chapter 1

Marketing in a Changing World: Creating Customer Value and Satisfaction

ROAD MAP:

Previewing the Concepts

Fasten your seat belt! You're about to begin an exciting journey toward learning about marketing. To start you off in the right direction, we'll first define marketing and its key concepts. Then, you'll visit the various philosophies that guide marketing management and the challenges marketing faces as we move into the new millennium. The goal of marketing is to create profitable customer relationships by delivering superior value to customers. Understanding these basic concepts, and forming your own ideas about what they really mean to you, will give you a solid foundation for all that follows.

► **After studying this chapter, you should be able to**

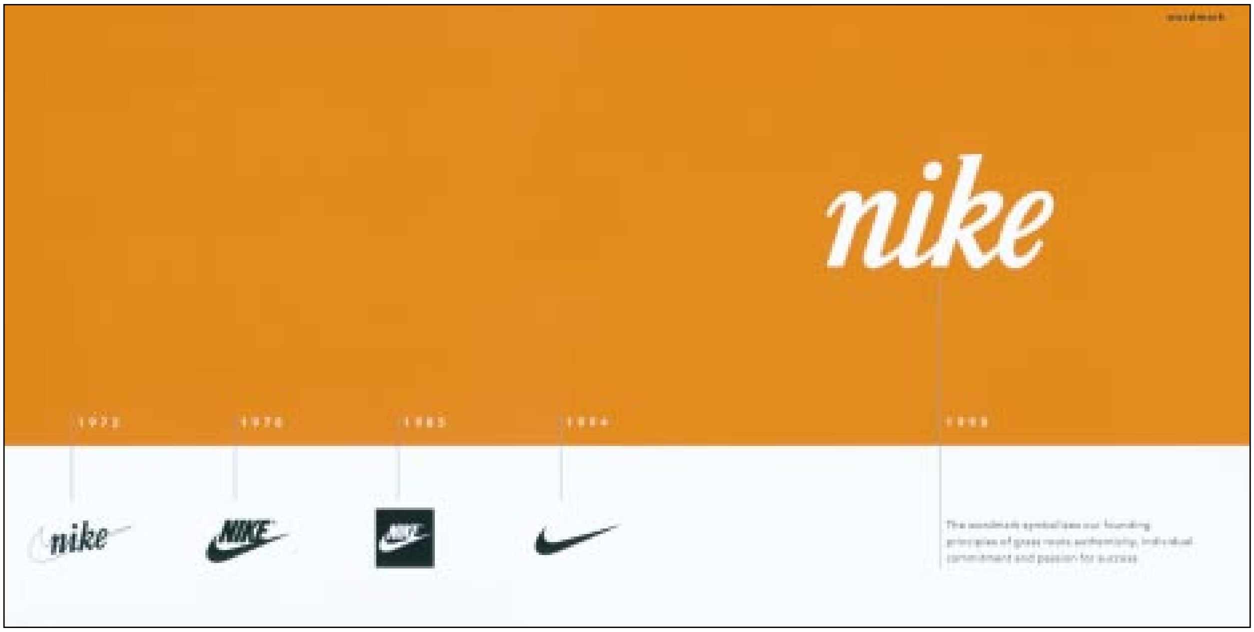
1. **define what marketing is and discuss its core concepts**
2. **explain the relationships between customer value, satisfaction, and quality**
3. **define marketing management and understand how marketers manage demand and build profitable customer relationships**
4. **compare the five marketing management philosophies**
5. **analyze the major challenges facing marketers heading into the next century**

Our first stop: Nike. This superb marketer has built one of the world's most dominant brands. The Nike example shows the importance of—and the difficulties in—building lasting, value-laden customer relationships. Even highly successful Nike can't rest on past successes. Facing "big-brand backlash," it must now learn how to be both big and beautiful. Ready? Here we go.

The "Swoosh"—it's everywhere! Just for fun, try counting the swooshes whenever you pick up the sports pages, or watch a pickup basketball game, or tune into a televised golf match. Nike has built the ubiquitous swoosh (which represents the wing of Nike, the Greek goddess of victory) into one of the best-known brand symbols on the planet.

The power of its brand and logo speaks loudly of Nike's superb marketing skills. The company's strategy of building superior products around popular athletes has forever changed the face of sports marketing. Nike spends hundreds of millions of dollars each year on big-name endorsements, splashy promotional events, and lots of attention-getting ads. Over the years, Nike has associated itself with some of the biggest names in sports. No matter what your sport, chances are good that one of your favorite athletes wears the Nike Swoosh.

Nike knows, however, that good marketing is more than promotional hype and promises—it means consistently delivering real value to customers. Nike's initial success resulted from the technical superiority of its running and basketball shoes, pitched to serious athletes who were frustrated by the lack of innovation in athletic equipment. To this day, Nike leads the industry in product development and innovation.



Nike gives its customers more than just good athletic gear. As the company notes on its Web page (www.nike.com), "Nike has always known the truth—it's not so much the shoes but where they take you." Beyond shoes, apparel, and equipment, Nike markets a way of life, a sports culture, a "Just Do It" attitude. Says Phil Knight, Nike's Cofounder and chief executive, "Basically, our culture and our style is to be a rebel." The company was built on a genuine passion for sports and maverick disregard for convention, hard work, serious sports, and performance. When you wear Nike gear, you share a little of Michael Jordan's intense competitiveness, Tiger Woods' cool confidence, Jackie Joyner-Kersee's gritty endurance, Ken Griffey Jr.'s selfless consistency, or Michael Johnson's blurring speed. Nike is athletes, athletes are sports, *Nike is sports.*

Nike seems to care as much about its customers' lives as their bodies. It doesn't just promote sales, it promotes *sports* for the benefit of all. For example, its "If you let me play" campaign lends strong support to women's sports and the many benefits of sports participation for girls and young women. Nike also invests in a wide range of lesser-known sports, even though they provide less-lucrative marketing opportunities. Such actions establish Nike not just as a producer of good athletic gear but also as a good and caring *company*.

Taking care of customers has paid off handsomely for Nike. Over the decade preceding 1997, Nike's revenues grew at an incredible annual rate of 21 percent; annual return to investors averaged 47 percent. Nike flat-out dominates the world's athletic footwear market. It captures an eye-popping 47 percent share of the U.S. market—twice that of its nearest competitor Reebok—and a 27 percent share internationally. Nike has moved aggressively into new product categories, sports, and regions of the world. In only a few years, Nike's sports apparel business has grown explosively to account for nearly a quarter of Nike's $9 billion in yearly sales. Nike's familiar swoosh logo now appears on everything from sunglasses and soccer balls to batting gloves and hockey sticks. It has invaded a dozen new sports, including baseball, golf, ice and street hockey, in-line skating, wall climbing, and hiking.

In 1998, however, Nike stumbled and its sales slipped. Many factors contributed to the company's sales woes. The "brown shoe" craze for hiking and outdoor styles such as Timberland's ate into the athletic sneaker business. Competition improved: A revitalized Adidas saw its U.S. sales surge as Nike's sales declined. But Nike's biggest obstacle may be its own incredible success—it may have overswooshed America. The brand now appears to be suffering from big-brand backlash, and the swoosh is becoming too common to be cool. According to one analyst, "When Tiger Woods made his debut in Nike gear, there were so many logos on him that he looked as if he'd got caught in an embroidering machine." A Nike executive admits, "There has been a little bit of backlash about the number of swooshes that are out there." Moreover, with sales of more than $9 billion, Nike has moved from maverick to mainstream. Today, rooting for Nike is like rooting for Microsoft.

To address these problems, Nike is returning to the basics—focusing on innovation, developing new product lines, creating subbrands (such as the Michael Jordan brand with its "Jumping Man" logo), and deemphasizing the Swoosh.

Nike is also entering new markets aggressively, especially overseas markets. During 1998, Nike sales outside the United States increased 49 percent and now represent about 38 percent of total sales. However, to dominate globally as it does in the United States, Nike must dominate in soccer, the world's most popular sport. The multibillion-dollar world soccer market currently accounts for only 3 percent of its sales. Now, soccer is one of Nike's top priorities.

World soccer has long been dominated by Adidas, which claims an 80 percent global market share in soccer gear. Nike is building its soccer business by applying the philosophy it has attached to other leading categories—listen to the athletes and give them what they want. Nike does not have Adidas' tradition but it has a younger vision which is what the company feels will carry them into the new millenium as a serious challenger to the Adidas foothold.

Competitors can hope that Nike's slump will continue, but few are counting on it. Most can only sit back and marvel at Nike's marketing prowess. Says Fila's advertising vice-president, "They are so formidable, no matter how well we may execute something, our voice will never be as loud as theirs." As for soccer, the president of Puma North America sees Nike's tactics as heavy handed but has little doubt that Nike's superb marketing will prevail. He states flatly, "Nike will control the soccer world."

Still, winning in worldwide soccer, or in anything else Nike does, will take more than just writing fat checks. To stay on top, Nike will have to deliver worldwide the same kind of quality, innovation, and value that built the brand so powerfully in the United States. It will have to earn respect on a country-by-country basis and become a part of the cultural fabric of each new market. No longer the rebellious, antiestablishment upstart, huge Nike must continually reassess its relationships with customers. Says Knight, "Now that we've [grown so large], there's a fine line between being a rebel and being a bully. . . . [To our customers,] we have to be beautiful as well as big."[1]

Today's successful companies at all levels have one thing in common: Like Nike, they are strongly customer focused and heavily committed to marketing. These companies share an absolute dedication to understanding and satisfying the needs of customers in well-defined target markets. They motivate everyone in the organization to produce superior value for their customers, leading to high levels of customer satisfaction. As Bernie Marcus of Home Depot asserts, "All of our people understand what the Holy Grail is. It's not the bottom line. It's an almost blind, passionate commitment to taking care of customers."

What Is Marketing?

More than any other business function, marketing deals with customers. Creating customer value and satisfaction are at the very heart of modern marketing thinking and practice. Although we will explore more detailed definitions of marketing later in this chapter, perhaps the simplest definition is this one: Marketing is the delivery of customer satisfaction at a profit. The twofold goal of marketing is to attract new customers by promising superior value and to keep current customers by delivering satisfaction.

Wal-Mart has become the world's largest retailer by delivering on its promise, "Always low prices—always." FedEx dominates the U.S. small-package freight industry by consistently making good on its promise of fast, reliable small-package delivery. Ritz-Carlton promises—and delivers—truly "memorable experiences" for its hotel guests. And Coca-Cola, long the world's leading soft drink, delivers on the simple but enduring promise, "Always Coca-Cola"—always thirst-quenching, always good with food, always cool, always a part of your life. These and other highly successful companies know that if they take care of their customers, market share and profits will follow.

Sound marketing is critical to the success of every organization—large or small, for-profit or not-for-profit, domestic or global. Large for-profit firms such as McDonald's, Sony, FedEx, Wal-Mart, and Marriott use marketing. But so do not-for-profit organizations such as colleges, hospitals, museums, symphony orchestras, and even churches. Moreover, marketing is practiced not only in the United States but also in the rest of the world. Most countries in North and South America, Western Europe, and Asia have well-developed marketing systems. Even in Eastern Europe and other parts of the world where marketing has long had a bad name, dramatic political and social changes have created new opportunities for marketing. Business and government leaders in most of these nations are eager to learn everything they can about modern marketing practices.

