television and newspaper advertising, it also includes a YouTube component meant to involve consumers at a more personal level.³

Event Marketing: This category includes marketing—or sponsoring—athletic, cultural, or charitable events. Partnerships between the public and private sectors are increasingly common. Examples include the Olympics, the Super Bowl, and the Lady Gaga/MTV Video Music Aid Japan concert to benefit victims of the 2011 Japanese earthquake and tsunami.
Idea Marketing: A whole range of public and private organizations market ideas that are meant to change how people think or act. Recycle, don't pollute, buckle your seatbelt, support our political party, donate blood, don't smoke; all are examples of popular causes. Often, idea marketing and event marketing are combined, as we see in the annual Avon Walk for Breast Cancer. The planners actively market the idea of annual mammograms, as they solicit contributions for breast cancer research and participation in the event itself.

The Evolution of Marketing: From the Product to the Customer

The current approach to marketing evolved through a number of overlapping stages, as you'll see in Exhibit 11.1. But as you read about these eras, keep in mind that some businesses have remained lodged—with varying degrees of success—in the thinking of a past era.

Production Era

Marketing didn't always begin with the customer. In fact, in the early 1900s, the customer was practically a joke. Henry Ford summed up the prevailing mindset when he reportedly said “You can have your Model T in any color you want as long as it's black.” This attitude made sense from a historical perspective, since consumers didn't have the overwhelming number of choices that are currently available; most products were purchased as soon as they were produced and distributed to consumers. In this context, the top business priority was to produce large quantities of goods as efficiently as possible.

Selling Era

By the 1920s, production capacity had increased dramatically. For the first time, supply in many categories exceeded demand, which caused the emergence of the hard sell. The selling focus gained momentum in the 1930s and 1940s, when the Depression and World War II made consumers even more reluctant to part with their limited money.

Marketing Era

The landscape changed dramatically in the 1950s. Many factories that had churned out military supplies converted to consumer production, flooding the market with choices in virtually every product category. An era of relative peace and prosperity emerged, and—as soldiers returned from World War II—marriage and birthrates soared. To compete for the consumer's dollar, marketers attempted to provide goods and services that met customer needs better than anything else on the market. As a result, the marketing concept materialized in the 1950s. The marketing concept is a philosophy that makes customer satisfaction—now and in the future—the central focus of the entire organization. Companies that embrace this philosophy strive to delight customers, integrating this goal into all business activities. The marketing concept holds that delivering unmatched value to customers is the only effective way to achieve long-term profitability.

Relationship Era

The marketing concept has gathered momentum across the economy, leading to the current era, unfolding over the last decade, which zeros in on long-term customer relationships. Acquiring a new customer can cost five times more than keeping an existing customer. Retaining your current customers—and getting them to spend additional dollars—is clearly cost-effective. Moreover, satisfied customers can develop into advocates for your business, becoming powerful generators of positive “word-of-mouth.”
Customer Relationship Management (CRM) is the centerpiece of successful, twenty-first-century marketing. Broadly defined, CRM is the ongoing process of acquiring, maintaining, and growing profitable customer relationships by delivering unmatched value. CRM works best when marketers combine marketing communication with one-on-one personalization. Amazon is a champion player at CRM, greeting customers by name, recommending specific products, and providing streamlined checkout. Clearly, information is an integral part of this process—you simply can't do CRM without collecting, managing, and applying the right data at the right time for the right person (and every repeat customer is the "right person"!).

Limited Relationships

Clearly, the scope of your relationships will depend not just on the data you gather but also on your industry. Colgate-Palmolive, for example, can't forge a close personal bond with every person who buys a bar of Irish Spring soap. However, they do invite customers to call their toll-free line with questions or comments, and they maintain a vibrant website with music, an e-newsletter, special offers, and an invitation to contact the company. You can bet that they actively gather data and pursue a connection with customers who do initiate contact.

Full Partnerships

If you have a high-ticket product and a smaller customer base, you're much more likely to pursue a full partnership with each of your key clients. Colgate-Palmolive, for instance, has dedicated customer service teams working with key accounts such as Walmart and Costco. With a full partnership, the marketer gathers and leverages extensive information about each customer and often includes the customer in key aspects of the product development process.

Value

You know you've delivered value when your customers believe that your product has a better relationship between the cost and the benefits than any competitor. By this definition, low cost does not always mean high value. In fact, a recent survey suggests that loyal customers are often willing to pay more for their products rather than switch to lower-cost competitors. Apple provides a clear example. We probably all know at least a handful of Apple fanatics who gladly pay far more for their PowerBooks (or iPhones or iPads) than they would pay for a competing product.

Perceived Value Versus Actual Value

The operative idea here is perceived. Simply creating value isn't enough; you also must help customers believe that your product is uniquely qualified to meet their needs. This becomes a particular challenge when you're a new business competing against a market...
leader with disproportionately strong perceived value.

**Customer Satisfaction**

You know you’ve satisfied your customers when you deliver perceived value above and beyond their expectations. But achieving *customer satisfaction* can be tricky. Less savvy marketers frequently fall into one of two traps:

- The first trap is overpromising. Even if you deliver more value than anyone else, your customers will be disappointed if your product falls short of overly high expectations. The messages that you send regarding your product influence expectations—keep them real!
- The second trap is underpromising. If you don’t set expectations high enough, too few customers will be willing to try your product. The result will be a tiny base of highly satisfied customers, which usually isn’t enough to sustain a business.

