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Objective Outline

OBJECTIVE 1

Define marketing and outline the steps in the marketing process.
What Is Marketing? (4–5)

OBJECTIVE 2

Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.
Understanding the Marketplace and Customer Needs (6–10)

OBJECTIVE 3

Identify the key elements of a customer value–driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.
Designing a Customer Value–Driven Marketing Strategy (10–15)

OBJECTIVE 4

Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return.
Managing Customer Relationships and Capturing Customer Value (16–22)

OBJECTIVE 5

Describe the major trends and forces that are changing the marketing landscape in this age of relationships.
The Changing Marketing Landscape (22–29)

Chapter Preview

This first chapter introduces you to the basic concepts of marketing. We start with what marketing is. Simply put, marketing is engaging customers and managing profitable customer relationships. Its aim is to create value for customers in order to capture value from customers in return. Next, we discuss the five steps in the marketing process, from understanding customer needs, to designing customer value-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 digital, mobile, and social media. Understanding these basic concepts will provide a solid foundation for all that follows.

Let's start with Hema Supermarket, Alibaba's game changer that promises to reinvent the traditional supermarket and bring online to offline retailing.

Marketing: Managing Profitable Customer Relationships

Hema Supermarkets: The New Retail Model

“We believe the future of New Retail will be a harmonious integration of online and offline,” Daniel Zhang, Chairman and CEO of Alibaba Group, said in 2017, at the launch of three Hema stores in Beijing and Shanghai. This was a reaffirmation of Alibaba's founder Jack Ma's vision of “new retail,” a strategy that blends online and offline shopping. Hema, an Alibaba supermarket chain, is the embodiment of this vision.

Established in 2015 to both reinvent the traditional supermarket and go after the large number of Chinese consumers who still shop offline, Hema is a game changer from the ground up. Locally managed supermarket chains in China typically have rude employees, wilting

vegetables, and harsh lighting. Hema, by contrast, is customer-centric. Its layout is simple to navigate. The name Hema Xiansheng means “hippo” (Hema) and “packaged freshness and liveness” (Xiansheng); the latter resonates with Chinese customers, who have an obsession for fresh produce.

Hema is more than just a supermarket. For example, it has in-house restaurants where shoppers can select live seafood such as lobsters, near the entrance where they start their shopping, and have it cooked and ready for them to eat in the restaurant by the time they have completed all their purchases. This concept resonates with Chinese shoppers because fresh food is so important to them.

If shoppers don't want to eat at the restaurant, they can have the food prepared by Hema's chefs and delivered to their homes within 30 minutes. They can also choose to have it cooked for takeaway or delivered to their office (if it is located nearby).



Together with personal information of the customer, Hema uses big data to plan delivery routes using a smart supply-chain management system. Shoppers can also trace each product's origin and track delivery.



In line with its freshness concept, Hema sells products in smaller packages—5 bananas per bunch instead of 10, for example—to reduce spoilage. Most of the fresh products also come with a short expiration date. This model contrasts with that adopted by Costco, which encourages customers to buy in bulk and visit the store less frequently. For Hema, the store is a showcase for its online products.

The integration between offline and online is all-pervasive at Hema. Every item is barcoded so that customers can scan each one using their smartphone to learn its price and product information, including its origin and any guarantee of quality it may have. Customers complete their purchase through Alipay, Alibaba's e-payment app, at a checkout register before leaving the store. Alternatively, they can also check out through a facial recognition kiosk that scans their face and links them to their Alipay account. In both cases, the goal is to drive offline customers to shop online.

And it seems to have worked. By 2017, two years after the first Hema supermarket was opened, online delivery orders were accounting for 50 percent of its total orders. For more established stores, online orders accounted for 70 percent of total sales. This compares remarkably well to McDonald's, the restaurant with the best online conversion (transforming site visitors into paying customers), at 30 percent of all orders done

online. Among shoppers who have used the Hema app, the conversion rate for making a purchase is as high as 35 percent. With more online sales, Hema's revenue per square meter is three to five times higher than that of a traditional supermarket.

But beyond the ease in ordering, the scan-abled barcode has turned Chinese shoppers into grocery connoisseurs. Instant information about the source or origin of a product has helped reverse some of the mistrust arising from the food scares over tainted milk powder, while additional content such as recipe ideas for unusual seafood dishes has done more than just push shoppers to share pictures of their culinary adventures on WeChat and Weibo; such content encourages them to explore new culinary adventures—even new lifestyles. Hema taps into the drive for social media-sharing, where being in the know, ahead of others, and becoming an opinion leader are akin to social advancement.

The fresh produce and the shopping-cum-dining experience may be the most visible benefits to customers, but there are others arising from online-offline integration that Hema can leverage to great effect. Analytics, for one. Because customers do their shopping through the Hema mobile app, every purchase is recorded and each preference saved. Using big data analytics, Hema draws on each customer's purchase preferences to make personalized recommendations through the app. It also provides a data-driven selection of fresh food to customers based on their locations. By focusing on providing an on-demand experience, Hema makes its offerings relevant to shoppers.

Hema's fulfillment model allows it to deliver orders within a three-kilometer radius within half an hour of an order being placed. Its stores double as warehouses; order-fulfillment specialists with scanners in hand retrieve the ordered goods from the supermarket shelves. They scan and pack the goods, then place them in bags on a conveyer belt that carries orders to a delivery center adjacent to the store.¹

Today's successful companies have one thing in common: They are strongly customer-focused and heavily committed to marketing. They are passionate about satisfying customer needs. They motivate everyone in the organization to help build lasting customer relationships based on creating value.