You already know a lot about marketing—it's all around you. You see the results of marketing in the abundance of products in your nearby shopping mall. You see marketing in the advertisements that fill your TV screen, magazines, and mailbox. At home, at school, where you work, where you play—you are exposed to marketing in almost everything you do. Yet there is much more to marketing than meets the consumer's casual eye. Behind it all is a massive network of people and activities competing for your attention and purchasing dollars.

This book will give you a more complete and formal introduction to the basic concepts and practices of today's marketing. In this chapter, we begin by defining marketing and its core concepts, describing the major philosophies of marketing thinking and practice, and discussing some of the major new challenges that marketers now face.

Marketing Defined

What does the term *marketing* mean? Many people think of marketing only as selling and advertising. And no wonder—every day we are bombarded with television commercials, newspaper ads, direct-mail campaigns, and sales calls. However, selling and advertising are only the tip of the marketing iceberg. Although they are important, they are only two of many marketing functions and are often not the most important ones.

Today, marketing must be understood not in the old sense of making a sale—"telling and selling"—but in the new sense of *satisfying customer needs*. If the marketer does a good job of understanding consumer needs; develops products that provide superior value; and prices, distributes, and promotes them effectively, these products

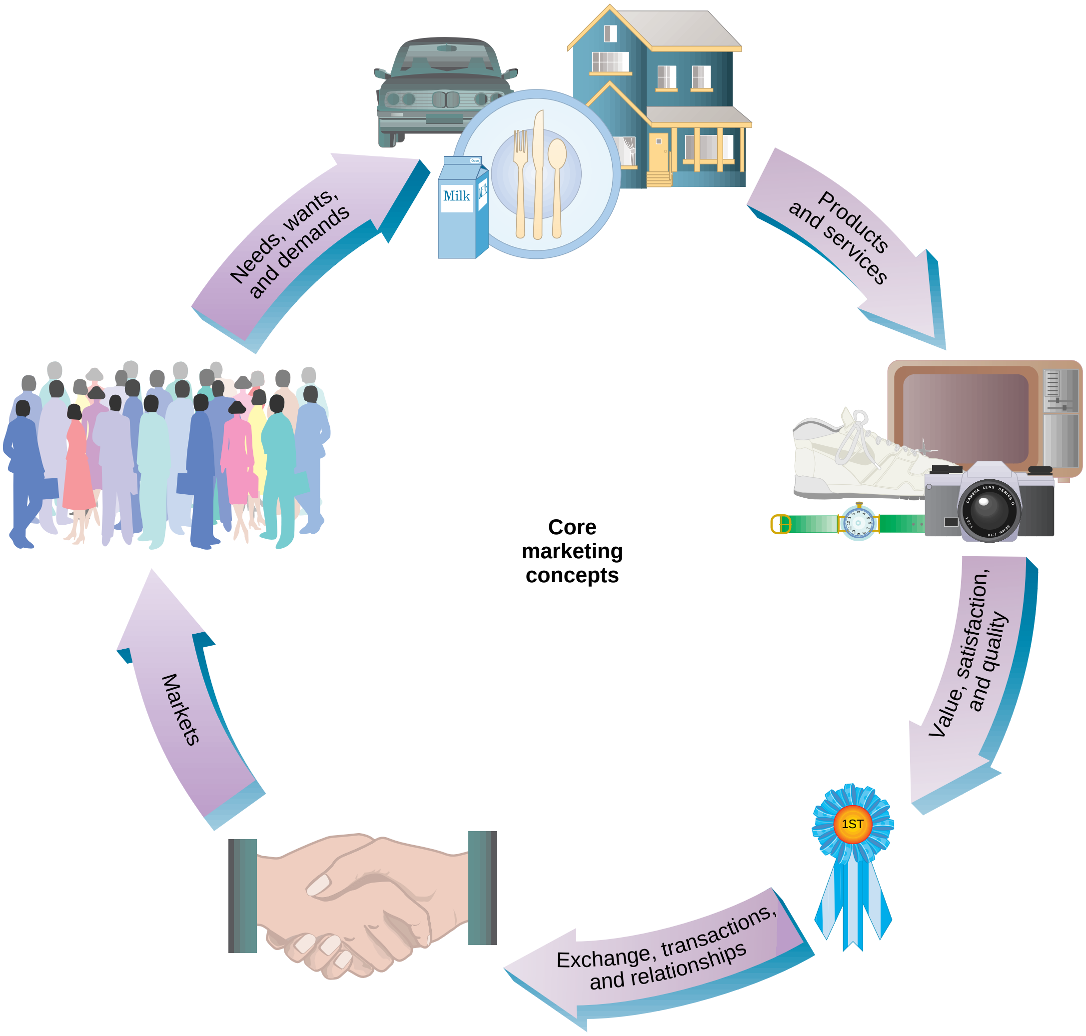


Figure 1-1
Core marketing concepts

will sell very easily. Thus, selling and advertising are only part of a larger "marketing mix"—a set of marketing tools that work together to affect the marketplace.

We define **marketing** as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others. To explain this definition, we will examine the following important terms: *needs, wants, and demands*; *products and services*; *value, satisfaction, and quality*; *exchange, transactions, and relationships*; and *markets*. Figure 1-1 shows that these core marketing concepts are linked, with each concept building on the one before it.

Marketing
A social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.

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

Need
A state of felt deprivation.

and self-expression. These needs were not invented by marketers; they are a basic part of the human makeup.

Want
The form taken by a human need as shaped by culture and individual personality.

Wants are the form human needs take as they are shaped by culture and individual personality. A hungry person in the United States might want a Big Mac, French fries, and a Coke. A hungry person in Bali might want mangoes, suckling pig, and beans. Wants are described in terms of objects that will satisfy needs.

Demands
Human wants that are backed by buying power.

People have almost unlimited wants but limited resources. Thus, they want to choose products that provide the most value and satisfaction for their money. When backed by buying power, wants become **demands**. Consumers view products as bundles of benefits and choose products that give them the best bundle for their money. A Honda Civic means basic transportation, low price, and fuel economy; a Lexus means comfort, luxury, and status. Given their wants and resources, people demand products with the benefits that add up to the most satisfaction.

Outstanding marketing companies go to great lengths to learn about and understand their customers' needs, wants, and demands. They conduct consumer research about consumer likes and dislikes. They analyze customer inquiry, warranty, and service data. They observe customers using their own and competing products and train salespeople to be on the lookout for unfulfilled customer needs.

In these outstanding companies, people at all levels—including top management—stay close to customers. For example, top executives from Wal-Mart spend two days each week visiting stores and mingling with customers. At Disney World, at least once in his or her career, each manager spends a day touring the park in a Mickey, Minnie, Goofy, or other character costume. Moreover, all Disney World managers spend a week each year on the front line—taking tickets, selling popcorn, or loading and unloading rides. At Motorola, top executives routinely visit corporate customers at their offices to gain better insights into their needs. And at Marriott, to stay in touch with customers, Chairman of the Board and President Bill Marriott personally reads some 10 percent of the 8,000 letters and 2 percent of the 750,000 guest comment cards submitted by customers each year. Understanding customer needs, wants, and demands in detail provides important input for designing marketing strategies.

Products and Services

Product
Anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organizations, and ideas.

Service
Any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything.

People satisfy their needs and wants with products and services. A **product** is anything that can be offered to a market to satisfy a need or want. The concept of *product* is not limited to physical objects—anything capable of satisfying a need can be called a product. In addition to tangible goods, products include **services**, which are activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, airline, hotel, tax preparation, and home repair services. Broadly defined, products also include other entities such as *persons*, *places*, *organizations*, *activities*, and *ideas*. Consumers decide which entertainers to watch on television, which places to visit on vacation, which organizations to support through contributions, and which ideas to adopt. To the consumer, these are all products. If at times the term *product* does not seem to fit, we could substitute other terms such as *satisfier*, *resource*, or *offer*.

Many sellers make the mistake of paying more attention to the specific products they offer than to the benefits produced by these products. They see themselves as selling a product rather than providing a solution to a need. 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 may suffer from "marketing myopia"—they are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs.[2]

Products do not have to be physical objects. Here, the "product" is an idea: "Smoking bothers others."

They forget that a product is only a tool to solve a consumer problem. These sellers will have trouble if a new product comes along that serves the customer's need better or less expensively. The customer with the same *need* will *want* the new product.

Value, Satisfaction, and Quality

Consumers usually face a broad array of products and services that might satisfy a given need. How do they choose among these many products and services? Consumers make buying choices based on their perceptions of the value that various products and services deliver.

Customer value
The difference between the values the customer gains from owning and using a product and the costs of obtaining the product.

Customer Value

Customer value is the difference between the values the customer gains from owning and using a product and the costs of obtaining the product. For example, FedEx customers gain a number of benefits. The most obvious is fast and reliable package delivery. However, when using FedEx, customers also may receive some status and image values. Using FedEx usually makes both the package sender and the receiver feel more important. When deciding whether to send a package via FedEx, customers will weigh these and other values against the money, effort, and psychic costs of using the service. Moreover, they will compare the value of using FedEx against the value of using other shippers—UPS, Airborne Express, the U.S. Postal Service—and select the one that gives them the greatest delivered value.

Customers often do not judge product values and costs accurately or objectively. They act on *perceived* value. For example, does FedEx really provide faster, more reliable delivery? If so, is this better service worth the higher prices FedEx charges? The U.S. Postal Service argues that its express service is comparable, and its prices are much lower. However, judging by market share, most consumers perceive otherwise. FedEx dominates with more than a 45 percent share of the U.S. express-delivery market, compared with the U.S. Postal Service's 8 percent. The Postal Service's challenge is to change these customer value perceptions.[3]

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

Customer Satisfaction **Customer satisfaction** depends on a product's perceived performance in delivering value relative to a buyer's expectations. If the product's performance falls short of the customer's expectations, the buyer is dissatisfied. If performance matches expectations, the buyer is satisfied. If performance exceeds expectations, the buyer is delighted. Outstanding marketing companies go out of their way to keep their customers satisfied. Satisfied customers make repeat purchases, and they tell others about their good experiences with the product. The key is to match customer expectations with company performance. Smart companies aim to *delight* customers by promising only what they can deliver, then delivering *more* than they promise.[4]

Customer expectations are based on past buying experiences, the opinions of friends, and marketer and competitor information and promises. Marketers must be careful to set the right level of expectations. If they set expectations too low, they may satisfy those who buy but fail to attract enough buyers. If they raise expectations too high, buyers will be disappointed.

The American Customer Satisfaction Index, which tracks customer satisfaction in more than two dozen U.S. manufacturing and service industries, shows that overall customer satisfaction has been declining slightly in recent years.[5] It is unclear whether this has resulted from a decrease in product and service quality or from an increase in customer expectations. In either case, it presents an opportunity for companies that can deliver superior customer value and satisfaction.

Today's most successful companies are raising expectations—and delivering performance to match. These companies embrace *total customer satisfaction*. They aim high because they know that customers who are merely satisfied will find it easy to switch suppliers when a better offer comes along. For example, one study showed that completely satisfied customers are nearly 42 percent more likely to be loyal than merely satisfied customers. Another study by AT&T showed that 70 percent of customers who say they are satisfied with a product or service are still willing to switch to a competitor; customers who are *highly* satisfied are much more loyal. Xerox found that its totally satisfied customers are six times more likely to repurchase Xerox products over the next 18 months than its satisfied customers.[6] Customer *delight* creates an emotional affinity for a product or service, not just a rational preference, and this creates high customer loyalty. Highly satisfied customers are less price sensitive, remain customers longer, and talk favorably to others about the company and its products.