Finding the right balance is tricky, but clearly not impossible. Judging by their high scores on the American Customer Satisfaction Index, the following companies come close to mastering the art of customer satisfaction: Costco, State Farm, Clorox Company, Nordstrom, Amazon, H.J. Heinz, and FedEx.

**Customer Loyalty**

*Customer loyalty* is the payoff for delivering value and generating satisfaction. Loyal customers purchase from you again and again—and they sometimes even pay more for your product. They forgive your mistakes. They provide valuable feedback. They may require less service. They refer their friends (and sometimes even strangers). Moreover, studying your loyal customers can give you a competitive edge for acquiring new ones, since people with a similar profile would likely be a great fit for your products.

**LO3 Marketing Strategy: Where Are You Going, and How Will You Get There?**

In marketing terms, the questions become: Who is your target audience, and how will you reach them? Many successful firms answer this question by developing a formal *marketing plan*, updated on a yearly basis; other firms handle their planning on a more informal basis. But regardless of the specific approach, the first step in planning your marketing strategy should be to determine where to target your efforts. Who are those people who are most likely to buy your products? The first step is *market segmentation*—dividing your marketing into groups of people, or segments, that are similar to one another and different from everyone else. One or more of these segments will be your target market. Once you’ve identified your target market, your next step is to determine how you can best use marketing tools to reach them. And finally, you need to anticipate and respond to changes in the external environment. This section will define target market, explain market segmentation, introduce the marketing mix, and review the key factors in the marketing environment. Taken together, these elements will shape an effective marketing strategy, as shown in Exhibit 11.2.

The marketer creates the marketing mix but responds to the marketing environment with a single-minded focus on the target market.

**Target Market**

Your *target market* is the group of people who are most likely to buy your product. This is where you should concentrate your marketing efforts. But why not target your efforts toward everyone? After all, even if most middle-aged moms wouldn’t buy purple
polka-dotted miniskirts, an adventurous few just might do it. Well, you can always hope for the adventurous few, but virtually every business has limited resources, and marketing toward the people who are most likely to buy your flamboyant minis—say, teenage girls—will maximize the impact of each dollar you spend. A well-chosen target market embodies the following characteristics:

- Size: There must be enough people in your target group to support a business.
- Profitability: The people must be willing and able to spend more than the cost of producing and marketing your product.
- Accessibility: Your target must be reachable through channels that your business can afford.
- Limited competition: Look for markets with limited competition; a crowded market is much tougher to crack.

**Consumer Markets Versus Business Markets**

*Consumer marketers (B2C)* direct their efforts to people who are buying products for personal consumption (e.g., candy bars, shampoo, and clothing), whereas *business marketers (B2B)* direct their efforts to customers who are buying products to use either directly or indirectly to produce other products (e.g., tractors, steel, and cash registers). But keep in mind that the distinction between the market categories is not in the products themselves; rather, it lies in how the buyer will use the product. For instance, shampoo that you buy for yourself is clearly a consumer product, but shampoo that a hair stylist buys for a salon is a business product. Similarly, a computer that you buy for yourself is a consumer product, but a computer that your school buys for the computer lab is a business product. Both B2C and B2B marketers need to choose the best target, but they tend to follow slightly different approaches.

**Consumer Market Segmentation**

Choosing the best target market (or markets) for your product begins with dividing your market into segments, or groups of people who have similar characteristics. But people can be similar in a number of different ways, so, not surprisingly, marketers have several options for segmenting potential consumers.

**Demographic**

*B2C demographic segmentation* refers to dividing the market based on measurable characteristics about people such as age, income, ethnicity, and gender. Demographics are a vital starting point for most marketers. Rockstar, for example, targets young women with its Rockstar Pink energy drink, and Jaguar targets the wealthy. Sometimes the demographic makeup of a given market is tough to discern; African American artists, for instance, create the bulk of rap music, yet Caucasian suburban males form the bulk of the rap music market.
Geographic

B2C geographic segmentation refers to dividing the market based on where consumers live. This process can incorporate countries, or cities, or population density as key factors. For instance, Toyota Sequoia does not concentrate on European markets, where tiny, winding streets and nonexistent parking are common in many cities. Cosmetic surgeons tend to market their services more heavily in urban rather than rural areas. And finding a great surfboard is easy in California but more challenging in South Dakota.

Psychographic

B2C psychographic segmentation refers to dividing the market based on consumer attitudes, interests, values, and lifestyles. Porsche Cayenne, for instance, targets consumers who seek the thrill of driving. A number of companies have found a highly profitable niche providing upscale wilderness experiences for people who seek all the pleasure with none of the pain (you enjoy the great outdoors, while someone else lugs your gear, pours your wine, slices your goat cheese, and inflates your extra-comfy air mattress). Both magazine racks and the Internet are filled with products geared toward psychographic segments, including celebrity gossip blog PerezHilton.com, shoe-selling mega site Zappos.com, and business and financial powerhouse WallStreetJournal.com. NOTE: Marketers typically use psychographics to complement other segmentation approaches rather than to provide the core definition.

