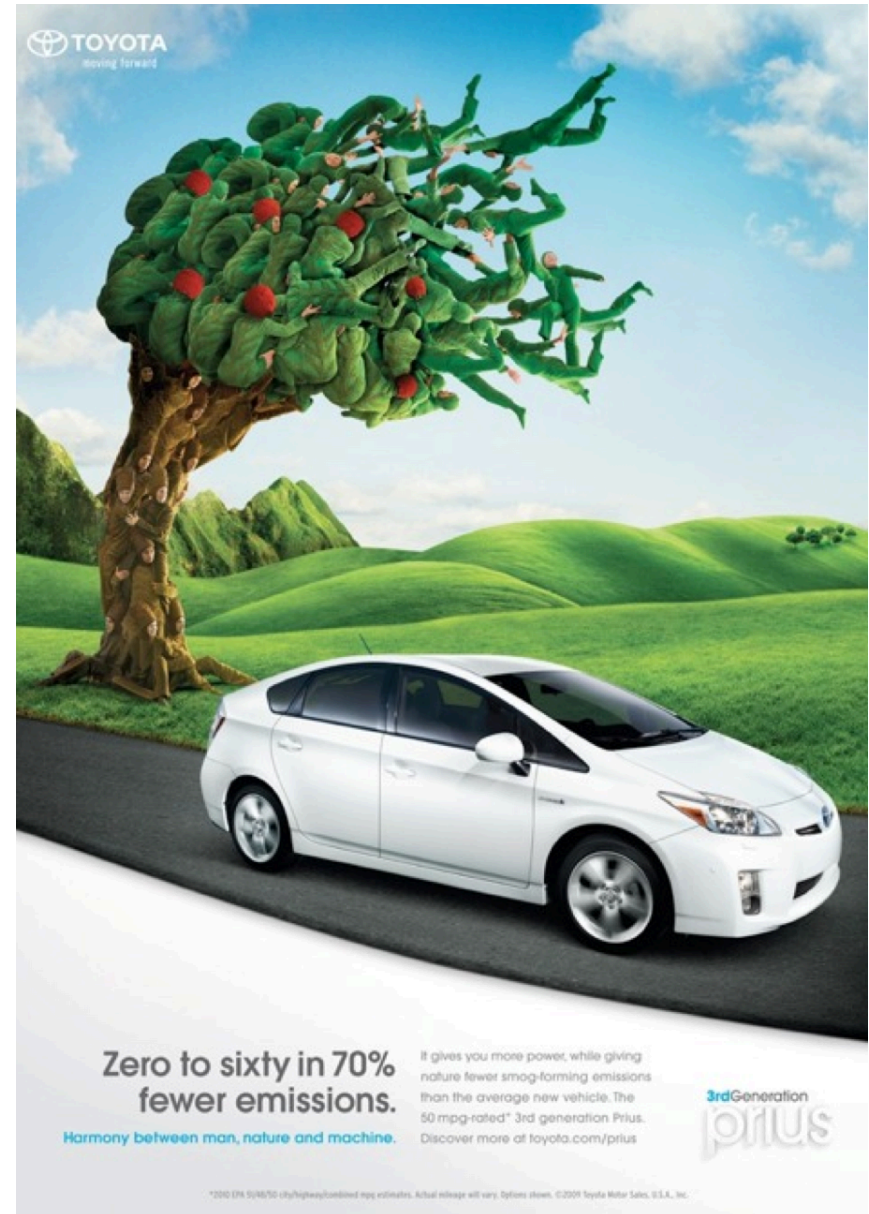


Introduction to Marketing and Market-Based Management

Dr. Roger J. Best

This chapter provides an overview of basic marketing concepts for those new to marketing.

This knowledge base will provide a foundation for the concepts presented in ***Market-Based Management***, 6th edition.



THE MARKETING EXCHANGE PROCESS

Ask most people for a definition of marketing and they will talk about advertising. However, advertising is one small part of the marketing exchange process.

At the most basic level, marketing is an exchange relationship between producers and consumers – one where producers and consumers exchange value (1). Producers provide a product, service or political promise to consumers in exchange for money or other compensation, such a donation to a nonprofit organization or your vote for political candidate.

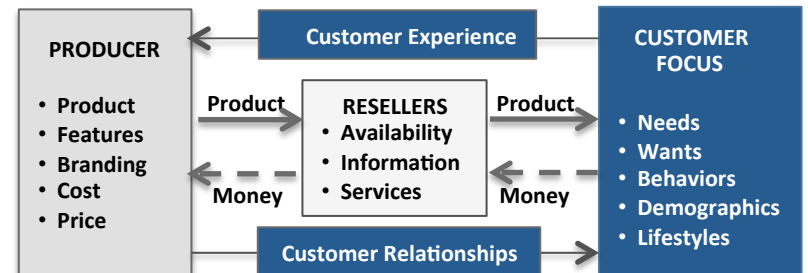
For example, consumers exchange money for a car that offers desired benefits, as illustrated in Figure 1.1. In this case Prius car consumers exchange money for a car that promises certain customer benefits through a reseller that facilitates the marketing process.. This marketing exchange process can take on three different marketing exchange orientations (2):

- **Customer Orientation** – What customers need.
- **Sales Orientation** – What we have to sell.
- **Production Orientation** – What we produce.

FIGURE 1.1: THE MARKETING EXCHANGE PROCESS



FIGURE 1.2 CUSTOMER ORIENTATION



Orientation: We strive to produce products that customers need/want.

Customer Orientation

A business with a customer orientation targets specific customers based on their wants, needs, and use behaviors. An important part of this process is the detailed understanding of target customers—or, in other words, the voice of the customer. Furthermore, a business with a customer orientation develops relationships with target customers and maintains conversations with them. Based on this understanding of customer needs, producers formulate products with benefits and features at a price that is attractive to customers.

A strong customer focus also allows a customer-oriented business to understand their experience in using the business' products and the associated levels of customer satisfaction. The ultimate goal is continuous improvement of products that better meet the needs of target customers. The key components of a customer orientation are presented in dark blue in Figure 1.2.

The marketing process for the Prius is a good example of strong customer orientation. This process is focused around the voice of the customer, the customer experience, and the desired balance of price and performance. Customer needs, wants,

FIGURE 1.3: PRIUS OWNER DEMOGRAPHICS AND LIFESTYLES

A common misconception is that Prius buyers are young and trendy.