Although the customer-centered firm seeks to deliver high customer satisfaction relative to competitors, it does not attempt to *maximize* customer satisfaction. A company can always increase customer satisfaction by lowering its price or increasing its services, but this may result in lower profits. Thus, the purpose of marketing is to generate customer value profitably. This requires a very delicate balance: The marketer must continue to generate more customer value and satisfaction but not "give away the house."[7]

Quality Quality has a direct impact on product or service performance. Thus, it is closely linked to customer value and satisfaction. In the narrowest sense, quality can be defined as "freedom from defects." But most customer-centered companies go beyond this narrow definition of quality. Instead, they define quality in terms of customer satisfaction. For example, the vice-president of quality at Motorola, a company that pioneered total quality efforts in the United States, says that "quality has to do something for the customer. . . . Our definition of a defect is 'if the customer doesn't like it, it's a defect.'"[8] Similarly, the American Society for Quality Control defines quality as the totality of features and characteristics of a product or service that bear on its ability to *satisfy customer needs*. These customer-focused definitions suggest that quality begins with customer needs and ends with customer satisfaction. The fundamental aim of today's *total quality* movement has become *total customer satisfaction*.

Total quality management (TQM) is an approach in which all the company's people are involved in constantly improving the quality of products, services, and business processes. TQM swept the corporate boardrooms of the 1980s. Companies ranging from giants such as AT&T, Xerox, and FedEx to smaller businesses such as the Granite Rock Company of Watsonville, California, have credited TQM with greatly improving their market shares and profits.

Total quality management (TQM)
Programs designed to constantly improve the quality of products, services, and marketing processes.

However, many companies adopted the language of TQM but not the substance, or viewed TQM as a cure-all for all the company's problems. Still others became obsessed with narrowly defined TQM principles and lost sight of broader concerns for customer value and satisfaction. As a result, many TQM programs begun in the 1980s failed, causing a backlash against TQM.

When applied in the context of creating customer satisfaction, however, total quality principles remain a requirement for success. Although many firms don't use the TQM label anymore, for most top companies customer-driven quality has become a way of doing business. Most customers will no longer tolerate even average quality. Companies today have no choice but to adopt quality concepts if they want to stay in the race, let alone be profitable. Thus, the task of improving product and service quality should be a company's top priority. However, quality programs must be designed to produce measurable results. Many companies now apply the notion of "return on quality (ROQ)." They make certain that the quality they offer is the quality that customers want. This quality, in turn, yields returns in the form of improved sales and profits.[9]

Marketers have two major responsibilities in a quality-centered company. First, they must participate in forming strategies that will help the company win through total quality excellence. They must be the customer's watchdog or guardian, complaining loudly for the customer when the product or the service is not right. Second, marketers must deliver marketing quality as well as production quality. They must perform each marketing activity—marketing research, sales training, advertising, customer service, and others—to high standards. Marketing at Work 1-1 presents some important conclusions about total marketing quality strategy.

Exchange, Transactions, and Relationships

Marketing occurs when people decide to satisfy needs and wants through exchange. **Exchange** is the act of obtaining a desired object from someone by offering something in return. Exchange is only one of many ways that people can obtain a desired object. For

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

Marketing at Work 1-1

Pursuing a Total Quality Marketing Strategy

The Japanese have long taken to heart lessons about winning through *total quality management* (TQM). Their quest for quality paid off handsomely. Consumers around the world flocked to buy high-quality Japanese products, leaving many American and European firms playing catch-up. Japan was the first country to award a national quality prize, the Deming prize, named after the American statistician who taught the importance of quality to postwar Japan.

In recent years, however, Western firms have closed the quality gap. Many have started their own quality programs in an effort to compete both globally and at home with the Japanese. In the mid-1980s, the United States established the Malcolm Baldrige National Quality Award, which encourages U.S. firms to implement quality practices. Not wanting to be left out of the quality race, Europe developed the European Quality Award in 1993. It also initiated an exacting set of quality standards called ISO 9000. Whereas the Baldrige and other quality awards measure less-tangible aspects of quality, such as customer satisfaction and continuous improvement, ISO 9000 is a set of generally accepted accounting principles for documenting quality. As of 1994, 74 countries had officially recognized ISO 9000 as an international standard for quality systems. Many customers in these countries are now demanding ISO certification as a prerequisite for doing business with a seller. To earn ISO 9000 certification, sellers must undergo a quality audit every six months by a registered ISO (International Standards Organization) assessor.

Thus, total quality has become a truly global concern. Total quality stems from the following premises about quality improvement:

1. *Quality is in the eyes of the customer:* Quality must begin with customer needs and end with customer perceptions. As Motorola's vice-president of quality suggests, "Beauty is in the eye of the beholder. If [a product] does not work the way that the user needs it to work, the defect is as big to the user as if it doesn't work the way the designer planned it." Thus, the fundamental aim of today's quality movement has become "total customer satisfaction."

2. *Quality must be reflected not just in the company's products but in every company activity:* Leonard A. Morgan of General Electric says, "We are not just concerned with the quality of the product, but with the quality of our advertising, service, product literature, delivery, and after-sales support."

3. *Quality requires total employee commitment:* Quality can be delivered only by companies in which all employees are committed to quality and motivated and trained to deliver it. Successful companies remove the barriers between departments. Their employees work as teams to carry out core business processes and to create desired outcomes. Employees work to satisfy their internal customers as well as external customers.

example, hungry people could find food by hunting, fishing, or gathering fruit. They could beg for food or take food from someone else. Or they could offer money, another good, or a service in return for food.

As a means of satisfying needs, exchange has much in its favor. People do not have to prey on others or depend on donations, nor must they possess the skills to produce every necessity for themselves. They can concentrate on making things that they are good at making and trade them for needed items made by others. Thus, exchange allows a society to produce much more than it would with any alternative system.

Transaction
A trade between two parties that involves at least two things of value, agreed-upon conditions, a time of agreement, and a place of agreement.

Whereas exchange is the core concept of marketing, a transaction, in turn, is marketing's unit of measurement. A **transaction** consists of a trade of values between two parties: One party gives *X* to another party and gets *Y* in return. For example, you pay Sears $350 for a television set. This is a classic *monetary transaction*, but not all transactions involve money. In a *barter transaction*, you might trade your old refrigerator in return for a neighbor's secondhand television set.

In the broadest sense, the marketer tries to bring about a response to some offer. The response may be more than simply buying or trading goods and services. A political candidate, for instance, wants votes, a church wants membership, and a social

4. *Quality requires high-quality partners:* Quality can be delivered only by companies whose marketing system partners also deliver quality. Therefore, a quality-driven company must find and align itself with high-quality suppliers and distributors.

5. *A quality program cannot save a poor product:* The Pontiac Fiero launched a quality program, but because the car didn't have a performance engine to support its performance image, the quality program did not save the car. A quality program cannot compensate for product deficiencies.

6. *Quality can always be improved:* The best companies believe in "continuous improvement of everything by everyone." The best way to improve quality is to benchmark the company's performance against the "best-of-class" competitors or the best performers in other industries, striving to equal or surpass them.

7. *Quality improvement sometimes requires quantum leaps:* Although the company should strive for continuous quality improvement, it must at times seek a quantum quality improvement. Companies can sometimes obtain small improvements by working harder. But large improvements call for fresh solutions and for working smarter. For example, Hewlett-Packard did not target a 10 percent reduction in defects, it targeted a *tenfold* reduction and got it.

8. *Quality does not cost more:* Managers once argued that achieving more quality would cost more and slow down production. But improving quality involves learning ways to do things right the first time. Quality is not *inspected* in; it must be *designed* in. Doing things right the first time reduces the costs of salvage, repair, and redesign, not to mention losses in customer goodwill. Motorola claims that its quality drive has saved $9 billion in manufacturing costs during the last eight years. And a recent study found that quality programs usually pay off. The 16 Baldrige Award winners since 1988 have outperformed the Standard & Poor's 500-stock index by 3 to 1 in terms of return on investment. Even the 48 companies that didn't win a Baldrige Award but made it to the final round of judging bested the S&P 500 by 2 to 1.

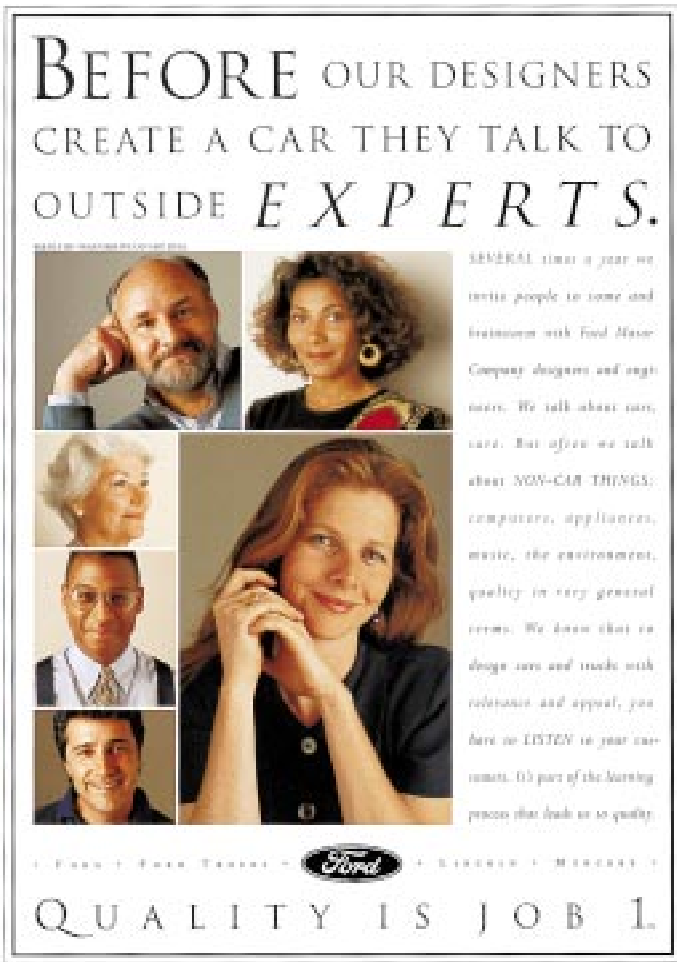
9. *Quality is necessary but may not be sufficient:* Improving a company's quality is absolutely necessary to meet the needs of more-demanding buyers. At the same time, higher quality may not ensure a winning advantage, especially as all competitors increase their quality to more or less the same extent. For example, Singapore Airlines enjoyed a reputation as the world's best airline. However, competing airlines have attracted larger shares of passengers recently by narrowing the perceived gap between their service quality and Singapore's service quality.

Sources: Quotes from Lois Therrien, "Motorola and NEC: Going for Glory," *Business Week*, special issue on quality, 1991, pp. 60–61. Also see Cyndee Miller, "TQM Out; 'Continuous Process Improvement' In," *Marketing News*, May 9, 1994, pp. 5, 10; George Thorne, "TQM Connects All Segments of Marketing," *Advertising Age's Business Marketing*, March 1998, p. 34; Otis Port, "Baldrige's Other Reward," *Business Week*, March 10, 1997, p. 75; Mary Litsikas, "Companies Choose ISO Certification for Internal Benefits," *Quality*, January 1997, pp. 20–26; "ISO 9000 and Quality: A World Class Advantage," special section, *Industrial Distribution*, January 1998, p. 61; "ISO 9000: Leverage ISO 9000 for Added Value and Bottom-Line Benefits," *Fortune*, May 11, 1998, pp. S1–S4; and Nancy Chase, "Beyond Compliance," *Quality*, December 1998, pp. 62–66.

action group wants idea acceptance. Marketing consists of actions taken to obtain a desired response from a target audience toward some product, service, idea, or other object.