But with dramatic technological advances and economic, social, and environmental challenges, today's customers are reassessing how they engage with brands. Digital, mobile, and social media developments have revolutionized how consumers shop and interact. Marketing strategies and tactics will need to adapt. It's important to build strong customer engagement, relationships, and advocacy based on meaningful and enduring customer value.

First, let's introduce the basics of marketing.

What Is Marketing?

Marketing deals with customers. It is about *managing profitable customer relationships*. The twofold goal of marketing is to attract new customers by promising superior value and keep and grow current customers by delivering satisfaction.

For example, Hema Supermarket surges ahead of local supermarkets because it meets the needs of Chinese consumers who are concerned with freshness and want the convenience of e-commerce, and it does so by integrating offline with online. Car-hailing app Grab is successful in many parts of Southeast Asia because it understands that passengers want a secure ride home while drivers want to earn money by sharing their cars when they are not using them for personal purposes.

Sound marketing is critical to the success of every business. Large for-profit firms such as Unilever, Google, Toyota, and Shangri-La Hotel use marketing. But so do not-for-profit organizations such as colleges, hospitals, museums, and even religious institutions.

Marketing is all around you. You see it in products at your nearby shopping mall and the ads that fill your computer or mobile phone screen whenever you do a search or watch a video on YouTube or TikTok. Marketers want to become a part of your life and enrich your experiences with their brands—to help you *live* their brands.

Yet, there is much more to marketing than meets the consumer’s eye. This book will give you an introduction to the basic concepts and practices of today’s marketing. In this chapter, we begin by defining marketing and the marketing process.



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› Marketing is all around you

you—Marketing is at work even in wet markets in China. Vendors use e-payment apps such as WeChatPay and Alipay so that customers scan their purchases without the need for physical cash payments.

Marketing Defined

What *is* marketing? Marketing is more than selling and advertising. It involves *satisfying customer needs*. The marketer needs to understand consumer needs, develop products and services that provide superior customer value, and price, distribute, and promote them effectively. Hence, **marketing** is the process by which companies engage customers, build strong customer relationships, and create customer value in order to capture value from customers in return.²

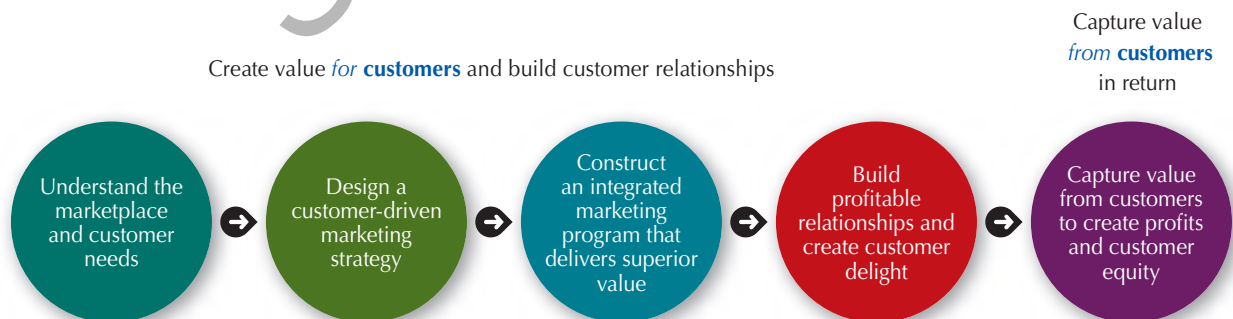


Marketing

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

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.



► **FIGURE 1.1**

The Marketing Process: Creating and Capturing Customer Value.

In this and the next chapter, we will examine each of these steps. In this chapter, we will focus on the customer relationship steps—understanding customers, building customer relationships, and capturing value from customers. In Chapter 2, we’ll discuss the second and third steps—designing marketing strategies and constructing marketing programs.

Understanding the Marketplace and Customer Needs

As a first step, marketers need to understand customer needs and wants, and the marketplace within which they operate. We will discuss five core customer and marketplace concepts:

- Customer needs, wants, and demands
- Marketing offerings (products, services, and experiences)
- Customer values and satisfaction
- Exchanges and relationships
- Markets

Customer Needs, Wants, and Demands

The most basic concept underlying marketing is that of human needs. Human **needs** are states of felt deprivation. They include basic *physical* needs for food, clothing, warmth, and safety; *social* needs for belonging and affection; and *individual* needs for knowledge and self-expression. For instance, in China, as people become increasingly cash-rich and time-poor, they need products that offer convenience without any compromise to health.³ During the global coronavirus pandemic, there was a physical need for surgical masks and for people to practice social distancing to remain safe and healthy.