In reality, Prius drivers are older than the average car buyer and have higher incomes. Over 70 percent of Prius drivers have incomes over \$100,000, higher levels of education, and have a distinctive lifestyle as outlined below in the Prius Customer Profile.

Prius owners are also more likely to consume organic food, yogurt, and decaf coffee and are more likely to enjoy hiking and practice yoga. They are predominately Democrats (38%) and Independents (34%).

and desired experience drove product design, pricing, distribution and advertising. These factors included lifestyle, activities, interests and beliefs—as well as age, income, education, location, household, and other demographics.

One of the major advantages of a customer orientation is an intimate understanding of target customers. This allowed the Prius product-marketing team to avoid personal assumptions about potential customers, as illustrated in Figure 1.3. In actuality, Prius customers are older than the average car buyer with higher incomes and higher levels of education (3). Their needs go beyond the need for fuel efficiency, and include environmental impact and a driving experience that fits their life-style and usage.

Sales Orientation

Many companies operate with a sales orientation. These are businesses that are focused on convincing consumers to want whatever they manufacture. These products may or may not match buyer needs for desired product benefits, features and price. Businesses with a sales orientation rely on channel sales and advertising to sell their products to consumers with certain demographics, shopping

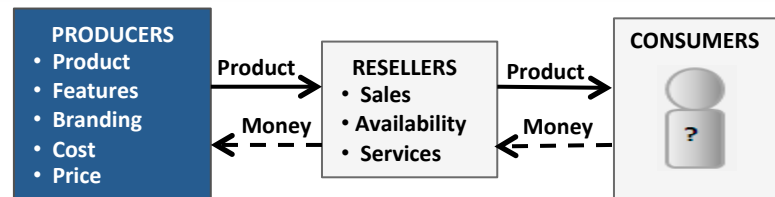
FIGURE 1.4: SALES ORIENTATION

Orientation: We strive to convince customers to want what we produce.

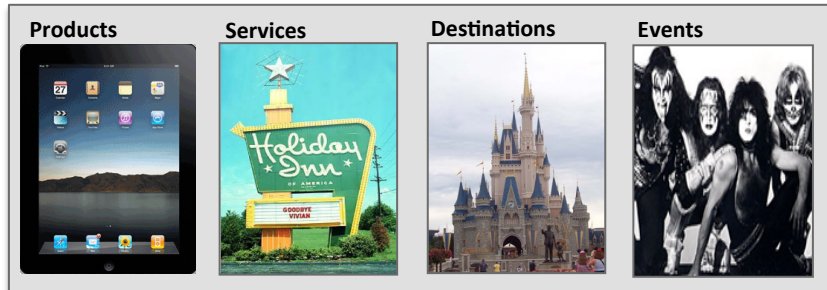
behaviors and media habits, as shown in Figure 1.4. They may have an idea who buys their product, but likely do not know why. As a result, these businesses are at risk of losing consumers to competitors that offer a better combination of product performance and price.

Production Orientation

A business with a production orientation produces what they are good at and distribute the product for interested consumers to purchase. This orientation is common when there is limited supply and few competitors. There is little or no effort to understand customers and customer needs. This was true for early production of automobiles, radios, TVs, personal computers and many other products. As these markets evolved with more competitors and products that better met customer needs, these

FIGURE 1.5: PRODUCTION ORIENTATION

Orientation: We sell what we are good at producing.

FIGURE 1.6: FOR PROFIT MARKETING EXCHANGES

companies disappeared while clinging on to what they like to make.

A technology orientation is a modern-day application of a production orientation. This application of the marketing process centers around a product that few customers know they want or can afford. Technology companies are often blinded by the love of their own technology and generally ignore what customers need or want.

APPLYING THE MARKETING EXCHANGE PROCESS

The marketing process is an exchange between a seller and buyer. This process is most evident in our everyday lives as we exchange our money for groceries, gasoline, concert tickets, airline tickets, restaurant meals, car maintenance and tickets to Disney World (4).

For-profit: Products, Services, Destinations and Events

In for-profit marketing exchanges, consumers are exchanging money for products, services, destinations, and events as shown in Figure 1.6. Consumers have many choices, but will select offerings that best match their needs for what is offered at the price offered. For the marketing exchange to occur, the customer needs to understand their buying options in terms of performance, price and availability.

FIGURE 1.7: FOR NON-PROFIT MARKETING EXCHANGES

Non-profit: Programs, People, Causes and Ideas

Less evident are non-profit marketing exchanges (5). As shown in Figure 1.7, there are four major categories of non-profit marketing exchanges – programs, people, causes and ideas. There are many examples of each of these exchanges. When you give blood to the Red Cross, you help someone that is in need of blood. Programs such as United Way or American Cancer Foundation involve an exchange of a donation for support of these programs. People marketing exchanges are most evident the marketing of political candidates. The voter is exchanging a donation and their vote to support a candidate's platform.

Causes like Save The Whales are asking for donations in exchange for efforts to save whales. Causes like Habitat for Humanity are asking for your time and effort in exchange to be a part of building a house for someone in need of a house. Finally, idea exchanges like recycling are designed to make the world a better place to live.

When you apply for a job you are marketing yourself. The better you understand the needs of the buyer (hiring company) the better you can position yourself as the person they want to hire for the job.

Marketing and Social Responsibility

Marketing can have a profound impact on society and human behavior. Applied with a customer orientation and recognition of social responsibilities, marketing can contribute to the improvement of society lifestyles. For example, development of toothpaste that prevents tooth decay but also provides the benefit of a good taste or whiter teeth can contribute to a lower level of tooth decay and higher levels of customer satisfaction. At the other extreme, marketing can be used to manipulate people to buy products they do not need and/or may not be good for them. Socially responsible companies should aspire to produce desirable products that provide value, but also benefit society and consumers in the long term (5).

In a government-controlled society, the marketing process has a production orientation. The government determines what kind of toothpaste to make and the price it will sell for. Consumers have little or no choice. In this society customers do not get what they want and are often dissatisfied with their product experience.