Relationship marketing The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholders.

Transaction marketing is part of the larger idea of **relationship marketing**. Beyond creating short-term transactions, marketers need to build long-term relationships with valued customers, distributors, dealers, and suppliers. They want to build strong economic and social ties by promising and consistently delivering high-quality products, good service, and fair prices. Increasingly, marketing is shifting from trying to maximize the profit on each individual transaction to building mutually beneficial relationships with consumers and other parties. In fact, ultimately a company wants to build a unique company asset called a *marketing network*. A marketing network consists of the company and all its supporting stakeholders: customers, employees, suppliers, distributors, retailers, ad agencies, and others with whom it has built mutually profitable business relationships. Increasingly, competition is not between companies but rather between whole networks, with the prize going to the company that has built the better network. The operating principle is simple: Build a good network of relationships with key stakeholders and profits will follow.[10]



Relationship marketing: To get to know them better, Ford invites customers to brainstorming sessions. "We talk about cars, sure. But we often talk about non-car things: computers, the environment, and quality in very general terms."

Relationship marketing is oriented more toward the long term. The goal is to deliver long-term value to customers, and the measures of success are long-term customer satisfaction and retention. Beyond offering consistently high value and satisfaction, marketers can use a number of specific marketing tools to develop stronger bonds with consumers. First, a company might build value and satisfaction by adding *financial benefits* to the customer relationship. For example, airlines offer frequent-flyer programs, hotels give room upgrades to their frequent guests, and supermarkets give patronage refunds.

A second approach is to add *social benefits* as well as financial benefits. Here, the company works to increase its social bonds with customers by learning individual customers' needs and wants and then personalizing its products and services. For example, Ritz-Carlton Hotels employees treat customers as individuals, not as nameless, faceless members of a mass market. Whenever possible, they refer to guests by name and give each guest a warm welcome every day. They record specific guest preferences in the company's customer database, which holds more than 500,000 individual customer preferences, accessible by all hotels in the worldwide Ritz chain. A guest who requests a foam pillow at the Ritz in Montreal will be delighted to find one waiting in the room when he or she checks into the Atlanta Ritz months later.[11]

To build better relationships with its customers, during the summer of 1994 Saturn invited all of its almost 700,000 owners to a "Saturn Homecoming" at its manufacturing facility in Spring Hill, Tennessee. The two-day affair included family events, plant tours, and physical challenge activities designed to build trust and a team spirit. Says Saturn's manager of corporate communications, "The Homecoming party is another way of building . . . relationships, and it shows that we treat our customers differently than any other car company." More than 40,000 guests attended, coming from as far as Alaska and Taiwan.[12]

A third approach to building customer relationships is to add *structural ties* as well as financial and social benefits. For example, a business marketer might supply customers with special equipment or computer linkages that help them manage their orders, payroll, or inventory. FedEx, for instance, offers its FedEx Ship program to thousands of its best corporate and individual customers to keep them from defecting to competitors like UPS. The program provides free computer software that allows customers to link with FedEx's computers. Customers can use the software to arrange shipments and to check the status of their FedEx packages. For customers who are connected to the Internet, FedEx offers these same services through its Web site.

Relationship marketing means that marketers must focus on managing their customers as well as their products. At the same time, they don't want relationships with every customer. In fact, there are undesirable customers for every company. The objective is to determine which customers the company can serve most effectively relative to competitors. In some cases, companies may even want to "fire" customers that are too unreasonable or that cost more to serve than they are worth. Ultimately, marketing is the art of attracting and keeping *profitable customers.*[13]

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 exchanges and relationships. Thus, the size of a market depends on the number of people who exhibit the need, have resources to engage in exchange, and are willing to offer these resources in exchange for what they want.

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

Originally the term *market* stood for the place where buyers and sellers gathered to exchange their goods, such as a village square. Economists use the term *market* to refer to a collection of buyers and sellers who transact in a particular product class, as in the housing market or the grain market. Marketers, however, see the sellers as constituting an industry and the buyers as constituting a market.

Modern economies operate on the principle of division of labor, whereby each person specializes in producing something, receives payment, and buys needed things with this money. Thus, modern economies abound in markets. Producers go to resource markets (raw material markets, labor markets, money markets), buy resources, turn them into goods and services, and sell them to intermediaries, who sell them to consumers. The consumers sell their labor, for which they receive income to pay for the goods and services that they buy. The government is another market that plays several roles. It buys goods from resource, producer, and intermediary markets; it pays them; it taxes these markets (including consumer markets); and it returns needed public services. Thus, each nation's economy and the whole world economy consist of complex, interacting sets of markets that are linked through exchange processes.

Marketers are keenly interested in markets. Their goal is to understand the needs and wants of specific markets and to select the markets that they can serve best. In turn, they can develop products and services that will create value and satisfaction for customers in these markets, resulting in sales and profits for the company.

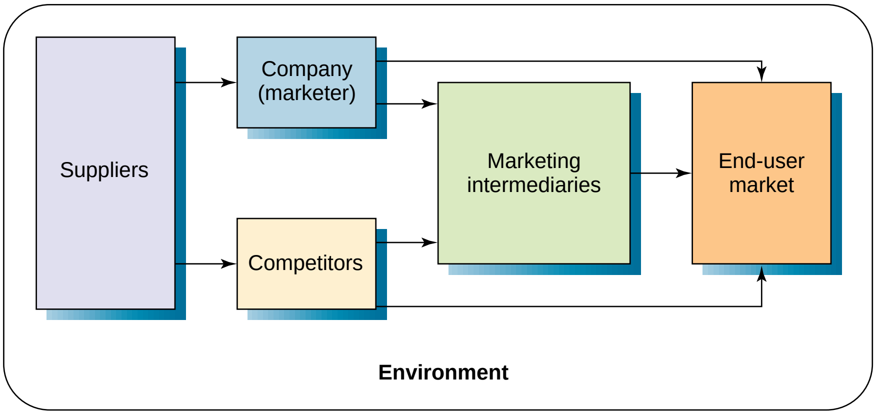


Figure 1-2
Main actors and forces in a modern marketing system

Marketing

The concept of markets finally brings us full circle to the concept of marketing. Marketing means managing markets to bring about exchanges and relationships for the purpose of creating value and satisfying needs and wants. Thus, we return to our definition of marketing as a process by which individuals and groups obtain what they need and want by creating and exchanging products and value with others.

Exchange processes involve work. Sellers must search for buyers, identify their needs, design good products and services, 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. Although we normally think of marketing as being carried on by sellers, buyers also carry on marketing activities. Consumers do marketing when they search for the goods they need at prices they can afford. Company purchasing agents do marketing when they track down sellers and bargain for good terms.

Figure 1-2 shows the main elements in a modern marketing system. In the usual situation, marketing involves serving a market of end users in the face of competitors. The company and the competitors send their respective products and messages to consumers either directly or through marketing intermediaries to the end users. All of the actors in the system are affected by major environmental forces (demographic, economic, physical, technological, political–legal, social–cultural).

Each party in the system adds value for the next level. Thus, a company's success depends not only on its own actions but also on how well the entire system serves the needs of final consumers. Wal-Mart cannot fulfill its promise of low prices unless its suppliers provide merchandise at low costs. And Ford cannot deliver high quality to car buyers unless its dealers provide outstanding service.

Speed Bump

Linking the Concepts

Stop here for a moment and stretch your legs. What have you learned so far about marketing? For the moment, set aside the more formal definitions we've examined and try to develop your own understanding of marketing.

- In *your own words*, what *is* marketing? Write down *your* definition. Does your definition include such key concepts as customer value and relationships?
- What does marketing *mean* to you? How does it affect your life on a daily basis?
- What brand of athletic shoes did you purchase last? Describe your relationship with Nike, Reebok, Adidas, or whatever company made the shoes you purchased.

Marketing Management

We define **marketing management** as the analysis, planning, implementation, and control of programs designed to create, build, and maintain beneficial exchanges with target buyers for the purpose of achieving organizational objectives. Thus, marketing management involves managing demand, which in turn involves managing customer relationships.

Marketing management
The analysis, planning, implementation, and control of programs designed to create, build, and maintain beneficial exchanges with target buyers for the purpose of achieving organizational objectives.

Demand Management

Some people think of marketing management as finding enough customers for the company's current output, but this view is too limited. The organization has a desired level of demand for its products. At any point in time, there may be no demand, adequate demand, irregular demand, or too much demand, and marketing management must find ways to deal with these different demand states. Marketing management is concerned not only with finding and increasing demand but also with changing or even reducing it.

For example, the Golden Gate Bridge sometimes carries an unsafe level of traffic, and Yosemite National Park is badly overcrowded in the summer. Power companies sometimes have trouble meeting demand during peak usage periods. In these and other cases of excess demand, **demarketing** may be required to reduce demand temporarily or permanently. The aim of demarketing is not to destroy demand but only to reduce or shift it.[14] Thus, marketing management seeks to affect the level, timing, and nature of demand in a way that helps the organization achieve its objectives. Simply put, marketing management is *demand management.*

Demarketing
Marketing to reduce demand temporarily or permanently—the aim is not to destroy demand but only to reduce or shift it.

Building Profitable Customer Relationships

Managing demand means managing customers. A company's demand comes from two groups: new customers and repeat customers. Traditional marketing theory and practice have focused on attracting new customers and making the sale. Today, however, the emphasis is shifting. Beyond designing strategies to *attract* new customers and create *transactions* with them, companies now are going all out to *retain* current customers and build lasting customer *relationships.*

Why the new emphasis on keeping customers? In the past, companies facing an expanding economy and rapidly growing markets could practice the "leaky-bucket" approach to marketing. Growing markets meant a plentiful supply of new customers. Companies could keep filling the marketing bucket with new customers without worrying about losing old customers through holes in the bottom of the bucket. However, companies today are facing some new marketing realities. Changing demographics, a slow-growth economy, more sophisticated competitors, and overcapacity in many industries—all of these factors mean that there are fewer new customers to go around. Many companies now are fighting for shares of flat or fading markets. Thus, the costs of attracting new customers are rising. In fact, it costs five times as much to attract a new customer as it does to keep a current customer satisfied.[15]

Companies are also realizing that losing a customer means more than losing a single sale—it means losing the entire stream of purchases that the customer would make over a lifetime of patronage. For example, the *customer lifetime value* of a Taco Bell customer exceeds $12,000. For General Motors or Ford, the customer lifetime value of a customer might well exceed $340,000. Thus, working to retain customers makes good

Marketing at Work 1-2

Customer Relationships: Keeping Customers Satisfied

Some companies go to extremes to coddle their customers. Consider the following examples:

- An L.L. Bean customer says he lost all his fishing equipment—and nearly his life—when a raft he bought from the company leaked and forced him to swim to shore. He recovered the raft and sent it to the company along with a letter asking for a new raft and $700 to cover the fishing equipment he says he lost. He gets both.
- An American Express cardholder fails to pay more than $5,000 of his September bill. He explains that during the summer he'd purchased expensive rugs in Turkey. When he got home, appraisals showed that the rugs were worth half of what he'd paid. Rather than asking suspicious questions or demanding payment, the American Express representative notes the dispute, asks for a letter summarizing the appraisers' estimates, and offers to help solve the problem. And until the conflict is resolved, American Express doesn't ask for payment.
- Under the sultry summer sun, a Southwest Airlines flight attendant pulls shut the door and the Boeing 737 pushes away. Meanwhile, a ticketholder, sweat streaming from her face, races down the jetway, only to find that she's arrived too late. However, the Southwest pilot spies the anguished passenger and returns to the gate to pick her up. Says Southwest's executive vice-president for customers,

Satisfied customers come back again and again. The customer lifetime value of a Taco Bell customer exceeds $12,000.

economic sense. A company can lose money on a specific transaction but still benefit greatly from a long-term relationship.[16]

Attracting new customers remains an important marketing management task. However, today's companies must also focus on retaining current customers and building profitable, long-term relationships with them. The key to customer retention is superior customer value and satisfaction. With this in mind, many companies are going to extremes to keep their customers satisfied. (See Marketing at Work 1-2.)