Wants are the form human needs take as they are shaped by culture and individual personality. An American *needs* food but *wants* a Big Mac, French fries, and a soft drink. A person in Japan *needs* food but *wants* rice, sashimi, and green tea. Wants are shaped by one's society and are described in terms of objects that will satisfy needs. When backed by buying power, wants become **demands**. Given their wants and resources, people demand products with benefits that add up to the most value and satisfaction. Here's an example of how the sharing economy and e-commerce serve the needs and wants of Asian consumers:

Sharing Economy and E-commerce—For many consumers in Asian countries, traffic jams are an all-too-common hindrance to the enjoyment of many services. E-commerce is now changing all of that, with motorcycle-hailing platforms and delivery services fulfilling more and more customer needs and wants. Indonesia-based Go-Jek, for example, is a ride-hailing platform that links clients to service providers. Besides its core service of transportation, it also offers services ranging from house-cleaning, to ironing clothes, to giving massages in the comfort of clients' homes. Its Go-Glam platform, for instance, offers grooming services such as haircuts, make-up sessions, and manicures. Clients book a beautician and pay a small deposit online; the beautician, as a Go-Jek partner, brings her make-up services to the clients' home. Hence, the platform helps small businesses grow and build their customer base. Go-Jek's founder, Nadiem Makarim, says, "Being locally focused really got us to understand customers very well. Understanding the market really makes a difference." In China, Baidu Waimai has delivery riders who pick up orders from restaurants and bring them to

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.

hungry office-goers who are too busy to leave the workplace for lunch. They also deliver fresh produce like raw pork. China's online food business has grown by 85 percent in two years, with sales revenue more than double that of the United States' online food delivery market. E-commerce is growing in India too. More than 400 million Indians are already online, with 25 million more Internet users added each year. Flipkart, India's e-commerce Web site, employs couriers or "wishmasters" who navigate the traffic on motorbikes to make some 150 deliveries per person each day.⁴

Companies learn about and understand customer needs, wants, and demands by conducting consumer research, analyzing customer data, and observing customers as they shop and interact, on- and offline. For instance, Lenovo used to come up with a product and then sell it to customers, but it has now changed the way it works: it listens to customers first before coming up with a product so that it delivers customer value for customer satisfaction. One of the key inputs during the development of its Smart Assistant was that 86 percent of its customers felt that "voice adds value," and they just want to talk to the device without having to type. For its gaming laptops under the Legion line, Lenovo has its own dedicated gaming community that tells it what gamers look for—even the name "Legion" came from a suggestion by this community.⁵

Market Offerings—Products, Services, and Experiences

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

Many sellers mistakenly pay more attention to the products they offer than to the benefits and experiences associated with these products. These sellers suffer from **marketing myopia**. They are so focused on the physical product and existing wants that they lose sight of underlying customer needs.⁶ They forget that a product is only a tool to solve a consumer problem. A manufacturer of drill bits may think that the customer needs a drill bit. But what the customer *really* needs is a 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. **Figure 1.2** summarizes how to avoid marketing myopia.



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

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

FIGURE 1.2
Avoiding Marketing Myopia.

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, Shanghai Disneyland is an experience; so is a stay at the Banyan Tree Resorts. And you don't just watch the *Running Man* (a popular Korean variety show); you immerse yourself in the *Running Man* experience and cheer and laugh with the hosts.

Running Man—South Korean variety show *Running Man* is popular domestically as well as internationally. It stars nine MCs who compete in refreshingly creative games that keep the audience on edge. The cast has great chemistry together, and their close friendship shows in the roles they play in the variety show. Each has a distinct but relatable personality. Some hosts always seem to have bad luck on their side and regularly lose the games they play, but they are good-natured about it, which endears them all the more to the show's audience. Celebrities are also invited to take part in the games with the MCs. When *Mission Impossible: Fallout* was launched, its stars—Tom Cruise, Henry Cavill, and Simon Pegg—were invited as guests on the show and took part in the games. But stripped of the games, it is the camaraderie among the hosts that make the show a success and give audience an enjoyable viewing experience.

Customer Value and Satisfaction

Consumers face a variety of products and services that might satisfy a given need. How do they choose among these 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; while dissatisfied customers often switch to competitors and complain about the product to others. The following example discusses the popularity of an all-Asian-cast movie:

Crazy Rich Asians—Based on Kevin Kwan's best-selling book of the same name and made with a production budget of \$30 million, *Crazy Rich Asians* was the first Hollywood movie with an all-Asian cast in 25 years since *The Joy Luck Club*. In traditional American media, Asian characters are frequently stereotyped as meek and are given little to say. They're often portrayed as victims of bullying, romantically inept, or geeks with a penchant for mathematics. The cast of this romantic comedy, by contrast, played a variety of character types and firmly dispelled the "quiet Asian" stereotype. Featuring a rich Singaporean family and set in the Lion City, the movie offered a window into how the ultrarich Asians live—private jets and yachts—and the lengths to which grandmothers, mothers, and aunts go to fiercely protect their family. People liked what they saw, and word-of-mouth spread quickly, making it the No. 1 box office hit for three weeks running. It had been pegged by box-office experts as a minor hit at best, tracked to open at around \$18 million over five days. But the romantic comedy nearly doubled that early prediction, making \$35.2 million in its opening weekend and showing impressive staying power over the following week, crossing the \$50 million line in just its ninth day of release. In other words, positive buzz made it a *bona fide* triumph, especially in light of competition from home-streaming options.⁷



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› **Customer value and satisfaction**—The movie *Crazy Rich Asians* was popular because it broke the stereotype that Asians are quiet and geeky. By showing different Asian personalities while staying true to nuanced Asian characteristics, the movie satisfied cinemagoers and added value to their movie experience.

Exchanges and Relationships

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. A political candidate, for instance, wants votes; a Web site wants more visits; 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. Beyond attracting new customers and creating transactions, marketers also want to retain customers and grow their business by consistently delivering superior customer value.

Markets

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

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

Consumers are also involved when they search for products, interact with companies to obtain information, and make their purchases. Web sites, online social networks, and mobile phones have empowered consumers and made marketing a truly interactive affair. Marketers must now deal effectively with *customer-managed relationships*. They are no longer only asking “How can we reach our customers?” but also “How should our customers reach us?” and even “How can our customers reach each other?”