In a capitalistic society, the marketing exchange process is built around a sales orientation. The goal is to get society to want what a company sells whether it is good or bad for consumers and society. Promoting sugar-based products to young children that create health concerns may generate money for sellers but will likely result in poor health for consumers. A company with a strong customer orientation and degree of social responsibility would develop products for young children that are satisfying but also healthy. An added benefit, consumers are increasing more supportive of companies that are socially responsible (6).

Marketing and Consumer Responsibility

In the ideal world, a business would develop and market products that both satisfy customer needs and contribute to better health and social welfare. A parent that raises their children on a high-fat diet is creating potential health risks for their children. Fast food companies are serving a need that many consumers find satisfying. For many products, sellers cannot bear the responsibility for product abuse. As long as sellers are providing a safe product within the guidelines of the law, customers bear the responsibility with respect to how that product is consumed (7).

TARGET MARKET, POSITIONING, and MARKETING MIX

Target Market

There are many different customers with a variety of needs and use behaviors. A critical part of the marketing process is selecting a target market in which customers share similar needs and use behaviors (8). Businesses must create, communicate and deliver a product position that matches the target customer's desired levels of rational and emotional benefits. For the Prius, the following customer benefits are important:

Rational Needs: Fuel-efficient performance that saves money--at an affordable price

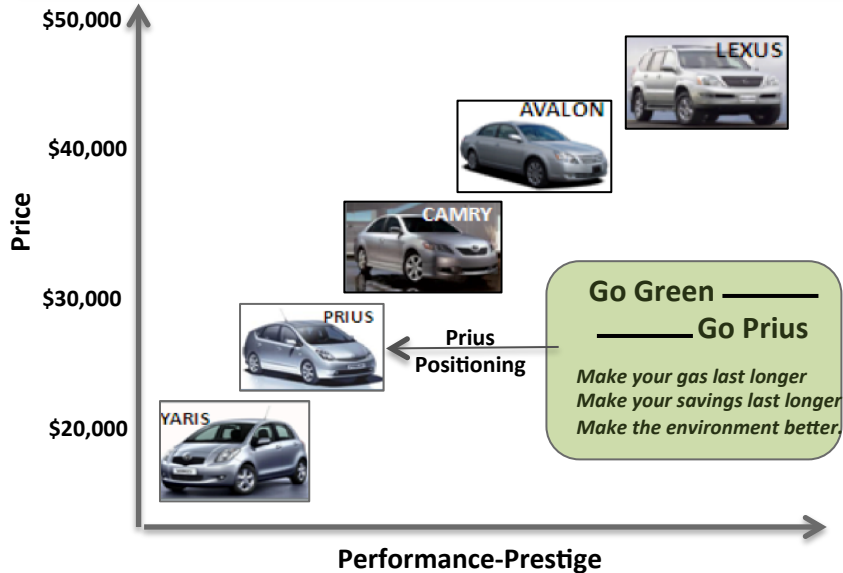
Emotional Needs: I care about the environment and want to do my part to make it better.

The target customer's desired rational benefits are better gas mileage and saving money. The target customer's desired emotional benefits include a car that has a lower environmental impact.

Positioning

Positioning is the way we want customers to think about a product (9). Toyota wanted to position the Prius at under \$30,000

FIGURE 1.8: PRIUS PRODUCT POSITIONING



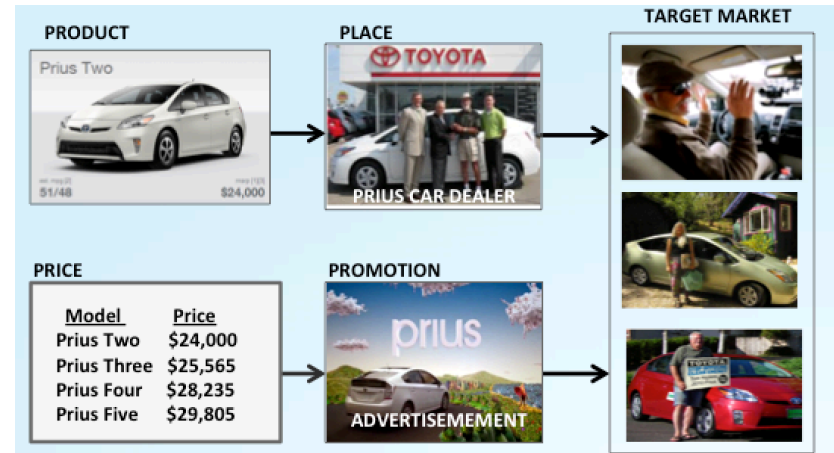
with performance features unique to the Prius, as shown in Figure 1.8. The Lexus, also made by Toyota has a uniquely different positioning based on at different target market. The Lexus is positioned around luxury, status, and product performance. Lexus needed to carefully craft this market position in the minds of target customers.

Similarly, political candidates position themselves around issues that are important to voters and develop a marketing strategy that achieves that desired positioning.

Value Proposition

Each target segment presents its own set of marketing challenges. A business needs to develop a unique value proposition for each positioning strategy that delivers value to target customers in each segment. A value proposition includes all the key elements of the situation and the benefits the target

FIGURE 1.9: PRIUS MARKETING MIX AND TARGET MARKET



Video: [The Marketing Mix and 4Ps](#)

customer is seeking in this purchase. Ideally, the value proposition for a segment should capture the key benefits sought by the target customer.

Marketing Mix

The goal of marketing is to ensure the right product for the right customers in the right place and at the right price. A marketing mix strategy is built to achieve a desired positioning strategy as shown in Figure 1.9. The marketing mix involves four basic components, often called the 4 P's (10). Each component is briefly described below.

Product: Product design, performance, and features are built around target customer needs, wants, use behaviors, and desired user experience. Branding the product provides an additional opportunity to communicate its positioning.

Price: Price is based on customer needs and value, rather than product cost. Customer value describes the benefits derived from the product that are greater than the cost of the product.

Promotion: Promotion is essential in delivering the value proposition and in communicating to potential customers. Both the ad copy and the media selected for advertising communications will affect customer response.

