Marketing - An Introduction 16th edition Armstrong Solutions Manual

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CHAPTER 1
MARKETING: CREATING CUSTOMER VALUE AND ENGAGEMENT

Objectives Outline

1-1. Define marketing and outline the steps in the marketing process.
1-2. Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.
1-3. Identify the key elements of a customer value-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.
1-4. Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return.
1-5. Describe the major trends and forces that are changing the marketing landscape in this age of relationships.

Previewing the Concepts

Marketing is managing profitable customer relationships.

The aim of marketing is to create value for customers and to capture value in return.

Chapter 1 is organized around five steps in the marketing process (see Figure 1.1)—from understanding customer needs and designing customer-driven marketing strategies and programs to building customer relationships and capturing value for the firm.

ANNOTATED CHAPTER NOTES/OUTLINE

FIRST STOP

Amazon: Obsessed with Creating Customer Value, Engagement, and Relationships

When you think of shopping online—or of shopping anywhere, for that matter—chances are good that you think first of Amazon.

The online pioneer first opened its virtual doors in 1995, selling books. Amazon is rapidly moving beyond online selling, not just into physical stores but also into video and music streaming, cloud services, and the Internet of Things. If one company represents where the world is now headed, it's probably Amazon.

Amazon makes each customer's shopping experience unique to them. Using the latest technologies, including AI, Amazon offers the conveniences of 1-Click ordering and Alexa. They also offer easy returns through partnerships with businesses such as Kohl's, UPS, and their own Whole Foods stores. In an effort to provide a more seamless experience for its customers, Amazon has experimented with other physical formats—Amazon Fresh and Amazon Go. These customers conveniences come at an expense to Amazon.

To better manage and control these expenses, Amazon uses its physical stores as platforms for the pickup, delivery, and return of other goods. They also use their own fleet of delivery vehicles enabling it to out-deliver UPS and FedEx. While this enhances the customer's omnichannel experience, it helps Amazon establish a corporate vertical marketing system (VMS). (This is explored more in Chapter 10.)

WHAT IS MARKETING?

A simple definition of marketing is *engaging customers and managing profitable customer relationships*.

Marketing must both attract new customers and grow the current customers.

Every organization must perform marketing functions, not just for-profit companies.

Non-profits (colleges, hospitals, and churches) also must perform marketing. Today's marketers want to become a part of your life and enrich your experiences with their brands. They want to help you live their brands.

Marketing Defined

Most people think of marketing as selling and/or advertising— "telling and selling."

Selling and advertising are only part of a larger **marketing mix**—a set of marketing tools that work together to satisfy customer needs and build customer relationships.

We define **marketing** as a social and managerial process by which individuals and organizations obtain what they need and want through creating and exchanging value with others.

Use **Chapter Objective 1** here. Use **Key Term** *Marketing* here.

The Marketing Process

Figure 1.1 shows the five-step marketing process.

1. Understand the marketplace and customer needs and wants.
2. Design a customer-driven marketing strategy.
3. Construct an integrated marketing mix that delivers superior value.
4. Engage customers, build profitable relationships, and create customer delight.
5. Capture value from customers to create profits and customer equity.

Use **Figure 1.1** here.

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

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

UNDERSTANDING THE MARKETPLACE AND CUSTOMER NEEDS

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

Customer Needs, Wants, and Demands

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

Human **needs** are states of felt deprivation. They include *physical, social, and individual* needs. Marketers did not create these needs; they are a basic part of the human makeup.

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

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

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

Use **Key Terms** *Needs*, *Wants*, and *Demands* here. Use **Discussion Question 1-1** here.

Market Offerings—Products, Services, Solutions, and Experiences

Needs and wants are fulfilled through **market offerings**—some combination of products, services, information, or experiences offered to a market to satisfy a need or want. Market offerings are not limited to physical *products.* They also include *services*—activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, airline, hotel, retailing, and home repair services. They include solutions—combinations of products and services offered that solve customer problems in their entirety, as when a tour company provides end-to-end vacation planning and execution for a family. And they include experiences—offerings that are designed to create customer journeys with memorable customer touch points.

Marketing myopia occurs when a company becomes so taken with their own products that they lose sight of underlying customer needs. They focus on the product they are offering and not the customer benefits and experiences the product delivers.

Use **Chapter Objective 2** here.
Use **Key Terms** *Market Offerings* and *Marketing Myopia* here.
Use **Discussion Question 1-3** here.