Figure 1.3 shows the main elements in a modern marketing system. Marketing involves serving a market of final customers in the face of competition. The company and their competitors send their respective offers and messages to customers. These are affected by major environmental forces (demographic, economic, physical, technological, political/legal, and social/cultural).



Exchange

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



Market

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

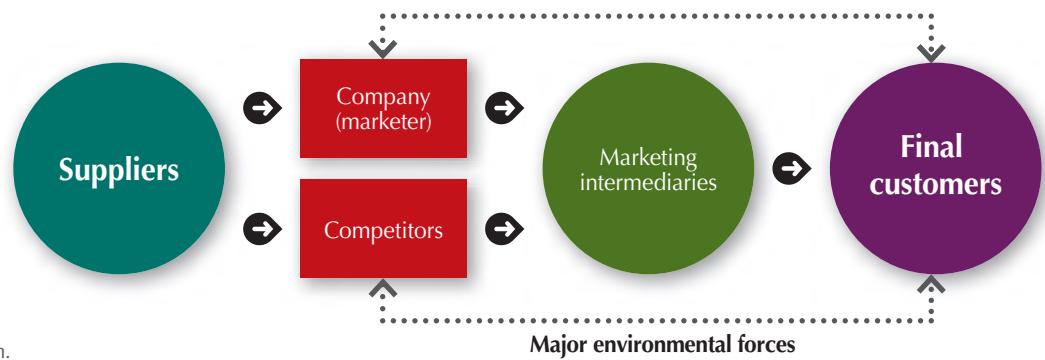


FIGURE 1.3
A Modern Marketing System.

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 customers. Toyota cannot deliver high quality to car buyers unless its dealers provide outstanding sales and service.

Designing a Customer Value–Driven Marketing Strategy

Customer Value–Driven Marketing Strategy

Once it fully understands customers and the marketplace, marketing management can design a customer-driven marketing strategy. **Marketing management** is the art and science of choosing target markets and building profitable relationships with them. The marketer'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)?
- How can we serve these customers best (what's our value proposition)?

Selecting Customers to Serve

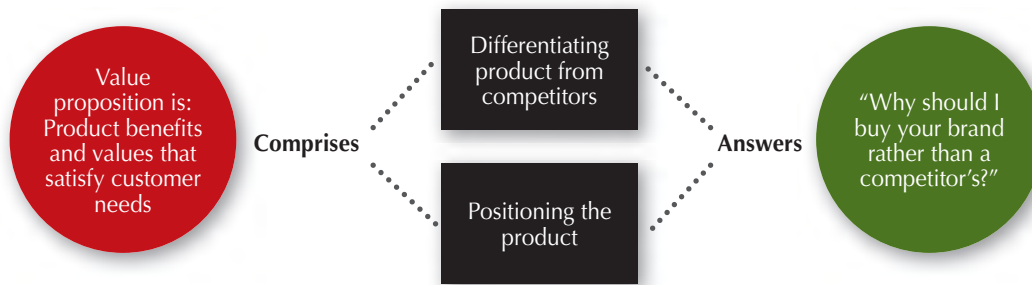
The company must first decide *who* it will serve. It does this by dividing the market into segments of customers (*market segmentation*) and selecting which segments it will go after (*target marketing*). Marketers know that they cannot serve all customers in every way. By trying to serve all customers, they may not serve any customer well. Instead, the company wants to select only customers that it can serve well and profitably. For example, the Mandarin Oriental Hotel profitably targets affluent professionals, while Holiday Inn targets families with more modest means.

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

Choosing a Value Proposition

The company must also decide how it will serve targeted customers—how it will *differentiate* and *position* itself in the marketplace. A company's *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs (see **Figure 1.4**). For example, Subaru provides safety: "Air bags save lives. All-wheel drive saves air bags. It's what makes a Subaru a Subaru." Red Bull, the energy drink, has captured 70 percent of the energy drinks market with the promise that "It gives you wiiings!" and helps fight mental and physical fatigue.

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



► FIGURE 1.4
What Is a Value Proposition?

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. **Real Marketing 1.1** discusses the value proposition behind the success of *Pokémon Go*.

Marketing Management Orientations

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

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

The Production Concept. The **production concept** holds that consumers will favor products that are available and highly affordable. Therefore, management should focus on improving production and distribution efficiency. The production concept is a useful philosophy in some situations. For example, both personal computer maker Lenovo and home appliance maker Haier dominate the highly competitive, price-sensitive Chinese market through low labor costs, high production efficiency, and mass distribution. However, although useful in some situations, the production concept can lead to marketing short-sightedness. Companies run the 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. The **product concept** holds that consumers will favor products that offer the most in quality, performance, and innovative features. Under this concept, marketing strategy focuses on making continuous product improvements to the extent that focusing *only* on the company's products can also lead to marketing myopia. For example, some manufacturers believe that if they can "build a better mousetrap, the world will beat a path to their door." But buyers may not necessarily want a better mousetrap. The better solution might be an exterminating service or something that works better than a mousetrap. Further, a better mousetrap will not sell unless the manufacturer designs, packages, and prices it attractively; sells it at conveniently located retail shops; and brings it to the attention of people through communication such as advertisements.