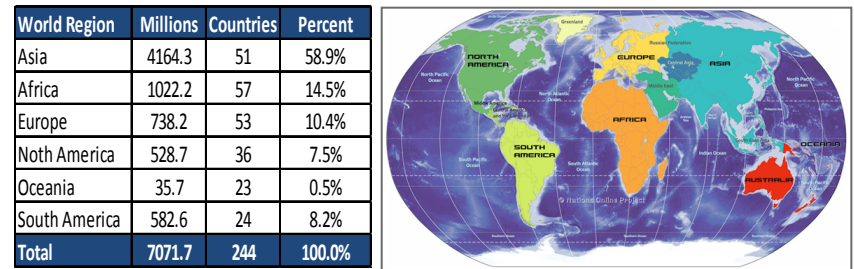
Customer communications are crafted around the positioning strategy and must align with key customer demographics and lifestyle. Marketing communications range from traditional advertising campaigns to integrated digital campaigns. The goal is to resonate in the hearts and minds of the target customers.

Place: In order for a marketing exchange to occur, the product or service must be available to customers. It can be direct through an Internet purchase or indirect through a retailer or dealer. The choice of direct and/or indirect and type of marketing exchange is based on customer buying preferences.

For the Prius, the marketing mix includes a unique car offered in four models to provide target consumers a range of alternatives, as shown in Figure 1.9. The price position for these four models ranges from \$24,000 to just under \$30,000. The Prius is priced below the average price of the Toyota product line. The Prius is available through Toyota Dealers. The Prius is promoted through a variety marketing communications that involve electronic and print media.

As shown in Figure 1.9, the product and price variables are created some distance from the customer. In this respect, the voice of the customer and their experience as presented in Figure 1.2 are critical to product success. The real customer touch points occur with the place and promotion variables. To further enhance customer touch points, businesses with a strong customer orientation will seek to build customer relationships and loyalty programs with target customers.

FIGURE 1.10: WORLD POPULATION BY MAJOR REGION

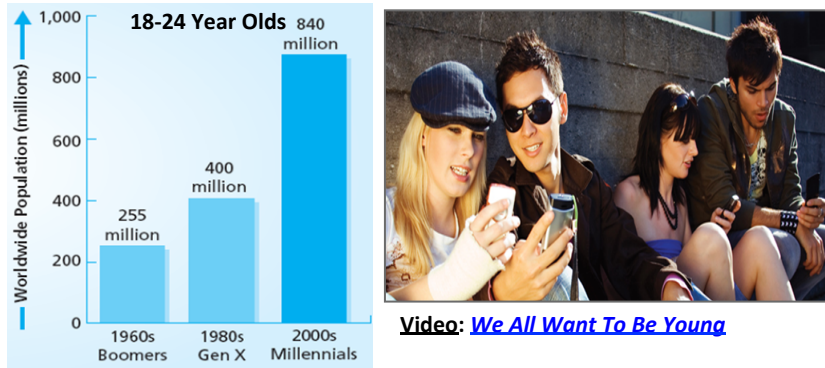


Video: [World Population](#)

GLOBAL MARKETING EXCHANGE

Businesses must think globally to realize the available the worldwide market demand for products, services, programs, causes and ideas (11). In 2012, the world wide population will exceed 7 billion people. As shown in Figure 1.10, almost 60 percent of the world population is located in Asia. China (1.35 billion) and India (1.3 billion) represent 63 percent of the Asian population. The remaining 37 percent is represented by 49 different countries in the Asian region. Because of its size and growing economies, the Asian market is a area of growth for companies like Apple, McDonald's, General Electric, Siemens, General Motors, Starbucks and many other global companies.

By contrast, the North American market is only 7.5 percent of the world population and includes 36 countries. The United States (316 million), Mexico (116 million) and Canada (35 million) account for 88 percent of the North American population. While the world market demand is attractive, the differences in lifestyles, cultures, economies, disposal income, and market infrastructures create major marketing challenges for any company seeking to serve global markets.

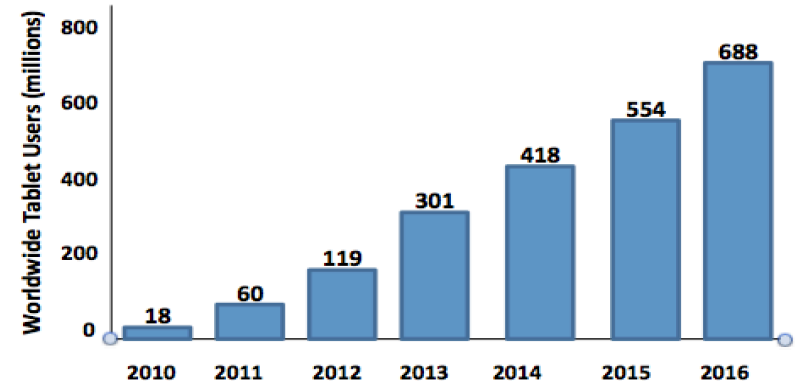
FIGURE 1.11: MILLENNIUMS SHAPE WORLDWIDE MARKET DEMAND

Global Market Demand

While the world population is just over 7 billion people, 1.1 billion (18.4%) are living below the poverty level and live on less than \$1.25 US dollars per day. 1.6 billion (26.3%) are under the age of 15. For any products the available world market is 3.4 billion, or 55.3 percent of the world population since 45.7 percent cannot be considered potential consumers. Global market demand would further be reduced for more expensive products due to lower levels of disposable income. The worldwide average income is \$10,000 US dollars per year.

Market Globalization

In 2012 there were 2.26 billion Internet users, or 32 percent of the world population. This further contributes to globalization of markets as customer information and experiences are shared around the world. As shown in Figure 1.11, younger people are connecting globally like never before. The video referenced in Figure 1.11 demonstrates how 18 to 24 years olds around the world are shaping lifestyles and product demand. This age group is becoming more connected with each other across the globe, which will create greater globalization of customers.

FIGURE 1.12: WORLDWIDE MEDIA TABLET OWNERSHIP

Video: [The Future of the Tablet Market](#)

Globalization also makes building product awareness and interest much easier. As shown in Figure 1.12, the worldwide market demand for tablets was 114.6 million in 2012 and is projected to grow to 369 million in 2016 (12). For the iPad, sales growth will come from markets outside the United States as Apple strives to hold a large market share in the world wide tablet market. In 2010 Apple had a 83 percent market share and 61.4 percent in 2012. Industry experts estimate that the Apple market share will drop to 45 percent by 2016 (13).