Customer Value and Satisfaction

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

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

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

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

Exchanges and Relationships

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

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

Use **Key Term** *Exchange* here.

Markets

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

Marketing means managing markets to bring about profitable customer relationships.

Figure 1.2 shows the main elements in a marketing system.

Use **Figure 1.2** here.
Use **Key Term** *Market* here.

DESIGNING A CUSTOMER VALUE-DRIVEN MARKETING STRATEGY AND PLAN

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

Use **Chapter Objective 3** here. Use **Key Term** *Marketing Management* here. Use **Discussion Question 1-2** here.

The marketing manager must answer two important questions:
1. What customers will we serve (what's our target market)?
2. How can we serve these customers best (what's our value proposition)?

Selecting Customers to Serve

A company must decide *whom* it will serve.

It does this by dividing the market into segments of customers (*market segmentation*) and selecting which segments it will go after (*target marketing*).

Marketing managers know they cannot serve all customers. By trying to do so, they end up not serving any well.

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

Choosing a Value Proposition

A company's *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs. (JetBlue promises "Just Alright Doesn't Fly Here" by bringing "humanity back to travel." By contrast, Spirit Airlines gives you "Bare Fare" pricing: "Less Money. More Go." Netflix wants simply to let you "See What's Next." And online accommodations site Airbnb helps people to "Belong Anywhere"—to live like a local wherever they travel.

Such value propositions *differentiate* one brand from another.

Marketing Orientations

Marketing managers want to design strategies that will build profitable relationships with target consumers. But what *philosophy* should guide these marketing strategies?

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

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

Management should focus on improving production and distribution efficiency.

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

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

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

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

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

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

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

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

The **selling concept** takes an *inside-out* approach, whereas the **marketing concept** uses an *outside-in* perspective. (see Figure 1.3)

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

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

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

Many leading business and marketing thinkers are now preaching the concept of *shared value*, which recognizes that societal needs, not just economic needs, define markets.

The societal marketing concept holds that companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, *and* society's interests. (see Figure 1.4)

Use **Key Terms** *Production Concept, Product Concept, Selling Concept, Marketing Concept,* and *Societal Marketing Concept* here.
Use **Figures 1.3** and **1.4** here.
Use **Critical Thinking Exercise 1-7** here.

Preparing an Integrated Marketing Mix

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

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

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

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

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

Use **Linking the Concepts 1** here.

MANAGING CUSTOMER RELATIONSHIPS AND CAPTURING CUSTOMER VALUE

Engaging Customers and Managing Customer Relationships

The first three steps in the marketing process all lead up to the fourth step: engaging customers and managing profitable customer relationships.

Customer Relationship Management

Customer relationship management (CRM) is the most important concept of modern marketing.

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

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

Relationship Building Blocks: Customer Value and Satisfaction
The key to building lasting customer relationships is to create superior customer value and satisfaction.

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

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

They act on *perceived* value.

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

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

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 prices or increasing its services. But this may result in lower profits.

The purpose of marketing is to generate customer value profitably.

Use **Discussion Question 1-5** here.
Use **Chapter Objective 4** here.
Use **Key Terms** *Customer Relationship Management, Customer-Perceived Value,* and *Customer Satisfaction* here.
Use **Discussion Question 1-6** here.

Customer Engagement and Today's Digital Media
Yesterday's companies focused on mass marketing to all customers at arm's length.

Today's companies are using online, mobile, and social media to refine their targeting and to engage customers more deeply and interactively.

Customer-Generated Marketing

A growing part of the new consumer dialogue is customer-generated marketing, by which customers themselves are playing a bigger role in shaping their own brand experiences and those of others.

Old marketing involved marketing brands to consumers. The new marketing is customer-engagement marketing.

Customer-engagement marketing goes beyond just selling a brand to consumers. Its goal is to make the brand a meaningful part of consumers' conversations and lives.

Use **Key Term** *Customer-Engagement Marketing* here.

Marketers are now embracing not only customer relationship management but also *customer-managed relationships*, in which customers connect with companies and with each other to help forge and share their own brand experiences.

Marketers want to create *customer brand advocacy*, by which satisfied customers initiate favorable interactions with others about a brand.

Greater consumer empowerment means that companies can no longer rely on marketing by *intrusion*. Instead, they must practice marketing by *attraction*.

Use **Key Term** *Customer-Generated Marketing* here. Use **Critical Thinking Exercise 1-8** here.