"It broke every rule in the book, but we congratulated the pilot on a job well done."

- A frustrated homeowner faces a difficult and potentially costly home plumbing repair. He visits the nearby Home Depot store, prowls the aisles, and picks up an armful of parts and supplies—$67 worth in all—that he thinks he'll need to do the job. However, before he gets to the checkout counter, a Home Depot salesperson heads him off. After some coaxing, the salesperson finally convinces the do-it-yourselfer that there's a simpler solution to his repair problem. The cost: $5.99 and a lot less trouble.
- A Nordstrom salesclerk stops a customer in the store and asks if the shoes she's wearing had been bought there. When the customer says yes, the clerk insists on replacing them on the spot "they have not worn as well as they should." In another case, a salesclerk gives a customer a refund on a tire—Nordstrom doesn't carry tires, but the store prides itself on a no-questions-asked return policy.

From a dollars-and-cents point of view, these examples sound like a crazy way to do business. How can you make money by giving away your products, providing free extra services, talking your customers into paying less, or letting customers get away without paying their bills on time? Yet studies show that going to such extremes to keep customers happy, although costly, goes hand in hand with good financial performance. Satisfied customers come back again and again. Thus, in today's highly competitive marketplace, companies can well afford to lose money on one transaction if it helps to cement a profitable long-term customer relationship.

Keeping customers satisfied involves more than simply opening a complaint department, smiling a lot, and being nice. Companies that do the best job of taking care of customers set high customer service standards and often make seemingly outlandish efforts to achieve them. At these companies, exceptional value and service are more than a set of policies or actions—they are a companywide attitude, an important part of the overall company culture.

American Express loves to tell stories about how its people have rescued customers from disasters ranging from civil wars to earthquakes, no matter what the cost. The company gives cash rewards of up to $1,000 to "Great Performers," such as Barbara Weber, who moved mountains of U.S. State Department and Treasury Department bureaucracy to refund $980 in stolen traveler's checks to a customer stranded in Cuba. Four Seasons Hotels, long known for its outstanding service, tells its employees the story of Ron Dyment, a doorman in Toronto, who forgot to load a departing guest's briefcase into his taxi. The doorman called the guest, a lawyer in Washington, D.C., and learned that he desperately needed the briefcase for a meeting the following morning. Without first asking for approval from management, Dyment hopped on a plane and returned the briefcase. The company named Dyment Employee of the Year. Similarly, the Nordstrom department store chain thrives on stories about its service heroics, such as employees dropping off orders at customers' homes or warming up cars while customers spend a little more time shopping. There's even a story about a man whose wife, a loyal Nordstrom customer, died with her Nordstrom account $1,000 in arrears. Not only did Nordstrom settle the account, it also sent flowers to the funeral.

There's no simple formula for taking care of customers, but neither is it a mystery. According to the president of L.L. Bean, "A lot of people have fancy things to say about customer service . . . but it's just a day-in, day-out, ongoing, neverending, unremitting, persevering, compassionate type of activity." For the companies that do it well, it's also very rewarding.

Sources: Bill Kelley, "Five Companies that Do It Right—and Make It Pay," *Sales & Marketing Management*, April 1988, pp. 57–64; Patricia Sellers, "Companies That Serve You Best," *Fortune*, May 31, 1993, pp. 74–88; Rahul Jacob, "Why Some Customers Are More Equal Than Others," *Fortune*, September 19, 1994, pp. 215–224; Brian Silverman, "Shopping for Loyal Customers," *Sales & Marketing Management*, March 1995, pp. 96–97; and Howard E. Butz Jr. and Leonard Goodstein, "Measuring Customer Value: Gaining the Strategic Advantage," *Organizational Dynamics*, Winter 1996, pp. 63–77.

Marketing Management Philosophies

We describe marketing management as carrying out tasks to achieve desired exchanges with target markets. What *philosophy* should guide these marketing efforts? What weight should be given to the interests of the organization, customers, and society? Very often these interests conflict.

There are five alternative concepts under which organizations conduct their marketing activities: the *production*, *product*, *selling*, *marketing*, and *societal marketing* concepts.

The Production Concept

Production concept
The philosophy that consumers will favor products that are available and highly affordable and that management should therefore focus on improving production and distribution efficiency.

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. This concept is one of the oldest philosophies that guides sellers.

The production concept is still a useful philosophy in two types of situations. The first occurs when the demand for a product exceeds the supply. Here, management should look for ways to increase production. The second situation occurs when the product's cost is too high and improved productivity is needed to bring it down. For example, Henry Ford's whole philosophy was to perfect the production of the Model T so that its cost could be reduced and more people could afford it. He joked about offering people a car of any color as long as it was black.

For many years, Texas Instruments (TI) followed a philosophy of increased production and lower costs in order to bring down prices. It won a major share of the American handheld calculator market using this approach. However, companies operating under a production philosophy run a major risk of focusing too narrowly on their own operations. For example, when TI used this strategy in the digital watch market, it failed. Although TI's watches were priced low, customers did not find them very attractive. In its drive to bring down prices, TI lost sight of something else that its customers wanted—namely, affordable, *attractive* digital watches.

The Product Concept

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.

Another major concept guiding sellers, the **product concept**, holds that consumers will favor products that offer the most in quality, performance, and innovative features. Thus, an organization should devote energy to making continuous product improvements. Some manufacturers believe that if they can build a better mousetrap, the world will beat a path to their door.[17] But they are often rudely shocked. Buyers may well be looking for a better solution to a mouse problem but not necessarily for a better mousetrap. The solution might be a chemical spray, an exterminating service, or something that works better than a mousetrap. Furthermore, a better mousetrap will not sell unless the manufacturer designs, packages, and prices it attractively; places it in convenient distribution channels; brings it to the attention of people who need it; and convinces buyers that it is a better product.

The product concept also can lead to marketing myopia. For instance, railroad management once thought that users wanted *trains* rather than *transportation* and overlooked the growing challenge of airlines, buses, trucks, and automobiles. Many colleges have assumed that high school graduates want a liberal arts education and have thus overlooked the increasing challenge of vocational schools.

The Selling Concept

Selling concept
The idea that consumers will not buy enough of the organization's products unless the organization undertakes a large-scale selling and promotion effort.

Many organizations follow the **selling concept**, which holds that consumers will not buy enough of the organization's products unless it undertakes a large-scale selling and promotion effort. The concept is typically practiced with unsought goods—those that buyers do not normally think of buying, such as encyclopedias or insurance. These industries must be good at tracking down prospects and selling them on product benefits.

Most firms practice the selling concept when they have overcapacity. Their aim is to sell what they make rather than make what the market wants. Such marketing carries high risks. It focuses on creating sales transactions rather than on building long-term, profitable relationships with customers. It assumes that customers who are coaxed into buying the product will like it. Or, if they don't like it, they will possibly forget their disappointment and buy it again later. These are usually poor assumptions to make about buyers. Most studies show that dissatisfied customers do not buy again. Worse yet, while the average satisfied customer tells three others about good experiences, the average dissatisfied customer tells ten others about his or her bad experiences.[18]

The Marketing Concept

The **marketing concept** holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do. The marketing concept has been stated in colorful ways, such as "We make it happen for you" (Marriott); "To fly, to serve" (British Airways); "We're not satisfied until you are" (GE); and "Let us exceed your expectations" (Celebrity Cruise Lines). JCPenney's motto also summarizes the marketing concept: "To do all in our power to pack the customer's dollar full of value, quality, and satisfaction."

Marketing concept
The marketing management philosophy that holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do.

The selling concept and the marketing concept are sometimes confused. Figure 1-3 compares the two concepts. 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 heavily on customer conquest—getting short-term sales with little concern about who buys or why. In contrast, the marketing concept takes an *outside-in* perspective. It starts with a well-defined market, focuses on customer needs, coordinates all the marketing activities affecting customers, and makes profits by creating long-term customer relationships based on customer value and satisfaction. Under the marketing concept, companies produce what consumers want, thereby satisfying consumers and making profits.[19]

Many successful and well-known companies have adopted the marketing concept. Procter & Gamble, Disney, Wal-Mart, Marriott, Nordstrom, and McDonald's follow it faithfully. L.L. Bean, the highly successful catalog retailer of clothing and outdoor sporting equipment, was founded on the marketing concept. In 1912, in his first circulars, L.L. Bean included the following notice: "I do not consider a sale complete until goods are worn out and the customer still is satisfied. We will thank anyone to return goods that are not perfectly satisfactory. . . . Above all things we wish to avoid having a dissatisfied customer."

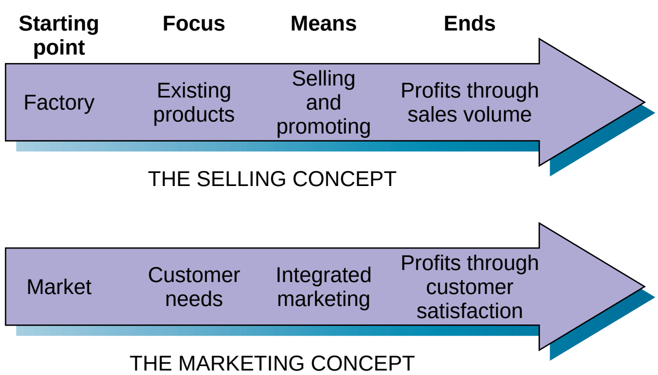


Figure 1-3
The selling and marketing concepts contrasted

L.L. Bean dedicates itself to high customer satisfaction. The orange poster at this customer rep's station pledges: "Our products are guaranteed to give 100% satisfaction in every way."

Today, L.L. Bean dedicates itself to giving "perfect satisfaction in every way." To inspire its employees to practice the marketing concept, L.L. Bean has for decades displayed posters around its offices that proclaim the following:

> What is a customer? A customer is the most important person ever in this company—in person or by mail. A customer is not dependent on us, we are dependent on him. A customer is not an interruption of our work, he is the purpose of it. We are not doing a favor by serving him, he is doing us a favor by giving us the opportunity to do so. A customer is not someone to argue or match wits with—nobody ever won an argument with a customer. A customer is a person who brings us his wants—it is our job to handle them profitably to him and to ourselves.

In contrast, many companies claim to practice the marketing concept but do not. They have the *forms* of marketing, such as a marketing vice-president, product managers, marketing plans, and marketing research, but this does not mean that they are *market-focused* and *customer-driven* companies. The question is whether they are finely tuned to changing customer needs and competitor strategies. Formerly great companies—General Motors, IBM, Sears, Zenith—all lost substantial market share because they failed to adjust their marketing strategies to the changing marketplace.