Global Market Differences

While globalization will contribute to worldwide demand for products, not all country markets are equally attractive. To enter a specific country market requires a careful examination of country market characteristics. Using a scale like the one below, a company can rate any given country market and create a Country Market Attractiveness score. This analysis will provide a basis for prioritizing country markets to enter. For example, how would your assessment of these factors be different for Greece vs. Germany in 2012?

Country Market Attractiveness Assessment

Each of these factors has to be carefully considered prior to entering a global market. Each factor could cause failure to achieve desired results in a global market.

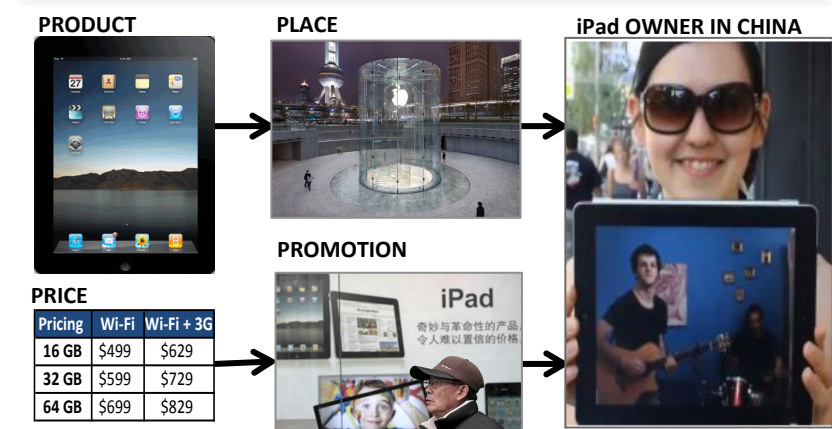
0 1 2 3 4 5 6 7 8 9 10
Unattractive Attractive

- **Market Demand and Market Potential:** The size and potential of the country market opportunity
- **Economy and Economic Outlook:** Current and expected economic conditions
- **Customer Characteristics:** Product need, ability to buy, language, and cultural differences
- **Competition and Competitive Practices:** Type & number of competitors and their relative threat
- **Crime and Corruption:** The degree to which crime and government corruption influence business operations
- **Political and Monetary Stability:** The degree the political environment and country currency are stable
- **Laws and Legal Environment:** The degree to which a business can fairly operate in this country
- **Government Policies & Taxation:** Tax policies and policies regarding taking money out of a country
- **Market Entry and Infrastructure:** Ease of market entry and access to distribution and sales channels
- **Financial Requirements and Brand Building:** The level of investment needed to achieve sales goals

Global Positioning and the Marketing Mix

Positioning and marketing mix strategies may require minor modifications or an entirely new strategy. For the iPad, there have been minor changes in how the product, its benefits and price are presented across worldwide markets. Figure 1.13 shows how the

FIGURE 1.13: iPad MARKETING MIX IN CHINA



marketing mix for iPad has changed for the Chinese market. Note that the product, distribution, and promotion are largely similar, although customized in the language and use behavior to the Chinese iPad user.

Little/No Re-Positioning iPad China Pizza Hut China Complete Re-Positioning

Positioning: The iPad in China presents a similar user experience as presented in other worldwide country markets

Product: The same product and name are used, but the Chinese version is tailored for language and cultural differences.

Price: The prices in China are approximately 18% higher than U.S. prices. But it's less than the price Chinese users have been paying to buy iPads on the gray market, where they run as much as \$1,000 (WSJ)

Promotion: Ads are tailored to the Chinese target audience and are presented within cultural norms.

Place: Apple store environments are largely the same, but are managed and operated by Chinese employees.

FIGURE 1.14: PIZZA HUT MARKETING MIX IN CHINA



Video: [Latest and Greatest Menu From Pizza Hut China - Amazing Selection](#)

This global strategy allows Apple to build a consistent world- wide product and image. Its cost of global marketing is also lower than marketing mix strategies that require major modification.

By contrast, Pizza Hut has also succeeded through its positioning and pricing in the Chinese market (14). Most Chinese consumers consider pizza to be upscale experience. Pizza Hut was the first restaurant chain to introduce pizza and western-style casual dining to China in 1990. Today, Pizza Hut is the top casual dining brand in China with more than 700 restaurants in over 120 cities.

FIGURE 1.15: DELIVERY: PIZZA HUT CHINA



Positioning: An upscale restaurant appropriate for many occasions.

Product: Pizzas are made with locally-appropriate toppings such as corn, crab, shrimp and Chinese pickles, enhancing its appeal to a wider audience. Three-course gourmet meals are also available at a premium price point. The menu includes seafood (including: oysters, snails, and shrimp), salads, soups, steaks, pizza (of course), and all kinds of desserts.

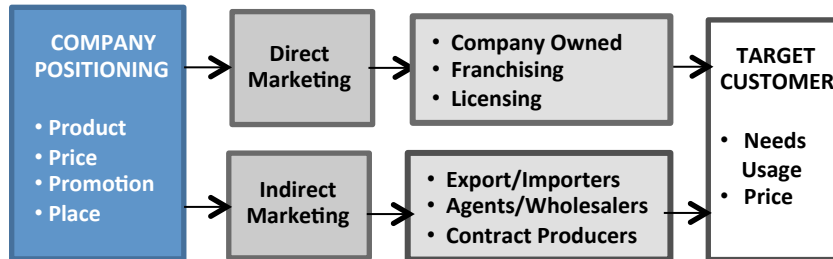
Price: Urban patrons are willing to pay US-range prices for pizza if it is served in a full-service setting

Promotion: Upscale casual family dining experience and a place where couples meet for a date.