The Selling Concept. Many companies follow the **selling concept**, which holds that consumers will not buy enough of the firm's products unless it undertakes hard selling and promotion efforts. The concept is typically practiced with unsought goods—those that buyers do not normally think of buying, such as insurance. 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 wrongly assumes that customers who are coaxed into buying the product



Production concept

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

Product concept

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



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.

Real Marketing 1.1

Pokémon Go: Ready, Set, Go

Pokémon Go, an augmented reality (AR) mobile game, achieved phenomenal success within a short period of its launch. Within two weeks, *Pokémon Go* went viral, with more than 20 million active players and a revenue upwards of \$1.6 million per day. The location-based game surpassed the number of daily users on Twitter and even became more popular than Tinder, a dating app. *Pokémon Go* players also spent more time on the game than they did on Facebook.

The gameplay of *Pokémon Go* involves moving around in the real world to catch the titular creatures, acquiring supplies, and training or battling other players. It was so immersive that a man in Taiwan who was introduced to the game by his grandson reportedly rigged his bike with 11 phones to play the game, spending more than \$330 a month to fund his habit and play up to 20 continuous hours chasing the virtual creatures until his phone batteries died. There have been reports of players quitting their jobs and even trespassing on private property, all in the name of the game.

Why is *Pokémon Go* so popular? What is its value proposition? The traditional Pokémon games take place in a virtual world inhabited by creatures that look like birds, fish, dragons, and rats, and the goal is to collect all of them. Now step into the shoes of a Pokémon fan and imagine their wildest dreams come true: What if Pokémon were not limited to the virtual world? What if they actually inhabited our world, and we could all be Ash, the franchise's star trainer?

By using AR, where actions in the real world translate to virtual gains, *Pokémon Go* fulfills the strong but basic desire of consumers to realize their dreams. Being among the first of its kind gave the AR game the further appeal of novelty.

The type of Pokémon a player encounters varies by type of location (parks or oceans) and time (day or night). Some locations are designated as Pokéstops, where players can collect rewards such as Pokéballs; others are designated as gyms, where users battle each other. These features add considerable depth to the game and allow players to further immerse themselves in this fantasy made real by AR. This broadens the appeal of *Pokémon Go* to a segment larger than that of traditional gamers.

To enhance its value proposition, there is an element of competition too, as players race to collect all 151 Pokémon in the game. However, there is more to player interaction than competition. *Pokémon Go*'s less-than-intuitive user interface has unexpectedly encouraged players to learn from one another on how best to play the game, inadvertently fostering a community. Players have also gathered at physical locations to catch Pokémon, socializing and bonding over the game in the process of trying to catch them all.

The *Pokémon Go* Community Day was introduced as a regular event to encourage players to join games together worldwide. Designed to get people out and playing together at a certain time, each limited-time event features Pokémon with a unique and exclusive move that spawns for three hours, adding to the excitement of local events and meetups.

Small businesses have also leveraged the game as a way to attract customers. For example, many have purchased Lure, an in-game item that attracts Pokémon to a physical location, to drive footfall. Other examples include advertising which Pokémon can be found in the vicinity of the business and capitalizing on proximity to a Pokéstop or Gym. For its part, *Pokémon Go* has introduced several other items that can be purchased with real money as a means to monetize the product.



Liubomir Paut-Fluerasu/Alamy Stock Photo

▶ **A winning value proposition**—*Pokémon Go* went viral immediately after it was launched because it excited people with its value proposition of capturing creatures through augmented reality—not just in the virtual world but also in the real world.

Sources

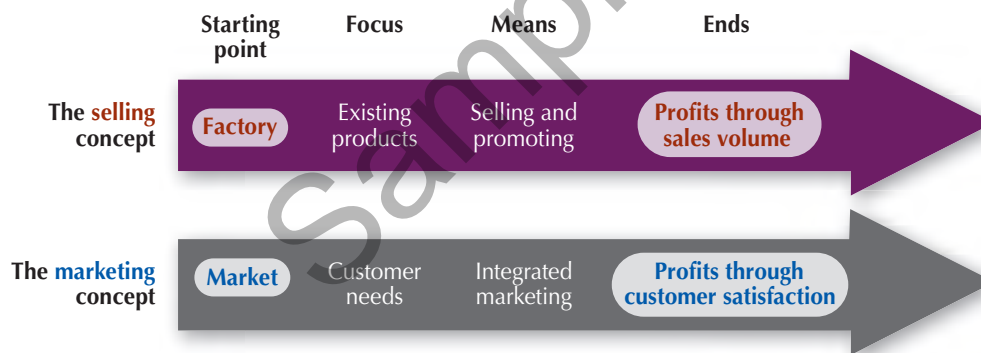
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[heres-why-everyone-is-obsessed-according-to-a-lifelong-pokemon](http://www.bustle.com/articles/171956-why-is-pokemon-go-so-popular-heres-why-everyone-is-obsessed-according-to-a-lifelong-pokemon-fan), 15 July 2016; Darrell Etherington, "Pokemon Go Has an Estimated 7.5M U.S. Downloads, \$1.6M in Daily Revenue," www.techcrunch.com/2016/07/11/pokemon-go-daily-revenue-downloads/, 12 July 2016; Kaitlyn Ulrich, "Grandpa Tricks Out Bike with 11 Phones to Play Pokemon Go," <https://www.altpress.com/news/grandpa-rigs-bike-for-pokemon-go/>, 12 August 2018.

will like it. Or, if they don't like it, that they will possibly forget their disappointment and buy it again later.