Behavioral

B2C behavioral segmentation refers to dividing the market based on how people behave toward various products. This category includes both the benefits that consumers seek from products and how consumers use the product. The Neutrogena Corporation, for example, built a multimillion-dollar hair care business by targeting consumers who wanted an occasional break from their favorite shampoo. Countless products such as Miller Lite actively target the low-carbohydrate consumer. But perhaps the most common type of behavioral segmentation is based on usage patterns. Fast-food restaurants, for instance, actively target heavy users (who, ironically, tend to be slender); young men in their 20s and 30s. This group consumes about 17% of their total calories from fast food, compared to 12% for adults in general. Understanding the usage patterns of your customer base gives you the option of either focusing on your core users or trying to pull light users into your core market.

Business Market Segmentation

B2B marketers typically follow a similar process in segmenting their markets, but they use slightly different categories:

Geographic

B2B geographic segmentation refers to dividing the market based on the concentration of customers. Many industries tend to be
highly clustered in certain areas, such as technology in California, and auto suppliers in the “auto corridor” that stretches south from Michigan to Tennessee. Geographic segmentation, of course, is especially common on an international basis, where variables such as language, culture, income, and regulatory differences can play crucial roles.

**Customer-based**

B2B customer-based segmentation refers to dividing the market based on the characteristics of customers. This approach includes a range of possibilities. Some B2B marketers segment based on customer size. Others segment based on customer type. Johnson and Johnson, for example, has a group of salespeople dedicated exclusively to retail accounts such as Target and Publix, while other salespeople focus solely on motivating doctors to recommend their products. Other potential B2B markets include institutions—schools and hospitals, for instance, are key segments for Heinz Ketchup—and the government.

**Product-use-based**

B2B product-use-based segmentation refers to dividing the market based on how customers will use the product. Small and midsized companies find this strategy especially helpful in narrowing their target markets. Possibilities include the ability to support certain software packages or production systems or the desire to serve certain customer groups, such as long-distance.

**Color me… hungry?!**

Have you ever noticed that fast-food restaurants typically feature vivid shades of red, yellow, and orange in both their logos and their décor? Think McDonald’s, KFC, Burger King, and Pizza Hut. The color choice is no coincidence.

Marketing researchers have learned that consumers in the United States associate red with energy, passion, and speed. Yellow suggests happiness and warmth, while orange suggests playfulness, affordability, and fun. A simulated cocktail party study found that partygoers in red rooms reported feeling hungrier and thirstier than others, and guests in yellow rooms ate twice as much as others. The implication? Surrounding customers with red, yellow, and orange encourages them to eat a lot quickly and leave, which aligns nicely with the goals of most fast-food chains.

Color psychology is a powerful—though often overlooked—marketing tool. Colors evoke emotions and trigger specific behaviors, which can dramatically influence how people buy your product. Here is a list of common colors and some of their associations in U.S. mainstream culture:

Keep in mind that while some color associations are universal, others can differ significantly among cultures. White, for instance, signifies death and mourning in Chinese culture, while purple represents death in Brazil.

As a marketer, your goal should be to align your color choice with the perceptions of your target market and the features of your product. The result should be more green for your bottom line!6
truckers or restaurants that deliver food.

**The Marketing Mix**

Once you've clearly defined your target market, your next challenge is to develop compelling strategies for product, price, distribution, and promotion. The blending of these elements becomes your *marketing mix*, as shown below in Exhibit 11.3.

- **Product Strategy**: Your product involves far more than simply a tangible good or a specific service. Product strategy decisions range from brand name, to product image, to package design, to customer service, to guarantees, to new product development, and more. Designing the best product clearly begins with understanding the needs of your target market.

- **Pricing Strategy**: Pricing is a challenging area of the marketing mix. To deliver customer value, your prices must be fair, relative to the benefits of your product. Other factors include competition, regulation, and public opinion. Your product category plays a critical role as well. A low-cost desk, for instance, might be appealing, but who would want discount-priced knee surgery?

- **Distribution Strategy**: The goal is to deliver your product to the right people, in the right quantities, at the right time, in the right place. The key decisions include shipping, warehousing, and selling outlets (e.g., the
Web versus network marketing versus brick-and-mortar stores). The implications of these decisions for product image and customer satisfaction can be significant.

- **Promotion Strategy:** Promotion includes all of the ways that marketers communicate about their products. The list of possibilities is long and growing, especially as the Internet continues to evolve at breakneck speed. Key elements today include advertising, personal selling, sales promotion, public relations, word-of-mouth, and product placement. Successful promotional strategies typically evolve in response to both customer needs and competition. A number of innovative companies are even inviting their customers to participate in creating their advertising through venues such as YouTube. Check out Exhibit 11.4 to see how easily you can analyze promotional strategies.

**The Global Marketing Mix**
As you decide to enter foreign markets, you’ll need to reevaluate your marketing mix for each new country. Should it change? If so, how should it change? Many business goods simply don’t require much change in the marketing mix, since their success isn’t dependent on culture. Examples include heavy machinery, cement, and farming equipment. Consumer products, however, often require completely new marketing mixes to effectively reach their consumers.

Nike’s approach to marketing in China offers an interesting example of how one firm managed the complex process of building a successful business in a foreign market. When Nike first entered China in the 1990s, the company seemed to face an insurmountable challenge: not only did a pair of Nike sneakers cost twice the Chinese average monthly salary, but most Chinese just didn’t play sports, according to Terry Rhoads, then director of Nike sports marketing. So he boldly set out to change that. Rhoads created a Nike high-school basketball league, which has since spread to 17 cities. To loosen up fans, he blasted canned cheering during games and arranged for national TV coverage of the finals. He even leveraged connections with the NBA to bring Michael Jordan for visits.