Place: There are 700 Pizza Hut locations with many open 24 hours with home delivery by bicycle as shown in Figure 1.15

Entering Global Markets

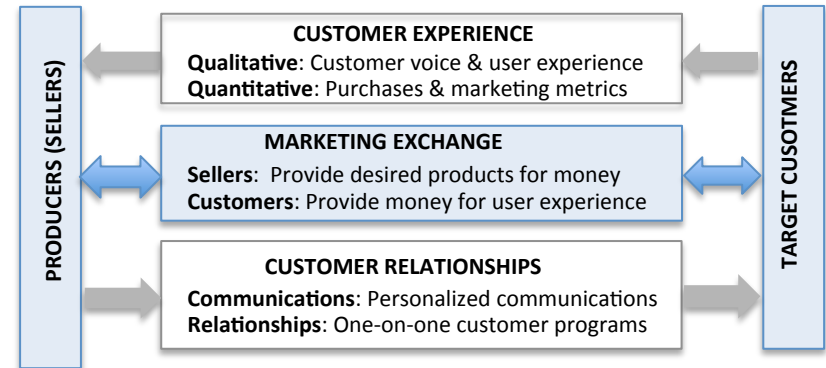
In addition to language, cultural, and economic differences, access to global markets present an additional challenge. Lack of familiarity with the language, culture, and nature of competition may cause many businesses fail to achieve desired results. Companies that want to retain control of their products and marketing will use some form of direct marketing. As shown in Figure 1.16 this can occur with a company investment in distribution and sales in a given country market. This is an

FIGURE 1.16: ENTERING GLOBAL MARKETS

expensive strategy and also carries some risks. Despite these risks, Pizza Hut only has company-owned stores in China. Starbucks's has also relied primarily company-owned stores worldwide.

However, the wrong product, translation, packaging, advertising, availability and pricing can easily lead to failed marketing strategy. For this reason companies may use franchisees to help adjust and manage the country marketing strategy to specific country needs and nuances. This is the global marketing strategy used by McDonald's. This allows McDonald's to retain some control of their products and marketing but avoid country-specific marketing mistakes. Of the 33,510 restaurants in 119 countries at year-end 2011, 27,075 were franchised or licensed (19,527 franchisees and 7,548 licensees). Company owned McDonald's restaurants (6,435) are primarily located in the US market.

Many companies prefer indirect marketing to avoid potential marketing errors, although they lose control of the positioning and marketing of their products. Exporters/Importers offer a channel for many commodity products such as oil, timber and raw materials. In these instances branding, positioning and marketing play a lesser role. Foreign agents and wholesalers take on a greater role in distribution and sale of products brought into a country market. Finally, a business may setup contract producers through subsidiary business operations or joint ventures. These options

FIGURE 1.17: MARKET-BASED MANAGEMENT

allow for reduced investment and better management of country specific product, price, promotion and place.

MARKET-BASED MANAGEMENT

A strong customer orientation is built on market-based management. While there are many aspects of market-based management, Figure 1.17 summarizes the key practices that drive this producer-consumer marketing exchange.

Customer Experience

Market-based management starts with customers. It requires a deep understanding of the customer experience based on their needs, desired user experience, and company performance. There are two ways a business can gain an acute understanding of target customers, as shown in Figure 1.17.

With respect to qualitative tools there is no substitute than hearing how customers describe their customer experience. It is interesting to note that research shows that: "Only 8 percent of customers describe their experience as superior, yet 80 percent of companies believe the experience they provide is indeed superior" (15).

FIGURE 1.18: BUILDING CUSTOMER RELATIONSHIPS

Get short, timely messages from Alaska Airlines.
Twitter is a rich source of instantly updated information. It's easy to stay updated on an incredibly wide variety of topics. [Join today](#) and follow @AlaskaAir.

Get updates via SLIS by texting **follow AlaskaAir to 40404** in the United States
[Sign Up ▶](#) [Codes for Other Countries](#)

AlaskaAir

@stephenstrub Glad you're feeling better! Enjoy the upgrade. :)
about 8 hours ago via CoTweet in reply to stephenstrub

Have you checked out these great deals to/from PDX? Fares start at \$57* e/w. Sale ends soon! *Rest., taxes & fees.
apply <http://bit.ly/hlamdV>
about 9 hours ago via CoTweet

Name Alaska Airlines Location Seattle, WA Web http://bit.ly/aQoUM Bio Tweets powered by the genuine & caring service of @AlaskaAir & its employees. Our official channel for customer concerns: alaskaair.com/contactus		
7,113 following	39,789 followers	1,603 listed
Tweets		2,070
Favorites		

Alaska Air uses Twitter for promoting new fares and routes, as well as to field customer service issues sent to the airline via Twitter. Alaska Air's Twitter page is a mix of responses to customers, promotions, and notices of weather delays.

For this reason the Lexus product-marketing team go into the homes of Lexus owners to hear directly about their Lexus experience and what they could do to make the Lexus better. Quantitative inputs that track customer purchase behavior and company performance provide marketing metrics from which the company can more accurately measure and track performance. In the last section of this chapter we will look at three very important marketing metrics and how they are used to deliver higher levels of customer satisfaction and customer value.

Customer Relationships

An equally important part of market-based management is managing customer relationships. A business with a strong customer focus will seek to build more meaningful customer communications that are when possible personalized for individual customers. This allows the company to maintain

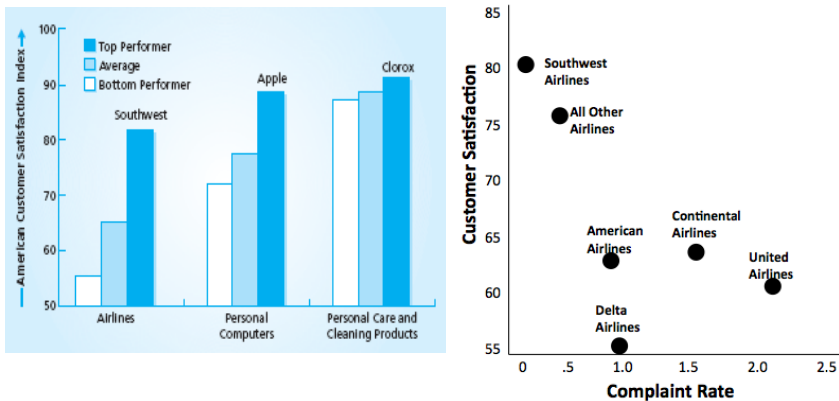
individual customer touch points that allow for two way communication. For example, as shown in Figure 1.18 Alaskan Airlines uses Twitter to stay in touch with customers with changes in departures and welcomes customers to contact them when there is a flight problem. One-on-one customer programs are generally designed for high value customers that a business wants to retain and build as a loyal customer (16). These customers may receive special offerings, discounts and product upgrades as part of the business's effort to build customer value, satisfaction and loyalty.