The Marketing Concept. The **marketing concept** holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do. Under the marketing concept, customer focus and value are the *paths* to sales and profits. Instead of a product-centered "make and sell" philosophy, the marketing concept is a customer-centered "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. McDonald's, for instance, customized its menu to suit Chinese taste buds in China with green pea pies and rice burgers⁸ and non-beef vegetarian burgers in India as these products appeal to the respective markets.

Figure 1.5 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 getting short-term sales with little concern about who buys or why.



Marketing concept

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

FIGURE 1.5
Selling and Marketing Concepts Contrasted.

Implementing the marketing concept often means more than responding to customers' stated desires and obvious needs. *Customer-driven* companies research deeply on customers 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 and services such as mobile phones, notebook computers, 24-hour online buying, and satellite navigation systems in their cars? Such situations call for *customer-driving* marketing—understanding customer needs even better than customers themselves do and creating products and services that meet existing and latent needs, now and in the future. **Figure 1.6** contrasts customer-driven and customer-driving marketing.

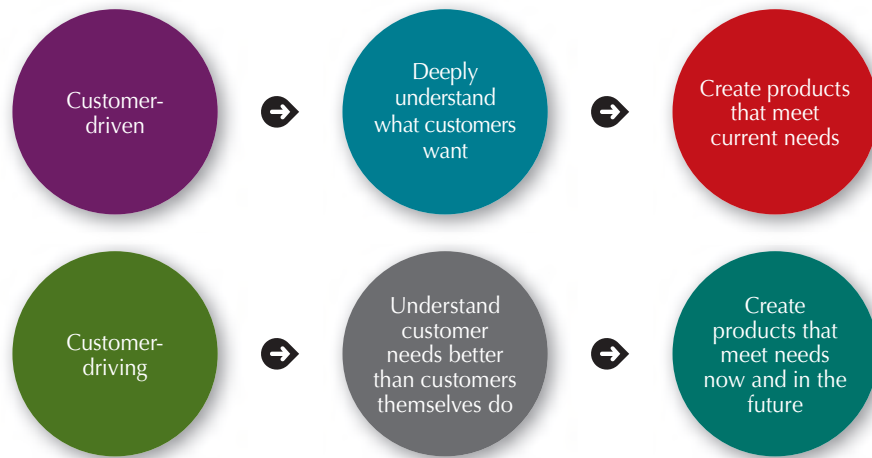


FIGURE 1.6
Customer-driven versus
Customer-driving.



Societal marketing concept

A principle of enlightened marketing that holds that a company should make marketing decisions by considering consumers' wants, the company's requirements, consumers' long-run interests, and society's long-run interests.

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 doing what's best for consumers in the long run? The societal marketing concept holds that the marketing strategy should deliver value to customers in a way that maintains or improves both the consumer's *and* society's well-being. It calls for socially and environmentally responsible marketing that meets the needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.

The concept of shared value, which recognizes that societal needs, not just economic needs, define a market, is becoming popular.⁹ Shared value focuses on creating economic value in a way that also creates value for society. Companies such as Unilever and Nestlé are rethinking the interactions between society and corporate performance. They are concerned not just with short-term economic gains but with the well-being of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers, and the economic well-being of the communities in which they operate. Here's an example from Unilever's Lifebuoy:

➤ **Social marketing**—Lifebuoy embeds a social cause into its mission: to educate people and save lives through effective sanitation.

Lifebuoy—Unilever's health soap Lifebuoy puts its social purpose at the heart of its innovation and engagement with consumers. More than 2.5 billion people still lack effective sanitation, good hygiene, and safe drinking water. Worldwide, one child dies from diarrhea or pneumonia every 15 seconds, amounting to 2.1 million deaths a year. To help eradicate preventable deaths due to such diseases and save children's lives, Lifebuoy created the "Help a Child Reach 5" campaign to teach life-saving handwashing habits to the public. The campaign was launched in several countries, including Bangladesh, India, Indonesia, Malaysia, Pakistan, and Vietnam. Among the villages targeted in India was Thesgora, which had one of the highest rates of diarrhea. Based on expert studies that show washing hands with soap at critical moments during the day can significantly reduce the



Muhammad ZA/Shutterstock

incidence of disease, its Indian campaign ran a series of ads that urged people to wash their hands five times a day—before each meal, after going to the toilet, and while bathing—and explained that 99.9 percent of germs are killed within 10 seconds of handwashing with soap. A two-prong approach was used: First, Lifebuoy worked with schools and used child-friendly materials including comics, songs, games, and rewards to encourage children to start and sustain a handwashing regime. Second, it targeted new mothers, because they found that 42 percent of deaths that strike children under five years of age occur during the first 28 days after birth. Additionally, it released a film titled *Gondappa* (<http://www.youtube.com/helpchildrenreach5>), which became very popular and racked up over 19 million views. It quickly became known as the “non-ad” film, surprising the many YouTube viewers expecting to see another run-of-the-mill advertisement before the start of their chosen video. Lifebuoy’s campaign reached more than 45 million Indians, and globally, the campaign impacted more than 183 million people.¹⁰

As **Figure 1.7** shows, companies should balance company profits, consumer wants, and society’s interests when developing marketing strategies.

Preparing an Integrated Marketing Plan and Program

The company’s marketing strategy outlines which customers the company will serve and how it will create value for these customers. Next, the marketer develops an integrated marketing program that delivers 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 do the following:

- Create a need-satisfying market offering (product)
- Decide how much it will charge for the offer (price)
- Decide how it will make the offer available to target customers (place)
- Communicate with target customers about the offer and persuade them of its merits (promotion)

The firm must blend these marketing mix tools into a comprehensive, *integrated marketing program* that communicates and delivers the intended value to customers.