The gamble quickly paid off, as the Chinese middle class emerged—along with more individualistic values, which are a strong fit with the Nike ethos. By 2001, Nike had dubbed its marketing approach “hip hoop,” which they described as an effort to “connect Nike with a creative lifestyle.” Sales in 2008 exceeded $1 billion, about a year ahead of when Nike had anticipated. In 2010, sales were still growing at a blistering pace of +23%, driven largely by basketball shoes. And a recent survey suggests that Chinese youth rank Nike as their favorite sports brand. Winning over young buyers is especially important, according to researcher Mary Bergstrom, because young people are China’s “most influential” consumers, often affecting what the whole household buys.

The Marketing Environment

While marketers actively influence the elements of the marketing mix, they must anticipate and respond to the elements of the external environment, which they typically cannot control. Environmental scanning is a key tool; the goal is simply to continually collect information from sources that range from informal networks, to industry newsletters, to the general press, to customers, to suppliers, to the competition, among others. The key elements of the external environment include the following components:

Competitive

The dynamic competitive environment probably affects marketers on a day-to-day basis more than any other element. Understanding the competitive environment often begins with analysis of market share, or the percentage of the marketplace that each firm controls. To avoid ambushes—and to uncover new opportunities—you must continually monitor how both dominant and emerging competitors handle each element of their marketing mix. And don’t forget indirect competitors, who meet the same consumer needs as you but with a completely different product (e.g., cable TV and Internet games).

Economic

The only certainty in the economic environment is change, but the timing of expansions and contractions is virtually impossible to predict. Your goal as a marketer is to identify and respond to changes as soon as possible, keeping in mind that a sharp eye sees opportunity even in economic downturns. For instance, affordable luxuries and do-it-yourself enterprises can thrive during recessions.

Social/Cultural

The social/cultural element covers a vast array of factors, including lifestyle, customs, language, attitudes, interests, and population shifts. Trends can change rapidly, with a dramatic impact on marketing
JUST BECAUSE THEY CAN...

It's not your imagination—the food you buy at the market really does disappear faster, even though you may not have realized that the package was smaller. In 2008, about 30% of all packaged goods got smaller, most of them unnoticed by consumers. Skippy peanut butter jars, for instance, got about 10% smaller, but the jar looks just the same—it's the dimple in the bottom that's more indented. PepsiCo reduced the size of its orange juice jugs by 7 ounces but touted the container's “new ergonomic design” and “easy-pour lid.” The agenda, some say, was to distract consumers from the de facto price increase. And cereal makers have reduced the depth of their packages—much less noticeable than reducing the height or width. When commodities prices spiked in 2011, a number of producers used the same strategy again to keep their costs in line. The Mars Company, for instance, split their “King Size” Snickers bar in half “so that it could be more easily shared between two people,” and at the same time, they reduced the amount of candy in each package by 11%.

... DOESN'T MEAN THEY SHOULD.

Food manufacturers assert that these size reductions—and the associated cost cuts—are crucial in the face of skyrocketing food and fuel costs. Some analysts also point out that the reductions are ultimately good for the environment, because less packaging eliminates waste. But others see deception. “It's become a game,” said Susan Broniarczyk, a professor of marketing at the University of Texas at Austin. “How far can you go in reducing the size of a package while flying under the consumers’ radar screen?” Consumer advocate Ben Popken takes an even harder line: “This is the packaging equivalent of three-card monte. By changing several factors at the same time, food companies disguise the fact that you're getting less for the same price.”

What do YOU think?
• Are food firms playing fair? Or are they going too far in an attempt to deliberately mislead customers? Whatever your conclusions, it clearly makes sense to shop carefully, looking at both the price tag and the cost per unit.²

decisions. Anticipating and responding to trends can be especially important in industries such as entertainment, fashion, and technology. In late 2009, for instance, Facebook removed some key privacy controls from its News Feed. The social media giant did not anticipate the black eye it received from outraged consumers who believed that Facebook had violated their privacy. Facebook was also surprised that the privacy controls it implemented in May 2010, which required consumers to opt out of sharing, would not be enough to appease privacy advocates.³

**Technological**

Changes in technology can be very visible to consumers (e.g., the introduction of the iPhone). However, technology often affects marketers in ways that are less directly visible. For example, technology allows mass customization of Levi's blue jeans at a reasonable price and facilitates just-in-time inventory management for countless companies that see the results in their bottom lines.

**Political/Legal**

The political/legal area includes laws, regulations, and political climate. Most U.S. laws and regulations are clear (e.g., those declaring dry counties in certain states), but others are complex and evolving (e.g., qualifications for certain tax breaks). Political climate includes changing levels of governmental support for various business categories. Clearly, the political/legal issues affect heavily regulated sectors (e.g., telecommunications and pharmaceuticals) more than others.

**The Global Marketing Environment**

As the Internet has grown, the world market has become accessible to virtually every business. This boosts the importance of understanding each element of the marketing environment—competitive, economic, social/cultural, technological, and political/legal—in each of your key markets. Among the biggest global challenges are researching opportunities in other countries and delivering your product to customers in other countries.

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LO4 Customer Behavior: Decisions, Decisions, Decisions!

If successful marketing begins with the customer, then understanding the customer is critical. Why do people buy one product but not another? How do they use the products they buy? When do they get rid of them? Knowing the answers to these questions will clearly help you better meet customer needs.