Marketing Metrics – If You Can Measure It, You Can Manage It

Marketing, like much of business is a combination of strategic thinking and measurable performance. Businesses operate by performance metrics (17). Consider each of the functional areas of business and their sample metrics below. While each has strategies has based on critical thinking, each also has performance metrics to gauge the impact of these strategies.

- **Finance:** Return measures such as return on assets, return on capital, and earnings per share growth
- **Manufacturing:** Production up-time, error rates, cost per unit, and capacity utilization
- **Human Resource Management:** Employee retention, employee productivity, and employee satisfaction
- **Sales:** Sales growth, percent of sales quota, average percent margin, and sales productivity
- **Marketing:** Customer satisfaction, customer retention, life-time customer value, and customer value

In a customer-oriented business the marketing process starts with the customer, their needs, and desired use experience. Products are developed with this customer insight and delivered to the market directly or internet sales or indirectly. For either selling

FIGURE 1.19: CUSTOMER SATISFACTION AND COMPLAINTS

Database: [American Customer Satisfaction Index, Airline Industry](#)

Video: [United Breaks Guitars](#)

strategy it is important that a customer-focused business understand the customer experience the how their product matches. This can be qualitative feedback in the form of the Voice of the Customer or measured feedback in the form of Marketing Performance Metrics (18). In the remainder of this chapter we will examine three marketing performance metrics critical to understanding how a business is performing from a customer point of view.

Customer Satisfaction

If a customer rates your product above average, but rates your competitors even higher, then your product is not delivering the level of customer satisfaction that will retain customers (19). In Figure 1.19 we can see that customer satisfaction for Southwest Airlines is well above the average for competing airlines. Compared to personal computers, Southwest Airlines' customer satisfaction is above the industry average but below the industry leader, Apple. Compared to personal care and cleaning products, Southwest's customer satisfaction score is lower than average for that industry. Examine the customer satisfaction scores for other companies and

FIGURE 1.20: WHAT IS THE VALUE OF A CUSTOMER?

HOW MUCH ARE THESE CUSTOMERS WORTH?

Each has a different economic value based on:

- Average purchase amount
- Purchased products
- Frequency of purchase
- Length of time as a customer



Industries using the America Customer Satisfaction Index site referenced in Figure 1.19. Also shown in Figure 1.19 is the relationship between airline customer satisfaction and customer complaints. To file a formal complaint with the US Department of Transportation takes a lot of effort with little chance of resolution with the problem. After trying to obtain compensation from United Airlines for a damaged guitar, the passenger took action and created a YouTube video. This video went viral and lead United Airlines to offer compensation. This video is now used in United Airlines customer training classes and began a Harvard Business School case study. With Facebook, Twitter, Blogs, YouTube, and other social media, dissatisfied customers now have a way to communicate their dissatisfaction to others (20).

In general, a business with higher levels of customer satisfaction will retain a higher percent of their customers from one year to the next. Those with lower levels of customer satisfaction will lose a higher percentage of customers from one year to the next. This makes marketing more expensive as it is much more expensive replace a lost customer with a new customer than retain a past customer. The combination of higher customer satisfaction and customer retention contributes to higher profits (21).

The Value of Customer

Not all the customers in the checkout line shown in Figure 1.20 are of equal value to this business. The value of a customer depends on the four factors specified.

To illustrate the difference in the value of these two customers, let's look closer at the four factors that determine their value to this business. Customer A shops at the store weekly with an average purchase of \$70. She buys an average assortment of household products, but has increased the amount purchase in each of the 5 years she has been a customer. The average percent margin has also increased each year as Customer A has added some higher margin products to their weekly purchase. While the business may look at this person as just another customer, Customer A purchased \$16,380 worth of goods from this store over the past 5 years. This produced contribution to gross profits of \$3619 over the past 5 years. This is one way to look at the value of Customer A.

Customer A: Year	1	2	3	4	5
Purchase per Month	\$250	\$260	\$270	\$285	\$300
Purchase per Year	\$3,000	\$3,120	\$3,240	\$3,420	\$3,600
Average Percent Margin	20%	21%	22%	23%	24%
Gross Profit per Year	\$600	\$655	\$713	\$787	\$864
Five Year Total Gross Profit	\$3,619				

Customer B only shops occasionally at the same store. He spends an average of \$30 per month and buys the same products month to month. This customer has been shopping at this store for 3 years. Over these 3 years Customer B spent \$1800. This produced a total gross profit of \$360 over 3 years. Clearly Customer A means more to the sales and profits of this business than Customer B. But, does the business understand the value of each customer?

Customer B: Year	1	2	3	4	5
Purchase per Month	\$50	\$50	\$50	\$0	\$0
Purchase per Year	\$600	\$600	\$600	\$0	\$0
Average Percent Margin	20%	20%	20%	0%	0%
Gross Profit per Year	\$120	\$120	\$120	\$0	\$0
Five Year Total Gross Profit	\$360				

Sadly, most businesses would not recognize Customer A from Customer B. Let's assume Customer A stops shopping at this store for one month. Let's also assume the average store shopper has a sales value of \$8,000 and makes a contribution to profits of \$1800. This means to maintain the same level of sales and profits the store would have to attract two new customers to replace Customer A. This is far more expensive than investing to keep Customer A.

As shown in Figure 1.17, a business with a customer orientation would seek to build customer relationships with their customers. This means knowing your customers and adding extra services and benefits to these high-value customers. The goal is build a long-term customer relationship and customer loyalty. In many instance these customers drive a business's profits. Unfortunately, they are the only asset that matters, though never shown on any financial statement. As Peter Drucker once said:

"The aim of marketing is to know and understand the customer so well the product or service fits him and sells itself," (22)

Customer Value

Consumers exchange money for products and services. Since consumers in a free market economy have many choices, they will seek products that offer the best value to them at a price they want to pay. For example, the ten cameras shown in Figure 1.21 range in price from \$130 to \$300, with an average price of \$206. If a customer's budget is \$200, four cameras are eliminated since they are too expensive. But, which of the remaining six cameras offer the best customer value?

To answer this question we first have to define customer value.