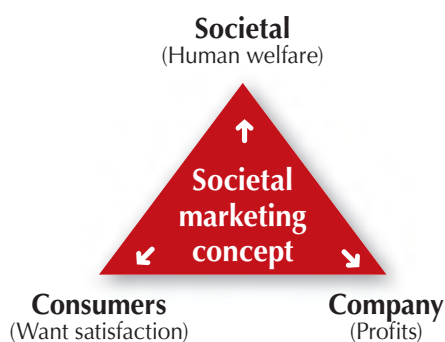


FIGURE 1.7
Three Considerations Underlying the Societal Marketing Concept.

Managing Customer Relationships and Capturing Customer Value

Engaging Customers and Managing Customer Relationships

The first three steps in the marketing process—understanding the marketplace and customer needs, designing a customer-driven marketing strategy, and constructing marketing programs—lead up to the fourth and most important step: engaging customers and managing profitable customer relationships.

Customer Relationship Management

Customer relationship management (CRM) is perhaps the most important concept of modern marketing. More than managing detailed information about individual customers and managing customer “touch points” to maximize customer loyalty, **customer relationship management** involves building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. It deals with acquiring, keeping, and growing customers.

Relationship Building Blocks: Customer Value and Satisfaction. The key to building lasting customer relationships is to create superior customer value and satisfaction. Satisfied customers are more likely to be loyal customers who give the company a larger share of their business.

Customers often have many products and services to choose from. A customer buys from the firm that offers the highest **customer-perceived value**—the customer’s evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers. **Figure 1.8** shows a customer’s perception of value. Below is an example of customer-perceived value:

Toyota Prius—There are a number of benefits to be gained from buying hybrid cars. The most obvious one is fuel efficiency, but those who purchase a Prius may gain status and image values too—driving a Prius does give the owner the appearance of being more environmentally responsible. When deciding whether to purchase a Prius, customers will weigh these and other perceived values of owning such a car against the money,

effort, and psychological costs of acquiring it. Moreover, they will compare the value of owning a Prius against that of owning another hybrid or non-hybrid brand, and they will select the brand that gives them the greatest perceived value. To enhance this value, Toyota redesigned its hybrid vehicle Web site to let owners create profiles similar to those found on social networking sites. Users can view other owners’ profiles, share their reasons for driving a hybrid, and provide statistics about themselves and their vehicles. There’s also a petrol-savings calculator and an interactive distance map that charts how much further Toyota

Customer relationship management

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

Customer-perceived value

The customer’s evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers.

Customer-perceived value

—A Toyota Prius costs a lot. But to a Prius customer, it’s a small price to pay for the value of owning one.



Alfo Co. Ltd./Alamy Stock Photo

hybrid vehicles travel compared to ordinary cars. Toyota feels that their hybrid owners are passionate about their vehicles and the reasons they drive them; the community site taps into this excitement by letting users visually represent themselves through graphic art and video.¹¹

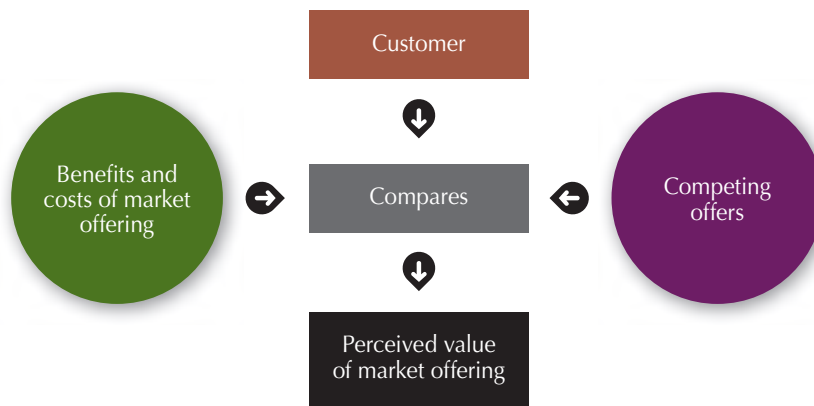


FIGURE 1.8
Customer-perceived Value.

Customers are often unable to judge product values and costs accurately or objectively. They act on *perceived* value. For example, is the Prius really the most economical choice? In reality, it might take years to save enough in reduced fuel costs to offset the car's higher price. However, Prius buyers perceive that they are getting real value. A survey showed that the Prius was rated as most “delightful” in terms of fuel economy, and that Prius owners perceived more overall value for their money than buyers of any other hybrid car.¹²

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.

For example, some Japanese department store chains have fallen short of expectations and are losing favor among the Japanese, who now prefer specialty shops offering quality products at lower prices. Previously, department stores were noted for selling luxury goods and known for their refined service. Gift-giving is a common Japanese custom, and the gifts come in the distinctive wrapping paper of well-known department stores. However, the long recession and the COVID-19 pandemic have made cash-strapped consumers seek more value-for-money purchases in specialty stores instead.¹³

Outstanding marketing companies go out of their way to keep important customers satisfied. Most studies show that higher levels of customer satisfaction lead to greater customer loyalty, which in turn results in better company performance. Smart companies aim to *delight* customers by promising only what they can deliver, then delivering *more* than they promise. Delighted customers not only make repeat purchases, they become “customer evangelists” who tell others about their good experiences with the product.