Consumer Behavior

Consumer behavior refers specifically to how people act when they are buying products for their own personal consumption. The decisions they make often seem spontaneous (after all, how much thought do you give to buying a pack of gum?), but they often result from a complex set of influences, as shown in Exhibit 11.5.

Marketers, of course, add their own influence through the marketing mix. For instance, after smelling pretzels in the mall and tasting pretzel morsels from the sample tray, many of us would at least be tempted to cough up the cash for a hot, buttery pretzel of our own...

EXHIBIT 11.5 Elements That Influence the Consumer Decision-Making Process

<table>
<thead>
<tr>
<th>INFLUENCE</th>
<th>DESCRIPTION</th>
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</thead>
<tbody>
<tr>
<td><strong>CULTURAL</strong></td>
<td><strong>Culture</strong>: The values, attitudes, and customs shared by members of a society <strong>Subculture</strong>: A smaller division of the broader culture <strong>Social Class</strong>: Societal position driven largely by income and occupation</td>
</tr>
<tr>
<td><strong>SOCIAL</strong></td>
<td><strong>Family</strong>: A powerful force in consumption choices <strong>Friends</strong>: Another powerful force, especially for high-profile purchases <strong>Reference Groups</strong>: Groups that give consumers a point of comparison</td>
</tr>
<tr>
<td><strong>PERSONAL</strong></td>
<td><strong>Demographics</strong>: Measurable characteristics such as age, gender, or income <strong>Personality</strong>: The mix of traits that determine who you are</td>
</tr>
<tr>
<td><strong>PSYCHOLOGICAL</strong></td>
<td><strong>Motivation</strong>: Pressing needs that tend to generate action <strong>Attitudes</strong>: Lasting evaluations of (or feelings about) objects or ideas <strong>Perceptions</strong>: How people select, organize, and interpret information <strong>Learning</strong>: Changes in behavior based on experience</td>
</tr>
</tbody>
</table>

regardless of any other factors! Similarly, changes in the external environment—for example, a series of hurricanes in Florida—dramatically affect consumer decisions about items such as flashlights, batteries, and plywood.

All these forces shape consumer behavior in each step of the process regarding purchase decisions. Exhibit 11.6 shows how the consumer decision process works.

Clearly, marketing can influence the purchase decision every step of the way, from helping consumers identify needs (or problems), to resolving that awful feeling of cognitive dissonance (or kicking oneself) after a major purchase. Some marketers attempt to avoid cognitive dissonance altogether by developing specific programs to help customers validate their purchase choices. One example might be postpurchase mailings that highlight the accolades received by an expensive product.

But does every consumer go through every step of the process all the time? That's clearly not the case! People make low-involvement decisions (such as buying
that pack of gum) according to habit … or even just on a whim. But when the stakes are high—either financially or socially—most people move through the five steps of the classic decision-making process. For example, most of us wouldn’t think of buying a car, a computer, or the “right” pair of blue jeans without stepping through the decision-making process.

**Business Buyer Behavior**

*Business buyer behavior* refers to how people act when they’re buying products to use either directly or indirectly to produce other products (e.g., chemicals, copy paper, computer servers). Business buyers typically have purchasing training and apply rational criteria to their decision-making process. They usually buy according to purchase specifications and objective standards, with a minimum of personal judgment or whim. Often, business buyers are integrating input from a number of internal sources, based on a relatively formal process. And finally, business buyers tend to seek (and often secure) highly customized goods, services, and prices.

**LO5 Marketing Research: So What Do They REALLY Think?**

If marketing begins with the customer, marketing research is the foundation of success. *Marketing research* involves gathering, interpreting, and applying information to uncover opportunities and challenges. The goal, of course, is better marketing decisions: more value for consumers and more profits for businesses that deliver. Companies use marketing research to:

- Identify external opportunities and threats (from social trends to competition).
- Monitor and predict customer behavior.
- Evaluate and improve each area of the marketing mix.

**Types of Data**

There are two main categories of marketing research data—*secondary data* and *primary data*—each with its own set of benefits and drawbacks, as shown in Exhibit 11.7.

---

**Ooops! What were they thinking?:** “If you can't be a good example, then you'll just have to serve as a horrible warning.”
Even the heavy-hitters make marketing gaffes. Their biggest mistakes are often entertaining, but they also serve as a powerful warning to consult with the customer before taking action. A few amusing examples:

- In mid-2009, Microsoft showed a photo on its U.S. website of three office workers—white, Asian American, and African American—and then changed the photo on the Polish version of the website to replace the head of the African American man with the head of a white man, while leaving the original hand of the African American man clearly visible. Although Microsoft quickly apologized and pulled the photo from its Polish site, they didn't clearly explain why they thought it made sense to mask the diversity of the photo in the first place.

- In 2007, Hershey's introduced Ice Breakers Pacs, nickel-sized dissolvable pouches with a powdered sweetener inside. But they discontinued production in early 2008, in response to concerns from police narcotics officers and other community leaders that the mints too closely resembled tiny heat-sealed bags used to sell powdered street drugs. Announcing that the candy would be discontinued, Hershey's CEO commented that the company was “sensitive to these concerns.” Apparently they weren't sensitive soon enough.