Partner Relationship Management
Marketers must not only be good at customer relationship management, they must also be good at **partner relationship management** (PRM)**—**working closely with others inside and outside the company to jointly bring more value to customers.

The new thinking is that—no matter what your job is in the company—you must understand marketing and be customer focused.

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

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

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

Use **Key Term** *Partnership Relationship Management* here.

Capturing Value from Customers

The first four steps in the marketing process outlined in Figure 1.1 involve engaging customers and building customer relationships. The final step involves capturing value in return.

By creating superior customer value, the firm creates highly satisfied customers who stay loyal, buy more, and advocate the brand to others.

Creating Customer Loyalty and Retention

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

Companies realize that losing a customer means losing the entire stream of purchases the customer would have made over a lifetime of patronage. This is known as **customer lifetime value**.

Use **Key Term** *Customer Lifetime Value* here.

Growing Share of Customer

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

Use **Key Term** *Share of Customer* here.

Building Customer Equity

Companies want not only to create profitable customers, but also to "own" them for life, capture their customer lifetime value, and earn a greater share of their purchases.

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

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

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

Building the Right Relationships with the Right Customers
Not all customers, not even all loyal customers, are good investments.

Figure 1.5 classifies customers into one of four relationship groups, according to their profitability and projected loyalty.

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

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

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

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

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

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

Use **Key Term** *Customer Equity* here. Use **Figure 1.5** here. Use **Linking the Concepts 2** here. Use **Marketing by the Numbers** here.

THE CHANGING MARKETING LANDSCAPE

This section looks at four major developments: the digital age, the growth in not-for-profit marketing, rapid globalization, and the call for sustainable marketing practices.

Marketing in the Digital Age

Today, everything and everyone are digitally connected to everything and everyone else.

There are 5 billion social media users, who spend an average of 6.4 hours online daily.

The COVID-19 pandemic greatly hastened the shift to digital in almost every area of human activity, including marketing-related activities.

Online, Mobile, and Social Media Marketing

Online, mobile, and social media marketing involves using digital marketing tools and digital platforms to engage consumers anywhere, anytime.

At the most basic level, marketers set up company and brand websites that provide information and promote the company's products.

Beyond brand websites, most companies are also integrating social and mobile media into their digital marketing mixes.

Social media marketing provides opportunities to extend customer engagement in real-time by engaging consumers in the moment about trending topics.

Online social media provide a digital home where people can connect and share important information and moments in their lives.

Mobile marketing is the fastest growing digital marketing platform.

Marketers use mobile channels to stimulate immediate buying, make shopping easier, and enrich the brand experience.

91 percent of U.S. shoppers make online purchases using their smartphones and mobile commerce sales are expected to account for 62 percent of all retail sales by 2027.

Digital marketing spending now totals about $700 billion per year globally.

Artificial Intelligence (AI) and Big Data

With the explosion in digital technologies, marketers can now amass mountains of data.

Brands can use such *big data* to gain deep customer insights, personalize marketing offers, and improve customer engagements and service.

Artificial intelligence (AI) involves technology that mimics the way humans think and learn to perform tasks that typically require human intelligence but much faster and with greater analytical capacity.

Use **Chapter Objective 5** here.
Use **Key Terms** *Online, Mobile, and Social Media Marketing* here.
Use **Key Terms** *Artificial Intelligence and Big Data* here.
Use **Discussion Question 1-4** here.
Use **Critical Thinking Exercise 1-9** here.

The Growth of Not-for-Profit Marketing

The nation's nonprofits face stiff competition for support and membership. Sound marketing can help them to attract membership and support.

Government agencies have shown an increased interest in marketing. The U.S. military is

SUGGESTED ANSWERS FOR APPENDIX 1: COMPANY CASES

MAI16 Chapter 1 Company Case
Walt Disney World Resort: Making Magical Moments

Case Summary:
Walt Disney World Resort has earned its reputation as the most magical place on earth. For decades, it's been the go-to destination for millions of people who want to leave the everyday behind, if only for a while. Spanning over 40 square miles in Florida, Disney World welcomes more than 58 million visitors each year. Whether one is flying through the stars on Space Mountain or enjoying dinner inside Beast's enchanted castle, every moment feels carefully crafted to be unforgettable. But it's not just the attractions that make Disney stand out. It's the way the staff, or "cast members," bring everything to life. They're trained to go above and beyond in making guests feel special, whether that's handing out a special pin or arranging a surprise visit with a favorite character. These small gestures create the kind of memories that last long after the trip is over. However, as Disney's popularity has grown, so have the challenges. Managing the crowds while still offering those personal, magical experiences is no easy task. That's where the Lightning Lane system comes in—it lets guests skip the long lines for a fee. While some feel this creates a divide, it's one way Disney has tried to balance the guest experience with the sheer number of visitors. Even with the rising costs and occasional frustrations, Disney continues to deliver something truly unique. For most people, it's not just about the rides or the shows—it's about stepping into a world where dreams feel possible. And for many, that feeling is worth the price of admission.