Several years of hard work are needed to turn a sales-oriented company into a marketing-oriented company. The goal is to build customer satisfaction into the very fabric of the firm. Customer satisfaction is no longer a fad. As one marketing analyst notes, "It's becoming a way of life in corporate America. . . . as embedded into corporate cultures as information technology and strategic planning."[20]

Societal marketing concept
The idea that the organization should determine the needs, wants, and interests of target markets and deliver the desired satisfactions more effectively and efficiently than do competitors in a way that maintains or improves the consumer's and society's well-being.

The Societal Marketing Concept

The **societal marketing concept** holds that the organization should determine the needs, wants, and interests of target markets. It should then deliver superior value to customers in a way that maintains or improves the consumer's *and the society's* well-being. The societal marketing concept is the newest of the five marketing management philosophies.

The societal marketing concept questions whether the pure marketing concept is adequate in an age of environmental problems, resource shortages, rapid population

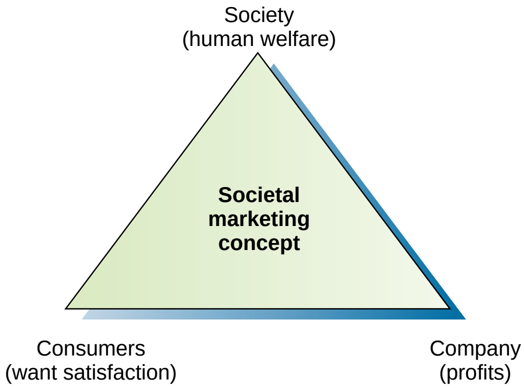


Figure 1-4
Three considerations underlying the societal marketing concept

growth, worldwide economic problems, and neglected social services. It asks if the firm that senses, serves, and satisfies individual wants is always doing what's best for consumers and society in the long run. According to the societal marketing concept, the pure marketing concept overlooks possible conflicts between consumer *short-run wants* and consumer *long-run welfare.*

Consider the fast-food industry. Most people see today's giant fast-food chains as offering tasty and convenient food at reasonable prices. Yet many consumer and environmental groups have voiced concerns. Critics point out that hamburgers, fried chicken, French fries, and most other foods sold by fast-food restaurants are high in fat and salt. The products are wrapped in convenient packaging, but this leads to waste and pollution. Thus, in satisfying consumer wants, the highly successful fast-food chains may be harming consumer health and causing environmental problems.

Such concerns and conflicts led to the societal marketing concept. As Figure 1-4 shows, the societal marketing concept calls on marketers to balance three considerations in setting their marketing policies: company profits, consumer wants, *and* society's interests. Originally, most companies based their marketing decisions largely on short-run company profit. Eventually, they began to recognize the long-run importance of satisfying consumer wants, and the marketing concept emerged. Now many companies are beginning to think of society's interests when making their marketing decisions.

One such company is Johnson & Johnson, rated each year in a *Fortune* magazine poll as one of America's most-admired companies, especially for its community and environmental responsibility. Johnson & Johnson's concern for societal interests is summarized in a company document called "Our Credo," which stresses honesty, integrity, and putting people before profits. Under this credo, Johnson & Johnson would rather take a big loss than ship a bad batch of one of its products. And the company supports many community and employee programs that benefit its consumers and workers and the environment. Johnson & Johnson's chief executive puts it this way: "If we keep trying to do what's right, at the end of the day we believe the marketplace will reward us."[21]

The company backs these words with actions. Consider the tragic tampering case in which eight people died from swallowing cyanide-laced capsules of Tylenol, a Johnson & Johnson brand. Although Johnson & Johnson believed that the pills had been altered in only a few stores, not in the factory, it quickly recalled all of its product. The recall cost the company $240 million in earnings. In the long run, however, the company's swift recall of Tylenol strengthened consumer confidence and loyalty, and Tylenol remains the nation's leading brand of pain reliever. In this and other cases, Johnson & Johnson management has found that doing what's right benefits both consumers and the company. Says the chief executive, "The Credo should not be viewed as some kind of social welfare

Our Credo

We believe our first responsibility is to the doctors, nurses and patients,
to mothers and fathers and all others who use our products and services.
In meeting their needs everything we do must be of high quality.
We must constantly strive to reduce our costs
in order to maintain reasonable prices.
Customers' orders must be serviced promptly and accurately.
Our suppliers and distributors must have an opportunity
to make a fair profit.

We are responsible to our employees,
the men and women who work with us throughout the world.
Everyone must be considered as an individual.
We must respect their dignity and recognize their merit.
They must have a sense of security in their jobs.
Compensation must be fair and adequate,
and working conditions clean, orderly and safe.
We must be mindful of ways to help our employees fulfill
their family responsibilities.
Employees must feel free to make suggestions and complaints.
There must be equal opportunity for employment, development
and advancement for those qualified.
We must provide competent management,
and their actions must be just and ethical.

We are responsible to the communities in which we live and work
and to the world community as well.
We must be good citizens – support good works and charities
and bear our fair share of taxes.
We must encourage civic improvements and better health and education.
We must maintain in good order
the property we are privileged to use,
protecting the environment and natural resources.

Our final responsibility is to our stockholders.
Business must make a sound profit.
We must experiment with new ideas.
Research must be carried on, innovative programs developed
and mistakes paid for.
New equipment must be purchased, new facilities provided
and new products launched.
Reserves must be created to provide for adverse times.
When we operate according to these principles,
the stockholders should realize a fair return.

Johnson & Johnson

Johnson & Johnson's concern for society is summarized in its credo and in the company's actions over the years. Says one J&J executive, "It's just plain good business."

program . . . it's just plain good business."[22] Thus, over the years, Johnson & Johnson's dedication to consumers and community service has made it one of America's most-admired companies *and* one of the most profitable.

Linking the Concepts

We've covered a lot of territory. Again, slow down for a moment and develop *your own* thoughts about marketing and marketing management.

- In *your own words*, what *is* marketing management and what does it seek to accomplish?
- What marketing management philosophy appears to guide Nike? How does this compare with the marketing philosophy that guides Johnson & Johnson? Can you think of another company guided by a very different philosophy? Is there one marketing management philosophy that's best for all companies?

Marketing Challenges in the New Millennium

Marketing operates within a dynamic global environment. Every decade calls upon marketing managers to think freshly about their marketing objectives and practices. Rapid changes can quickly make yesterday's winning strategies out of date. As management thought-leader Peter Drucker once observed, a company's winning formula for the last decade will probably be its undoing in the next decade.

What are the marketing challenges as we move into the twenty-first century? Today's companies are wrestling with changing customer values and orientations; economic stagnation; environmental decline; increased global competition; and a host of other economic, political, and social problems. However, these problems also provide marketing opportunities. We now look more deeply into several key trends and forces that are changing the marketing landscape and challenging marketing strategy: the growth of nonprofit marketing, the information technology boom, rapid globalization, the changing world economy, and the call for more socially responsible actions.

Growth of Nonprofit Marketing

In the past, marketing has been most widely applied in the business sector. In recent years, however, marketing also has become a major component in the strategies of many nonprofit organizations, such as colleges, hospitals, museums, symphony orchestras, and even churches. Consider the following examples:

- As hospital costs and room rates soar, many hospitals face underutilization, especially in their maternity and pediatrics sections. Many have taken steps toward marketing. One Philadelphia hospital, competing for maternity patients, offers a room with a Jacuzzi and a steak-and-champagne dinner with candlelight for new parents. St. Mary's Medical Center in Evanston, Indiana, uses innovative billboards to promote its emergency care service. Other hospitals, in an effort to attract physicians, have installed services such as saunas, chauffeurs, and private tennis courts.[23]
- Even before opening its doors, one church hired a research firm to find out what its customers would want. The research showed that the "unchurched"—people with no current church connection—found church boring and church services irrelevant to their everyday lives. They complained churches were always hitting them up for money. So the church added contemporary music and skits, loosened its dress codes, and presented sermons on topics such as money management and parenting. Its direct-mail piece read: "Given up on the church? We don't blame you. Lots of people have. They're fed up with boring sermons, ritual that doesn't mean anything . . . music that nobody likes . . . [and] preachers who seem to be more interested in your wallet than you. . . . Church can be different. Give us a shot." The results have been impressive. Within a year of opening, the church had attracted nearly 400 members, 80 percent of whom were not previously attending church.[24]
- Many nonprofit organizations are now licensing their names and symbols to what they deem appropriate products and making royalties off sales. Two recent examples include the Arthritis Foundation Pain Reliever, marketed by McNeil Consumer Products, and VFW Coffee, marketed by Tetley. The VFW name may soon be associated with a product marketed by Adolph Coors. Royalties from such products can provide a significant boost to the budgets of nonprofits previously dependent on donations for survival.[25]

Similarly, many private colleges, facing declining enrollments and rising costs, are using marketing to compete for students and funds. They are defining target markets, improving their communication and promotion, and responding better to student needs and wants. Many performing arts groups—even the Lyric Opera Company of Chicago, which has seasonal sellouts—face huge operating deficits that they must cover by more aggressive donor marketing. Finally, many long-standing nonprofit organizations—the

YMCA, the Salvation Army, the Girl Scouts—have lost members and are now modernizing their missions and "products" to attract more members and donors.[26]

Even government agencies have shown an increased interest in marketing. For example, the U.S. Army has a marketing plan to attract recruits, and various government agencies are now designing *social marketing campaigns* to encourage energy conservation and concern for the environment or to discourage smoking, excessive drinking, and drug use. Even the once-stodgy U.S. Postal Service has developed innovative marketing plans to sell commemorative stamps, promote its priority mail services against those of FedEx and UPS, and lift its image through sponsorships of the U.S. Olympics and other causes.[27] The continued growth of nonprofit and public-sector marketing presents new and exciting challenges for marketing managers.

The Information Technology Boom

The explosive growth in computer, telecommunications, and information technology has had a major impact on the way companies bring value to their customers. The technology boom has created exciting new ways to learn about and track customers, create products and services tailored to meet customer needs, distribute products more efficiently and effectively, and communicate with customers in large groups or one-to-one. For example, through videoconferencing, marketing researchers at a company's headquarters in New York can look in on focus groups in Chicago or Paris without ever stepping onto a plane. With only a few clicks of a mouse button, a direct marketer can tap into on-line data services to learn anything from what car you drive to what you read to what flavor of ice cream you prefer.

Every 20 years since 1960, the amount of computer power that can be bought for one dollar has increased a thousandfold. That's a millionfold increase in just the last 35 years.[28] Using today's vastly more powerful computers, marketers create detailed databases and use them to target individual customers with offers designed to meet their specific needs and buying patterns. With a new wave of communication and advertising tools—ranging from cell phones, fax machines, and CD-ROMs to interactive TV and video kiosks at airports and shopping malls—marketers can zero in on selected customers with carefully targeted messages. Through electronic commerce, customers can design, order, and pay for products and services—all without ever leaving home. From virtual reality displays that test new products to on-line virtual stores that sell them, the boom in computer, telecommunication, and information technology is affecting every aspect of marketing.

Internet (or the Net)
The vast and burgeoning global web of computer networks that links computers around the world.

The Internet Perhaps the most dramatic new technology surrounds the development of the "information superhighway" and its foundation, the **Internet**. The Internet is a vast and burgeoning global web of computer networks with no central management or ownership. It was created during the late 1960s by the U.S. Department of Defense initially to link government labs, contractors, and military installations. Today, the Internet links computer users of all types around the world. Anyone with a PC and a modem—or a TV with a set-top "Web box"—and the right software can browse the Internet to obtain or share information on almost any subject and to interact with other users.[29] Companies are using the Internet to link employees in remote offices, distribute sales information more quickly, build closer relationships with customers and suppliers, and sell and distribute their products more efficiently and effectively.