- In 2009, Tropicana introduced a new package for its premium orange juice. The redesign supplanted the longtime Tropicana brand symbol—an orange from which a straw protrudes—with a picture of a glass of orange juice. Consumers were outraged. They described the package as “ugly,” “stupid,” and “generic.” One even asked, “Do any of these package design people actually shop for orange juice?” Deluged with negative feedback, the company scrapped the new packaging less than two months after they introduced it.

- In early 2010, the Denny's restaurant menu invited diners to join in the Denny's conversation at twitter.com/dennys . That Twitter account, however, is owned by a Taiwanese man named Dennys Hsieh. The Denny's restaurant account can actually be found on Twitter at twitter.com/dennysallnightr and twitter.com/dennysgrandslam.

These fiascos only highlight the importance of marketing research. But sometimes, of course, even research isn't enough to identify marketing issues before they hit. At that point, the priority should shift to dealing with the mistake openly, honestly, and quickly, which can help a company win the game, despite the gaffe.10

Clearly, it makes sense to gather secondary data before you invest in primary research. Look at your company's internal information. What does previous research say? What does the press say? What can you find on the Web? Once you've looked at the secondary research, you may find that primary research is unnecessary. But if not, your secondary research will guide your primary research and make it more focused and relevant, which ends up saving time and money.

<table>
<thead>
<tr>
<th>EXHIBIT 11.7 Research Data Comparison</th>
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<tbody>
<tr>
<td>SECONDARY DATA:</td>
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<tr>
<td>EXISTING DATA THAT MARKETERS GATHER OR PURCHASE</td>
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<td>TENDS TO BE LOWER COST</td>
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Primary Research Tools

There are two basic categories of primary research: observation and survey. **Observation research** happens when the researcher does not directly interact with the research subject. The key advantage of watching versus asking is that what people actually do often differs from what they say—sometimes quite innocently. For instance, if an amusement park employee stands outside an attraction and records which way people turn when they exit, he may be conducting observation research to determine where to place a new lemonade stand. Watching would be better than asking because many people could not honestly say which way they'd likely turn. Examples of observation research include:

- Scanner data from retail sales.
- Traffic counters to determine where to place billboards.
- Garbage analysis to measure recycling compliance.

Observation research can be both cheap and amazingly effective. A car dealership, for instance, can survey the preset radio stations on every car that comes in for service. That information helps them choose which stations to use for advertising. But the biggest downside of observation research is that it doesn't yield any information on consumer motivation—the reasons behind consumer decisions. The preset radio stations wouldn't matter, for example, if the bulk of drivers listen only to CDs in the car.

**Survey research** happens when the researcher does interact with research subjects. The key advantage is that you can secure information about what people are thinking and feeling, beyond what you can observe. For example, a carmaker might observe that the majority of its purchasers are men. They could use this information to tailor their advertising to men, or they could do survey research and possibly learn that even though men do the actual purchasing, women often make the purchase decision ... a very different scenario! But the key downside of survey research is that many people aren't honest or accurate about their experiences, opinions, and motivations, which can make survey research quite misleading. Examples of survey research include:

- Telephone and online questionnaires
- Door-to-door interviews

“*It ain't easy being green*”

1. Burt’s Bees
2. Whole Foods
3. Tom’s of Maine
4. Trader Joe’s
5. Google
6. Aveeno
7. SC Johnson
8. Publix
9. Microsoft
10. IKEA

Despite financial concerns, consumers around the world plan to spend more on green products, particularly in China, India, and Brazil. Although interest in sustainability and the environment is on the rise globally, the specific issues of interest vary from market to market. While reduction in use of toxic substances is important across the board, deforestation is the top priority issue in Brazil and India, water conservation is the top issue in Australia, and energy use is the top issue in the U.S. According to the 2010 ImagePower Green Brands survey, U.S. consumers rank the following brands “greenest”:

It's not surprising that each of these brands touts green credentials and performance in a simple, compelling message. Successful green marketers know that if a product doesn't perform, you won't buy it twice. They also know that green activists won't let them...
rest if their green claims are bogus. Delivering on both fronts—without a wallet-busting price—is a tough challenge that more marketers are racing to meet. Analysts have also noticed a trend toward “helper brands” that make going green easier for them through online communication. Worldwide, intellectuals and activists are the most credible spokespeople about green products, and to achieve success, marketers must reach them in a way that creates a groundswell of positive “buzz.”

- Mall-intercept interviews
- Focus groups
- Mail-in questionnaires

An International Perspective

Doing marketing research across multiple countries can be an overwhelming challenge. In parts of Latin America, for instance, many homes don’t have telephone connections, so the results from telephone surveys could be very misleading. Door-to-door tends to be a better approach. But in parts of the Middle East, researchers could be arrested for knocking on a stranger’s door, especially if they aren’t dressed according to local standards. Because of these kinds of issues, many companies hire research firms with a strong local presence (often based in-country) to handle their international marketing research projects.

Mall-intercept interviews
Focus groups
Mail-in questionnaires

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LO6 Social Responsibility and Technology: A Major Marketing Shift

Two key factors have had a dramatic impact on marketing in the last couple of decades: a surge in the social responsibility movement, and the dramatic emergence of the Internet and digital technology. This section will cover how each factor has influenced marketing.

Marketing and Society: It’s Not Just About You!

Over the past couple of decades, the social responsibility movement has accelerated in the United States, demanding that marketers actively contribute to the needs of the broader community. Leading-edge marketers have responded by setting a higher standard in key areas such as environmentalism, abolishment of sweatshops, and involvement in the local community. Starbucks, Target, and General Electric, for instance, all publish corporate responsibility reports that evaluate the social impact of how the companies run
their businesses, and all highlight their programs on their corporate websites.