To demonstrate the importance of understanding its customers, Honda has a manager of customer understanding. Its online Customer Relationship Management (CRM) serves as a research tool for giving instant feedback on key issues important to its customers. Called “Honda Friends,” registered customers are sent short surveys asking for their opinions on their experiences with Honda. The surveys are sent out at least once a year but no more than once a month.¹⁴

Delighting customers with exceptional value and service is more than a set of policies or actions—it is a company-wide attitude, an important part of the overall company culture.

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



Customer satisfaction

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

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.

Customer Relationship Levels and Tools. Companies can build customer relationships at many levels. At one extreme, a company with many low-margin customers may seek to develop *basic relationships* with them. For example, Procter & Gamble creates relationships through brand-building advertising, sales promotions, and a Web site. At the other extreme, in markets with few customers and high margins, sellers want to create *full partnerships* with key customers. Its customer teams work closely with its large retailers. In between these two extreme situations, 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 consumers. For example, many companies offer *frequency marketing programs* that reward customers who buy frequently or in large amounts. Airlines offer frequent-flyer programs and hotels give room upgrades to their frequent guests. Here's what Cathay Pacific has done to its loyalty program:

Cathay Pacific—Hong Kong's Cathay Pacific changed its loyalty program to track airfares instead of distance traveled. Facing aggressive competition from mainland Chinese carriers and Middle Eastern rivals, Cathay seeks to be more competitive by increasing revenue and cutting costs. Based on customer feedback and analysis of other airline, hotel, and retail loyalty programs, Cathay developed Asia Miles as a hybrid award program involving airfare type, travel class, and distance. It also offers 20 percent more award seats than before.¹⁵

Customer Engagement and Today's Digital and Social Media

The digital age offers new customer relationship-building tools, including online ads and videos, mobile ads and apps, and social media.

Today's companies are using online, mobile, and social media to refine their targeting and to engage customers more deeply and interactively. For instance, Starbucks has big plans for China but faces competition from Nestlé and other foreign food chains. To better cater to its Chinese customers, Starbucks has set up mobile payments as well as mobile ordering and delivery in the country. Since then, most transactions in its Chinese stores have been through mobile payment.

Previously, marketing was brand-based. Now, marketing involves customer engagement—fostering direct and continuous customer involvement in shaping brand conversations, brand experiences, and brand community. Customer-engagement marketing goes beyond just selling a brand to consumers; its goal is to make the brand a meaningful part of consumers' conversations and lives.

KFC—In China, where the cashless wallet payment is popular, KFC is using it to its advantage. Yum China, which owns KFC outlets in the country, wants to attract a younger generation of consumers. It also wants such e-payments to be safe for its customers. In its Hangzhou outlet, customers can use the Smile-to-Pay facial recognition system to pay for their meals. In a tie-up with Ant Financial, a subsidiary of Alibaba Group behind the facial recognition software, diners can pay by scanning their faces at an ordering kiosk and entering a phone number, which is meant to prevent people from cheating. The machine compares customers' faces with the verified picture on their Alipay account

to make the payment. According to Jidong Chen, Ant's director of biometric identification technology, "Combined with a 3D camera and liveness detection algorithm, Smile-to-Pay can effectively block spoofing attempts using other people's photos or video recordings, and ensure account safety."¹⁶

The Internet and social media have given a huge boost to customer-engagement marketing. Consumers are now better informed, more connected, and more empowered. Newly empowered consumers have more information about brands, and they have a wealth of digital platforms for airing and sharing their brand views with others. Thus, marketers are embracing not only customer relationship management but also customer-managed relationships, in which customers connect with companies and with each other to help build and share their own brand experiences.

Greater consumer empowerment means that companies can no longer rely on marketing by intrusion. Instead, they must practice marketing by attraction—creating market offerings and messages that engage consumers rather than interrupt them. Hence, most marketers combine their mass-media marketing efforts with a rich mix of online, mobile, and social media marketing that promotes brand-consumer engagement, brand conversations, and brand advocacy among customers. They post their ads on social media sites, hoping they'll go viral. They launch microsites and consumer-generated review systems to engage customers on a more personal, interactive level. Skilled use of social media can get consumers involved with a brand, talking about it, and advocating it to others.

The key to engagement marketing is to find ways to enter targeted consumers' conversations with engaging and relevant brand messages. This means posts that are relevant to targeted consumers' lives and interactions.

Consumer-Generated Marketing

One form of customer-engagement marketing is **consumer-generated marketing**, by which consumers themselves are playing a bigger role in shaping their own brand experiences and those of others. 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 set up a Facebook app to obtain consumer suggestions for a new flavor, promising to manufacture and sell the winner. The new flavor—Connect (black cherry-lime with vitamins and a kick of caffeine)—was a big hit. Vitaminwater also doubled its Facebook fan base to more than 1 million.

Other companies are inviting customers to play an active role in shaping ads. In Japan, Nike ran contests for consumer-generated commercials and aired a combination of these.

However, harnessing consumer-generated content can be a time-consuming and costly process. When Heinz invited consumers to submit homemade ads for its ketchup on its YouTube page, it ended up sifting through more than 8,000 entries of varying quality.

As consumers become more connected and empowered, and as the boom in digital and social media technologies continues, consumer brand engagement will be an increasingly important marketing force. Consider what China's largest search engine did:

Baidu—It started as an April Fools' Day joke. Against the backdrop of China's many food scandals, its largest search engine, Baidu, published a fake advertisement for a set of chopsticks that can



Consumer-generated marketing

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