Internet usage surged in the early 1990s with the development of the user-friendly World Wide Web. The U.S. Internet population grew from only 1 million people in 1994 to more than 60 million in 1998; it will grow to a projected 133 million by the year 2000.

The Internet is truly a worldwide phenomenon. One study projects that worldwide Internet purchasing will grow from only $296 million in 1995 to nearly $426 billion in 2002.[30] Notes one analyst, "In just three years, the Net has gone from a playground for nerds into a vast communications and trading center where some 90 million people swap information and do deals around the world. . . . More than 400,000 companies have hung www.single.com atop their digital doorways with the notion that being anywhere on the Net means selling virtually everywhere."[31] The World Wide Web has given companies access to millions of new customers at a fraction of the cost of print and television advertising. Companies of all types are now attempting to snare new customers in the Web. For example:

- Car makers such as Toyota (www.Toyota.com) use the Internet to develop relationships with owners as well as to sell cars. Its site offers product information, dealer services and locations, leasing information, and much more. For example, visitors to the site can view any of seven lifestyle magazines—*alt.Terrain*, *A Man's Life*, *Women's Web Weekly*, *Sportzine*, *Living Arts*, *Living Home*, and *Car Culture*—designed to appeal to Toyota's well-educated, above-average-income target audience.
- Sports fans can cozy up with Nike by logging onto www.nike.com, where they can check out the latest Nike products, explore the company's history, download Michael Jordan's latest stats, or keep up with Tiger Woods's latest movements. Through its Web page, in addition to its mass-media presence, Nike relates with customers in a more personal, one-to-one way.
- The Ty Web site (www.ty.com) builds relationships with children who collect Beanie Babies by offering extra information, including the "birth date" of the 50-plus toys, highlights on special Beanie Babies each month, promotion of newly developed Beanie Babies, and even an honor-role section that includes a child's photo and grades. Is it effective? By mid-1998, based on the counter on the site, Ty.com had received almost 2 billion visitors.

It seems that almost every business—from garage-based start-ups to established giants such as IBM, GE, Marriott Hotels, JCPenney, and American Airlines—is setting up shop on the Internet. All are racing to explore and exploit the Web's possibilities for marketing, shopping, and browsing for information. However, for all its potential, the Internet does have drawbacks. It's yet to be seen how many of the millions of Web browsers will become actual buyers. Despite growing use of the Web for shopping, in a recent survey 54 percent of Web users said that they were not likely to use the Internet for on-line purchases ever in the future. And although the value of a Web site is difficult to measure, the actuality is that few companies have made any money from their Internet efforts.[32]

However, given the lightning speed at which Internet technology and applications are developing, it's unlikely that these drawbacks will deter the millions of businesses and consumers who are logging onto the Internet each day. "Marketers aren't going to have a choice about being on the Internet," says Midori Chan, vice-president of creative services at Interse, which helped put Windham Hill Records and Digital Equipment Corp. on the Internet, "To not be on the Internet . . . is going to be like not having a phone."[33] We will examine these on-line marketing developments more fully in chapter 14.

Rapid Globalization

The world economy has undergone radical change during the past two decades. Geographical and cultural distances have shrunk with the advent of jet planes, fax machines, global computer and telephone hookups, world television satellite broadcasts, and other technical advances. This has allowed companies to greatly expand their geographical market coverage, purchasing, and manufacturing. The result is a vastly more complex marketing environment for both companies and consumers.

Today, almost every company, large or small, is touched in some way by global competition—from the neighborhood florist that buys its flowers from Mexican nurseries, to the small New York clothing retailer that imports its merchandise from Asia, to the U.S. electronics manufacturer that competes in its home markets with giant Japanese rivals, to the large American consumer goods producer that introduces new products into emerging markets abroad.

American firms have been challenged at home by the skillful marketing of European and Asian multinationals. Companies such as Toyota, Siemens, Nestlé, Sony, and

Marketing at Work 1-3

Going Global: Coca-Cola Dominates

Coca-Cola is certainly no stranger to global marketing. Long the world's leading soft-drink maker, the company now sells its brands in more than 200 countries. In fact, in recent years, as its domestic markets have lost their fizz, Coca-Cola has revved up every aspect of its global marketing. The result: near world dominance of the soft-drink market.

The great "global cola wars" between Coca-Cola and rival Pepsi have become decidedly one-sided. Whereas in the United States Coca-Cola captures a 44 percent market share versus Pepsi's 31 percent, it outsells Pepsi three to one overseas and boasts four of the world's five leading soft-drink brands: Coca-Cola, Diet Coke, Sprite, and Fanta. Coca-Cola has handed Pepsi a number of crushing international setbacks. As a result, Pepsi has recently experienced flat or declining international soda sales. During the same period, Coca-Cola has reported strong growth in Latin America and grew a stunning 29 percent in China, 17 percent in India, and 16 percent in the Philippines.

Pepsi is now retrenching its efforts abroad by focusing on emerg-

Coca-Cola dominates the global soft-drink market, selling its products in more than 200 countries.

Samsung have often outperformed their U.S. competitors in American markets. Similarly, U.S. companies in a wide range of industries have found new opportunities abroad. General Motors, Exxon, IBM, General Electric, DuPont, Motorola, Coca-Cola, and dozens of other American companies have developed truly global operations, making and selling their products worldwide. Marketing at Work 1-3 provides just one of countless examples of U.S. companies taking advantage of international marketing opportunities.

Today, companies are not only trying to sell more of their locally produced goods in international markets, they also are buying more components and supplies abroad. For example, Bill Blass, one of America's top fashion designers, may choose cloth woven from Australian wool with designs printed in Italy. He will design a dress and fax the drawing to a Hong Kong agent, who will place the order with a Chinese factory. Finished dresses

ing markets—China, India, and Indonesia—where Coke is growing but does not yet dominate. Together, these three emerging markets boast 2.4 billion people, nearly half the world's total population. With their young populations, exploding incomes, and underdeveloped soft-drink demand, they represent prime potential for Coca-Cola and Pepsi. For example, China's 1.2 billion consumers drink an average of only five servings of soda per year, compared with 343 in the United States, creating heady opportunities for growth. And Indonesia, with 200 million people, nearly all of them Muslims forbidden to consume alcohol, is what one top Coca-Cola executive calls a "soft-drink paradise."

But even in these emerging markets, Pepsi will find the going rough in the face of Coca-Cola's international marketing savvy and heavy investment. For instance, by the turn of the century, Coca-Cola will have spent almost $2 billion building state-of-the-art Asian bottling plants and distribution systems. And Coca-Cola possesses proven marketing prowess. It carefully tailors its ads and other marketing efforts for each local market. For example, its Chinese New Year television ad featured a dragon in a holiday parade, adorned from head to tail with red Coke cans. The spot concluded, "For many centuries, the color red has been the color for good luck and prosperity. Who are we to argue with ancient wisdom?" In India, Coca-Cola aggressively cultivates a local image. It claimed official sponsorship for World Cup cricket, a favorite national sport, and used Indian cricket fans rather than actors to promote Coke products. Coca-Cola markets effectively to both retailers and imbibers. Observes one Coke watcher, "The company hosts massive gatherings of up to 15,000 retailers to showcase everything from the latest coolers and refrigerators, which Coke has for loan, to advertising displays. And its salespeople go house-to-house in their quest for new customers. In New Delhi alone, workers handed out more than 100,000 free bottles of Coke and Fanta last year."

Nothing better illustrates Coca-Cola's surging global power than the explosive growth of Sprite. Sprite's advertising uniformly targets the world's young people with the tag line "Image is nothing. Thirst is everything. Obey your thirst." The campaign taps into the rebellious side of teenagers and into their need to form individual identities. According to Sprite's director of brand marketing, "The meaning of [Sprite] and what we stand for is exactly the same globally. Teens tells us it's incredibly relevant in nearly every market we go into." However, as always, Coca-Cola tailors its message to local consumers. In China, for example, the campaign has a softer edge: "You can't be irreverent in China, because it's not acceptable in that society. It's all about being relevant [to the specific audience]," notes the marketer. As a result of such smart targeting and powerful positioning, Sprite's worldwide sales have surged 35 percent in the past three years, making it the world's number-four soft-drink brand.

Coca-Cola's success as a global power has made it one of the most enduringly profitable companies in history. And, as one observer states, "Coke will remain the 800 pound gorilla in the soft drink business for the foreseeable future." How profitable has Coca-Cola been over the decades? Incredibly, a single share of Coca-Cola stock purchased for $40 in 1919 would be worth $4,847,000 today.

Sources: Quotes from Mark L. Clifford and Nicole Harris, "Coke Pours into Asia," *Business Week*, October 28, 1996, pp. 72–77; Mark Gleason, "Sprite Is Riding Global Ad Effort to No. 4 Status," *Advertising Age*, November 18, 1996, p. 30; and Scott Reeves, "Pepsi's Fizz," *Barron's*, January 12, 1998, p. 15. Also see, Lori Bongiorno, "Fiddling with the Formula at Pepsi," *Business Week*, October 14, 1996, p. 42; Nicole Harris, "If You Can't Beat 'Em, Copy 'Em," *Business Week*, November 17, 1997, p. 50; Larry Light and David Greising, "Litigation: The Choice of a New Generation," *Business Week*, May 25, 1998, p. 42; Ed Marso, "Cola Wars," *Asian Business*, December 1998, pp. 10–12; and Larry Light, "The Pepsi Regeneration," *Business Week,* March 22, 1999, p. 44.

will be airfreighted to New York, where they will be redistributed to department and specialty stores around the country.

Many domestically purchased goods and services are hybrids, with design, materials purchases, manufacturing, and marketing taking place in several countries. Americans who decide to "buy American" might be surprised to learn that a Dodge Colt was actually made in Japan and a Honda was primarily assembled in the United States from American-made parts.

Thus, managers in countries around the world are asking: What is global marketing? How does it differ from domestic marketing? How do global competitors and forces affect our business? To what extent should we "go global"? Many companies are forming strategic alliances with foreign companies, even competitors, who serve as suppliers or marketing partners. The past few years have produced some surprising alliances between such competitors as Ford and Mazda, General Electric and Matsushita, and AT&T and Olivetti. Winning companies in the next century may well be those that have built the best global networks.

The Changing World Economy

A large part of the world has grown poorer during the past few decades. A sluggish world economy has resulted in more difficult times for both consumers and marketers. Around the world, people's needs are greater than ever, but in many areas, people lack the means to pay for needed goods. Markets, after all, consist of people with needs *and* purchasing power. In many cases, the latter is currently lacking. In the United States, although wages have risen, real buying power has declined, especially for the less-skilled members of the workforce. Many U.S. households have managed to maintain their buying power only because both spouses work. Furthermore, many workers have lost their jobs as manufacturers have "downsized" to cut costs.

Current economic conditions create both problems and opportunities for marketers. Some companies are facing declining demand and see few opportunities for growth. Others, however, are developing new solutions to changing consumer problems. Many are finding ways to offer consumers "more for less." Wal-Mart rose to market leadership on two principles, emblazoned on every Wal-Mart store: "Satisfaction Guaranteed" and "We Sell for Less—Always." When consumers enter a Wal-Mart store, they are welcomed by a friendly greeter and find a huge assortment of good-quality merchandise at everyday low prices. The same principle explains the explosive growth of factory outlet malls and discount chains—these days, customers want value. This even applies to luxury products: Toyota introduced its successful Lexus luxury automobile with the headline, "Perhaps the First Time in History that Trading a $72,000 Car for a $36,000 Car Could Be Considered Trading Up."