**Innovation: Unleashed!**

In today's hyper-competitive marketplace, businesses must differentiate their products from an astonishing array of alternatives. While life-changing innovation is rare, many successful products simply provide a new twist on an existing product. Examples include Go-Gurt's portable yogurt in a tube, Arrowhead's Sport Top water bottles, and Colgate's pump toothpaste dispenser.

To help you make those kinds of jumps, the game in this box uses rebus puzzles to stretch your creativity. Rebus puzzles present common words and phrases in novel orientation to each other. The goal is to determine the meaning. The puzzles are below, and the answers are at the bottom of the box.

<table>
<thead>
<tr>
<th>ARREST YOU'RE</th>
<th>HISTORY HISTORY HISTORY</th>
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<tr>
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Green Marketing

Companies employ **green marketing** when they actively promote the ecological benefits of their products. Toyota has been especially successful promoting the green benefits of its Prius (although like all carmakers, Toyota has struggled during the global financial crisis and more recently, during the Japanese earthquake and tsunami). Its strategy highlights fuel economy and performance, implying that consumers can "go green" without making any real sacrifices. Environmentally friendly fashion offers another emerging example of green marketing. Over the past few years, a number of designers have rolled out their versions of upscale ecofashion. In addition to clothing made of organic cotton, recent entries include vegan stilettos with four-inch heels, bamboo dresses, biodegradable umbrellas, and solar-powered jackets. (These jackets feature solar cells, integrated into the collar, that collect solar energy and route it to charge devices.) Green marketing items are aimed at a growing number of consumers who make purchase decisions based (at least in part) on their convictions. But reaching these consumers may be an increasing challenge in tough economic times, when low prices trump all other considerations for a growing swath of the population.
Technology and Marketing: Power to the People!

The emergence of the digital age has revolutionized every element of marketing. Perhaps the most dramatic change has been a shift in power from producers to customers. The Internet gives customers 24/7 access to information and product choices from all over the world. In response, competition has intensified as marketers strive to meet an increasingly high standard of value.

But technology has also created opportunities for marketers. The Internet has opened the door for mass customization: creating products tailored for individual consumers on a mass basis. Using sophisticated data collection and management systems, marketers can now collect detailed information about each customer, which allows them to develop one-on-one relationships and to identify high-potential new customers. Through the Web, marketers can tap into (or even create) communities of users that yield valuable information about their goods and services. Technology also helps marketers lower costs, so they can deliver greater value to their customers.

The digital boom has also created an abundance of promotional opportunities as marketers reach out to consumers via new tools, such as interactive advertising, virtual reality displays, text messaging, and video kiosks. We'll discuss these tools in more detail in Chapter 12.

The Big Picture

Since the ultimate goal of most marketing is long-term profitability, a core marketing principle must infuse every facet of a successful organization: the need to deliver products that exceed customer expectations. The customer must come first for every department—including finance, accounting, engineering, manufacturing, and human resources—although the specifics of how that plays out will clearly differ for each organizational function. Competition in the future will only intensify. Customer choices will continue to multiply as globalization and technology march forward. While these forces will weed out the weaker players, firms with a deeply engrained marketing orientation and a strong customer focus will
continue to flourish—delivering value to their stakeholders, and dollars to their bottom line.

**Careers in Marketing**

Since the marketing concept permeates every aspect of successful organizations, you won't be surprised to learn that virtually every position in business requires an understanding of basic marketing principles. Furthermore, the spectrum of marketing positions is very wide, ranging from sales, to advertising, to public relations, to brand management, to marketing research, and increasingly, social media marketing. Entry-level positions will have titles such as assistant, analyst, and coordinator, moving up to manager and director slots, and top-level positions are typically at the vice-presidential or corporate officer level. Most positions require a college degree, and many also demand an MBA. In 2010 and 2011, the starting median salary for undergraduate marketing majors was $38,600, and the median mid-career salary was $77,300. According to the Bureau of Labor Statistics, marketing management jobs are likely to increase about 13% by 2018.¹³

**What else?**

**RIP and REVIEW CARDS** IN THE BACK and visit www.cengagebrain.com!

**Marketing: Building Profitable Customer Connections: Rip and Review 11**

**LO1 Discuss the objectives, the process, and the scope of marketing**

Marketing means delivering value to your customers with the goal of satisfying their needs and achieving long-term profitability for your organization. Goods and services meet customer needs by providing “utility” (or satisfaction) on an ongoing basis. Marketing has moved well beyond the scope of traditional goods and services, to include people, places, events, and ideas. Much nontraditional marketing involves both public and private not-for-profit organizations, which measure their success in nonmonetary terms. Over the last century, marketing has evolved through a number of phases. The marketing era gave birth to the marketing concept, which is still in force today: a philosophy that customer satisfaction—now and in the future—should be the central focus of the entire organization.
LO2 Identify the role of the customer in marketing

Successful marketers always place the customer front and center, with a focus on customer relationship management: acquiring, maintaining, and growing profitable customer relationships by consistently delivering unmatched value. Effective data management and one-on-one personalization are key customer relationship tools. The result of an effective customer-first strategy is loyal customers, who may even be willing to pay more for your product.