Questions for Discussion:

1. Describe the Walt Disney World experience based on the concepts of needs, wants, and demands, differentiating the three.

At the core of Disney's magic is their deep understanding of what people need, want, and demand. Needs are the basics—things like entertainment, relaxation, and spending quality time with family. Disney fulfills these by providing a place where families can bond and create lasting memories together. But Disney doesn't stop there. Wants are more specific, shaped by individual preferences. Guests don't just want a theme park—they want to immerse themselves in adventure, fantasy, and storytelling. Whether it's meeting their favorite character or flying through space on a roller coaster, Disney taps into these desires and delivers experiences that resonate deeply. Then there's demand. People are eager to pay for Disney experiences, no matter the cost. Guests see the value in those unique, emotional moments.

2. What does Walt Disney World teach us about the internal culture, people, and processes that must be in place for an organization to create and deliver great customer experiences?

Disney World shows us how powerful an internal culture can be when it comes to delivering top-notch customer experiences. It all starts with their cast members—the employees who create the magic. These cast members aren't just trained to do their jobs; they're trained to understand and embody the spirit of Disney. Through Disney's "Traditions" program, employees learn the company's values, history, and the importance of making every guest feel special. It's not just a job—it's a performance. And that's backed by rock-solid processes, like the relentless attention to park maintenance and consistent service standards. Every cast member knows their role in creating those magical moments, and it's this level of alignment and empowerment that makes Disney's guest experiences unforgettable.

3. Analyze the role of personalization in Disney's customer service approach. How does this contribute to customer loyalty and satisfaction?

Personalization is Disney's secret sauce for making every visit feel magical. It's not about offering a one-size-fits-all experience—Disney excels at creating moments that feel personal to each guest. Cast members are trained to spot opportunities for small but meaningful interactions, like handing out a fast pass to a family who had a rough moment or arranging a character surprise for a child. Technology also plays a big role, with MagicBands allowing Disney to recognize guests by name and celebrate special occasions throughout their visit. These little touches make guests feel seen and valued, turning a good day at the park into a truly unforgettable one. This level of personalization isn't just about remembering someone's name—it's about making each guest feel like the experience was crafted just for them. And when people feel that level of care, it builds a strong sense of loyalty and keeps them coming back for more.

4. Discuss the balance Disney must strike between maintaining a premium brand image and being inclusive to a broad demographic. How can Disney address the criticisms regarding its pricing strategy and accessibility for average families?

Disney walks a fine line between being a premium brand and staying accessible to a wide audience. The company's commitment to delivering high-quality, magical experiences means maintaining high standards, which comes with a price tag. But there's growing criticism that Disney is becoming too expensive for the average family. To address this, Disney could explore offering more flexible pricing options—like bigger discounts during off-peak times or more affordable package deals. They could also create more budget-friendly experiences, like free in-park activities or lower-cost accommodations, allowing families of all income levels to still enjoy the magic. The challenge for Disney is to keep its premium image intact while ensuring that families, no matter their budget, can still experience the joy and wonder that has made Disney a household name.

5. ***Small group exercise:*** **Choose any industry—health care, transportation, education, dining, or any other. Apply the learnings from Walt Disney World to come up with specific, innovative ideas to create fantastic experiences in your chosen industry. Present your ideas.**

Group answers will vary. Guide students to apply Disney's customer experience strategies—such as personalization, attention to detail, and creating memorable interactions—to their chosen industry. Students should be encouraged to think creatively about how they can elevate the customer experience by drawing on Disney's approach, including immersive environments, high-quality customer service training, and personalized touches. Ask students to clearly translate Disney's methods into practical, industry-specific ideas that enhance customer satisfaction. Also, consider encouraging innovation and practicality in the students' presentations. While creativity is important, the ideas should be feasible and relevant to the challenges within the chosen industry. Emphasize how the proposed strategies could differentiate a business, create strong customer loyalty, and improve brand image, similar to how Disney has built its reputation.