The Call for More Ethics and Social Responsibility

Today's marketers must also take responsibility for the social and environmental impact of their actions. Corporate ethics has become a hot topic in almost every business arena, from the corporate boardroom to the business school classroom. And few companies can ignore the renewed and very demanding environmental movement.

The ethics and environmental movements will place even stricter demands on companies in the future. Consider recent environmental developments. After the fall of communism, the West was shocked to find out about the massive environmental negligence of the former Eastern bloc governments. In many Eastern European countries, the air is fouled, the water is polluted, and the soil is poisoned by chemical dumping. In June

Today's forward-thinking companies are responding strongly to the ethics and environmental movements. Here, ITT states "All of our companies share a common goal: To improve the quality of life. Because It's not just how you make a living that's important, it's how you live."

1992, representatives from more than 100 countries attended the Earth Summit in Rio de Janeiro to consider how to handle problems such as the destruction of rain forests, global warming, endangered species, and other environmental threats. Clearly, in the future companies will be held to an increasingly higher standard of environmental responsibility in their marketing and manufacturing activities.[34]

The New Marketing Landscape

The past decade taught business firms everywhere a humbling lesson. Domestic companies learned that they can no longer ignore global markets and competitors. Successful firms in mature industries learned that they cannot overlook emerging markets, technologies, and management approaches. Companies of every sort learned that they cannot remain inwardly focused, ignoring the needs of customers and their environment.

The most powerful U.S. companies of the 1970s included companies such as General Motors and Sears. But both of these giant companies failed at marketing, and today both are struggling. Each failed to understand its changing marketplace, its customers, and the need to provide value. Today, General Motors is still trying to figure out why so many consumers around the world switched to Japanese and European cars. Mighty Sears has lost its way, losing share both to fashionable department and specialty stores on the one hand and to discount mass merchandisers on the other.

As we move into the next century, companies will have to become customer oriented and market driven in all that they do. It's not enough to be product or technology driven—too many companies still design their products without customer input, only to find them rejected in the marketplace. It is not enough to be good at winning new customers—too many companies forget about customers after the sale, only to lose their future business. Not surprisingly, we are now seeing a flood of books with titles such as *The Customer-Driven Company*, *Customers for Life*, *Turning Lost Customers Into Gold*, *Customer Bonding*, *Sustaining Knock Your Socks Off Service*, and *The Loyalty Effect*.[35] These books emphasize that the key to success in the rapidly changing marketing environment will be a strong focus on the marketplace and a total marketing commitment to providing value to customers.

REST STOP

Reviewing the Concepts

Now that you've completed the first leg of your marketing journey, let's review what you've seen. So far, we've examined the basics of what marketing is, the philosophies that guide it, and the challenges it faces in the new millennium.

Today's successful companies—whether large or small, for-profit or nonprofit, domestic or global—share a strong customer focus and a heavy commitment to marketing. Many people think of marketing as only selling or advertising. But marketing combines many activities—marketing research, product development, distribution, pricing, advertising, personal selling, and others—designed to sense, serve, and satisfy consumer needs while meeting the organization's goals. Marketing seeks to attract new customers by promising superior value and to keep current customers by delivering satisfaction.

Marketing operates within a dynamic global environment. Rapid changes can quickly make yesterday's winning strategies obsolete. In the next century marketers will face many new challenges and opportunities. To be successful, companies will have to be strongly market focused.

1. Define what marketing is and discuss its core concepts.

Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others. The core concepts of marketing are *needs*, *wants*, and *demands*; *products and services*; *value*, *satisfaction*, and *quality*; *exchange*, *transactions*, and *relationships*; and *markets*. *Wants* are the form assumed by human needs when shaped by culture and individual personality. When backed by buying power, wants become *demands*. People satisfy their needs, wants, and demands with products and services. A *product* is anything that can be offered to a market to satisfy a need, want, or demand. Products also include *services* and other entities such as *persons*, *places*, *organizations*, *activities*, and *ideas*.

2. Explain the relationships between customer value, satisfaction, and quality.

In deciding which products and services to buy, consumers rely on their perception of relative value. *Customer value* is the difference between the values the customer gains from owning and using a product and the costs of obtaining and using the product. *Customer satisfaction* depends on a product's perceived performance in delivering value relative to a buyer's expectations. Customer satisfaction is closely linked to *quality*, leading many companies to adopt *total quality management* (TQM) practices. Marketing occurs when people satisfy their needs, wants, and demands through *exchange*. Beyond creating short-term exchanges, marketers need to build long-term relationships with valued customers, distributors, dealers, and suppliers.

3. Define marketing management and examine how marketers manage demand and build profitable customer relationships.

Marketing management is the analysis, planning, implementation, and control of programs designed to create, build, and maintain beneficial exchanges with target buyers for the purpose of achieving organizational objectives. It involves more than simply finding enough customers for the company's current output. Marketing is at times also concerned with changing or even reducing demand. Managing demand means managing customers. Beyond designing strategies to *attract* new customers and create *transactions* with them, today's companies are focusing on *retaining* current customers and building lasting relationships through offering superior customer value and satisfaction.

4. Compare the five marketing management philosophies.

Marketing management can be guided by five different philosophies. The *production concept* holds that consumers favor products that are available and highly affordable; management's task is to improve production efficiency and bring down prices. The *product concept* holds that consumers favor products that offer the most quality, performance, and innovative features; thus, little promotional effort is required. The *selling concept* holds that consumers will not buy enough of the organization's products unless it undertakes a large-scale selling and promotion effort. The *marketing concept* holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do. The *societal marketing* concept holds that generating customer satisfaction *and* long-run societal well-being are the keys to achieving both the company's goals and its responsibilities

5. Analyze the major challenges facing marketers heading into the next century.

As they head into the next century, companies are wrestling with changing customer values and orientations; a sluggish world economy; the growth of nonprofit marketing; the information technology boom, including the Internet; rapid globalization, including increased global competition; a call for greater ethical and social responsibility; and a host of other economic, political, and social challenges.

Navigating the Key Terms

For a detailed analysis of the meaning and importance of each of the following key terms, visit our Web page at **www.prenhall.com/kotler**

Customer satisfaction
Customer value
Demands
Demarketing
Exchange
Internet
Market
Marketing
Marketing concept
Marketing management
Needs
Product
Product concept
Production concept
Relationship marketing
Selling concept
Service
Societal marketing concept
Total quality management (TQM)
Transaction
Wants

Travel Log

The following concept checks and discussion questions will help you to keep track of and apply the concepts you've studied in this chapter.

Concept Checks

Fill in the blanks, then look below for the correct answers.

1. __________ is the delivery of customer satisfaction at a profit.
2. Today, marketing must be understood not in the old sense of making a sale—"telling and selling"—but in the new sense of __________.
3. The concept of __________ is not limited to physical objects—anything capable of satisfying a need can be called a __________.
4. __________ is the difference between the values the customer gains from owning and using a product and the costs of obtaining the product.
5. Smart companies aim to __________ customers by promising only what they can deliver, then delivering more than they promise. Customer __________ creates an emotional affinity for a product or service, not just a rational preference, and this creates high customer loyalty.

6. The fundamental aim of today's total quality movement has become ___________.
7. The goal of ___________ is to deliver long-term value to customers, and the measures of success are long-term customer satisfaction and retention.
8. A ___________ is the set of actual and potential buyers of a product.
9. There are five alternative concepts under which organizations conduct their marketing activities: They are the ___________, ___________, ___________, ___________, and ___________ concepts.
10. "We make it happen for you," "To fly, to serve," "We're not satisfied until you are," and "Let us exceed your expectations" are all colorful illustrations of the ___________ concept.*

Discussing the Issues

1. Answer the question, "What is marketing?"
2. Discuss the concept of customer value and its importance to successful marketing. How are the concepts of customer value and relationship marketing linked?
3. Identify the single biggest difference between the marketing concept and the production, product, and selling concepts. Discuss which concepts are easier to apply in the short run. Which concept offers the best long-run success? Why?
4. According to economist Milton Friedman, "Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible." Do you agree or disagree with Friedman's statement? What are some of the drawbacks of the societal marketing concept?
5. As indicated in the text, "The explosive growth in computer, telecommunications, and information technology has had a major impact on the way companies bring value to their customers." List and briefly explain five ways this trend has affected average consumers and their purchasing habits. Be sure to include in your discussion the impact of the Internet on marketing practices.

* *Concept check answers:* 1. marketing; 2. satisfying customer needs; 3. product, product; 4. customer value; 5. delight, delight; 6. total customer satisfaction; 7. relationship marketing; 8. market; 9. production, product, selling, marketing, and societal marketing concepts; 10. marketing concept

Traveling the Net

Point of Interest: The Marketing Concept

Companies can demonstrate the marketing concept on their Web sites by including features that are important to customers and prospects. Web users want to know about product benefits and where they can purchase the firm's products. However, sites that give users something of interest beyond product descriptions create additional value for the customer. Many sites attempt to target customer segments by language, gender, degree of technical understanding, and age. Finally, an important sign of customer orientation is having an e-mail address that is easy to remember, use, and communicate to the consumer. Evaluate the following Web site based on its perceived attention to the marketing concept: www.apple.com

For Discussion

1. What do you think is the most important customer benefit stressed on this site?
2. What new products did you find?
3. To what extent does this site employ the marketing concept? Support your judgment.
4. Is there anything missing from the site? How could Apple improve the site to enhance the marketing of its products?

Application Thinking

Go to www.compaq.com, www.dell.com, and www.ibm.com and compare these sites to the www.apple.com site in terms of how well they apply the marketing concept. Develop a list of important site characteristics and construct a grid in which you compare the sites on these characteristics. Present your findings in class.

MAP—Marketing Applications

Using the MAP Feature

The best way to become a good marketing decision maker is to practice marketing decision making. In MAP (marketing application) stops at the end of each chapter, you will find interesting case histories, real-life situations, or timely descriptions from business articles that illustrate specific chapter subjects. At each MAP stop, you will be asked to make marketing decisions as though you are the marketing manager of the company in question. Here's your first MAP Stop—have fun on your journey!

MAP Stop 1

For many years, Apple Computer's share of market has dwindled, stock prices have fallen, and consumers have lost confidence in what was once one of the computer industry's most dynamic and fun companies. Now, things may be changing. The company recently introduced its first really exciting new product in many years—the iMac. The iMac appears to be a throwback to the original Macintosh. It has a price tag of $1,299, an all-in-one design (with no provision for expansion), and a flashy metallic blue color and space-age-looking monitor that really catch the eye. The main virtue of the iMac is its simplicity (you can get it set up and running in about five minutes). With the iMac, Apple appears to be targeting first-time users who want a computer that is easy to understand, uses one system, has a hookup to the Internet, and will fit easily on a desk or in a dorm room. The iMac seems to have it all. However, critics point out that it only has a CD drive, a small 15″ monitor, and a 4-GB hard drive.

Thinking Like a Marketing Manager

1. What elements of the marketing concept does Apple appear to be applying with the iMac?
2. Go to a retail outlet that carries the iMac, or go online to www.apple.com, and review the new product for yourself. What seem to be the advantages and the disadvantages of the product? What do you think will be the primary target market(s) for the product?
3. Keeping in mind the marketing concept, relationship marketing, and customer value, design a strategy to overcome criticisms of the iMac and help it maintain profitable sales past its introductory period. Present your strategy to the class.