LO3 Explain each element of marketing strategy

Marketing strategy essentially involves determining who your target audience is and how you will reach it. Choosing the right target begins with market segmentation: dividing your market into segments, or groups, of people with similar characteristics. Then you need to determine the best marketing mix—the most effective combination of product, pricing, distribution, and promotion strategies to reach your target market. Finally, you must continually monitor each element of the marketing environment to ensure that you respond quickly and effectively to change.

marketing An organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.

utility The ability of goods and services to satisfy consumer “wants.”

marketing concept A business philosophy that makes customer satisfaction—now and in the future—the central focus of the entire organization.

customer-relationship management (CRM) The ongoing process of acquiring, maintaining, and growing profitable customer relationships by delivering unmatched value.

value A customer perception that a product has a better relationship than its competitors between the cost and the benefits.

customer satisfaction When customers perceive that a good or service delivers value above and beyond their expectations.

customer loyalty When customers buy a product from the same supplier again and again—sometimes paying even more for it than they would for a competitive product.
marketing plan A formal document that defines marketing objectives and the specific strategies for achieving those objectives.

market segmentation Dividing potential customers into groups of similar people, or segments.

target market The group of people who are most likely to buy a particular product.

consumer marketers (also known as business-to-consumer or B2C) Marketers who direct their efforts toward people who are buying products for personal consumption.

business marketers (also known as business-to-business or B2B) Marketers who direct their efforts toward people who are buying products to use either directly or indirectly to produce other products.

demographic segmentation Dividing the market into smaller groups based on measurable characteristics about people, such as age, income, ethnicity, and gender.

gener geographic segmentation Dividing the market into smaller groups based on where consumers live. This process can incorporate countries, cities, or population density as key factors.

psychographic segmentation Dividing the market into smaller groups based on consumer attitudes, interests, values, and lifestyles.

behavioral segmentation Dividing the market based on how people behave toward various products. This category includes both the benefits that consumers seek from products and how consumers use the products.

marketing mix The blend of marketing strategies for product, price, distribution, and promotion.

environmental scanning The process of continually collecting information from the external marketing environment.

market share The percentage of a market controlled by a given marketer.

consumer behavior Description of how people act when they are buying, using, and discarding goods and services for their own personal consumption. Consumer behavior also explores the reasons behind people's actions.

cognitive dissonance Consumer discomfort with a purchase decision, typically for a higher-priced item.

business buyer behavior Describes how people act when they are buying products to use either directly or indirectly to produce other products.

marketing research The process of gathering, interpreting, and applying information to uncover marketing opportunities and challenges, and to make better marketing decisions.

secondary data Existing data that marketers gather or purchase for a research project.

primary data New data that marketers compile for a specific research project.

observation research Marketing research that does not require the researcher to interact with the research subject.

survey research Marketing research that requires the researcher to interact with the research subject.

green marketing The development and promotion of products with ecological benefits.

mass customization The creation of products tailored for individual consumers on a mass basis.

LO4 Describe the consumer and business decision-making process

Understanding how customers make decisions will help you meet their needs. When people buy for their own personal consumption, a number of forces influence them, including cultural, social, personal, and psychological factors. For high-risk decisions, they generally follow a decision process, but for low-risk decisions, they often just follow rules of thumb. When people buy for business, they typically are more methodical, driven by product specifications.

<table>
<thead>
<tr>
<th>INFLUENCE</th>
<th>DESCRIPTION</th>
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| CULTURAL  | *Culture*: the values, attitudes, and customs shared by members of a society  
            *Subculture*: a smaller division of the broader culture  
            *Social Class*: societal position driven largely by income and occupation |
| SOCIAL    | *Family*: a powerful force in consumption choices |
Friends: another powerful force, especially for high-profile purchases
Reference Groups: groups that give consumers a point of comparison

PERSONAL
Demographics: measurable characteristics such as age, gender, or income

PSYCHOLOGICAL
Personality: the mix of traits that determine who you are
Motivation: pressing needs that tend to generate action
Attitudes: lasting evaluations of (or feelings about) objects or ideas
Perceptions: how people select, organize, and interpret information
Learning: changes in behavior based on experience

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LO5 Discuss the key elements of marketing research

Marketing research involves gathering, interpreting, and applying information to uncover opportunities and challenges. Primary and secondary data offer complementary strengths and weaknesses. Observation research tools involve gathering data without interacting with the research subjects, while survey tools involve asking research subjects direct questions.

SECONDARY DATA:  PRIMARY DATA:
Existing Data That Marketers Gather or Purchase  New Data That Marketers Compile for the First Time
Tend to be lower cost  Tend to be more expensive
May not meet your specific needs  Customized to meet your needs
Frequently outdated  Fresh, new data
Available to your competitors  Proprietary—no one else has it
Examples: Your own surveys, focus groups, customer comments, mall interviews

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LO6 Explain the roles of social responsibility and technology in marketing

The surging social responsibility movement and dramatic advances in technology have had a significant influence on marketing. In addition to seeking long-term profitability, socially responsible marketers actively contribute to meeting the needs of the broader community. Key areas of concern include fair labor practices (especially in foreign markets), environmentalism, and involvement in local communities. The digital boom of the past decade has revolutionized marketing, shifting the balance of power from producers to consumers. The Internet has also created marketing opportunities, helping businesses realize new efficiencies, facilitating more customized service, and generating new promotional opportunities.

Footnotes


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