FIGURE 1.21: PRICE, PERFORMANCE AND VALUE

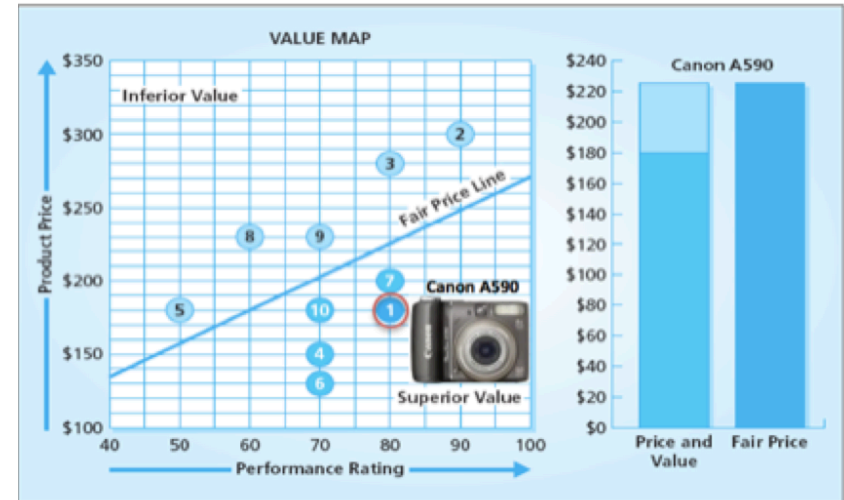
Competing Digital Cameras	No.	Performance Rating	Product Price	Fair Price	Customer Value
Canon A590	1	80	\$180	\$224	\$44
Canon SD790	2	90	\$300	\$246	-\$54
Canon SD870	3	80	\$280	\$224	-\$56
Casio EX-29	4	70	\$150	\$202	\$52
Casio EX-280	5	50	\$180	\$157	-\$23
Fuji J10	6	70	\$130	\$202	\$72
Kodak M1033	7	80	\$200	\$224	\$24
Kodak V1073	8	60	\$230	\$179	-\$51
Nikon P60	9	70	\$230	\$202	-\$28
Pentax M50	10	70	\$180	\$202	\$22
Average		72	\$206	\$206	\$0

While there are many ways to measure customer value, we are going to use the following definition.

Customer Value = Performance Benefits – Cost of Benefits

In Figure 1.21, Consumer Reports ratings of the ten cameras yields a performance score for each camera (23). When these scores are correlated with camera prices we can obtain the graph shown in Figure 1.21. The Fair Value Line represents what a camera should cost at a given level of performance (24). Four of the ten cameras have a price above their Fair Price and hence have a negative value. For example, the camera with the highest performance (90) is priced at \$300. But, the fair price for this camera is \$246. This results in a negative value of -\$54.

$$\begin{aligned}
 \text{Customer Value} &= \text{Fair Price} - \text{Selling Price} \\
 &= \$246 - \$300 \\
 &= -\$54
 \end{aligned}$$

FIGURE 1.22: VALUE MAP

The least expensive camera is \$130. With a performance rating of 70 this camera has a fair price of \$202. This creates a value of \$72.

$$\begin{aligned}
 \text{Customer Value} &= \text{Fair Price} - \text{Selling Price} \\
 &= \$202 - \$130 \\
 &= \$72
 \end{aligned}$$

In this instance the customer is willing to pay more for more performance and buys the Canon A590. This camera offers higher performance at a price of \$180 but still provides a good value \$44 over the fair price. Thus, customer did not buy the least expensive camera. They bought a camera within their budget of \$200 or less but gave up some economic value to get the performance level they desired.

Products and services that offer an attractive customer value have been shown to be more profitable for several reasons. One, it is

easier to attract customers to a product that offers a good customer value. Two, a good customer value retains customers from one purchase to the next. And three, customers that attain a good value and achieve customer satisfaction are more likely to recommend this product to others. All three of these factors lower the cost of marketing and has the potential for greater customer satisfaction and retention.

Marketing performance metrics such as customer satisfaction, lifetime value of a customer, and customer value each play an important role in market-based management. Without these marketing metrics and others a business would not have a realistic understanding of their performance. These marketing metrics along with the voice of the customer provide an invaluable connection with customers and the customer experience as shown earlier in Figure 1.17.

SUMMARY

Marketing is an exchange relationship between producers and consumers – one where producers and consumers exchange value (1). For-profit marketing exchanges occur in the sale of products, services, destinations, and events. In non-profit organizations, the consumers can be donors, voters, or supporters. These consumers are receiving a feeling of goodwill in a donation, a political promise in a candidate for office, or support of an important belief in the case of cause or idea. In each case the consumer is giving up something in exchange for value from a producer.

A business with a production orientation produces what they are good at and distribute the product for interested consumers to purchase. This type of marketing exchange works fine in short supply or non-competitive markets. The Apple iPad was originally sought out with little more than the promise of a new and innovative product. As the market for media tablets evolves

and competitors seek to better serve unmet customer needs, a production orientation will be less likely to succeed.

An organization with a sales orientation works to convince consumers that their product is better. This marketing exchange is built around persuasive sales and advertising efforts, but the products may not fully serve consumers needs. Ultimately, companies following a sales orientation will lose in the marketplace as products that better serve customer needs become available. Companies that use a sales orientation are more likely to look at the marketing exchange as a single transaction and do not place much emphasis on customer satisfaction.

A business with a customer orientation targets specific customers based on their wants, needs and use behaviors. These businesses will strive to create products and services that meet these needs at a desired price level, based on the voice of the customer. In this marketing exchange the business views the customer as a potential long-term relationship in which the customer is loyal to the company's products. The goal of these companies is higher levels of customer satisfaction and repeat business. This lowers marketing expenses and creates the potential for above-average profits.

Because marketing can impact consumption and behaviors, producers and consumers have certain responsibilities. Producers should strive to make sure products are safe and do not cause harm or ill-will to consumers. A strong sales orientation may place selling products over what is good for society. Businesses with a customer orientation should strive to make consumers and society better off. Consumers also bear the responsibility to not misuse or abuse products in a way that could cause them harm.

Because there are many types of consumers with different needs and use behaviors, a business must position its products around certain types of customer, or target markets. A target market is a group of customers with similar needs and desired user experiences. For the Prius, the target market customer is looking for fuel savings and a car with a lower environmental impact. Not every car buyer has these needs. As a result, the Prius marketing team needed to develop a unique marketing mix strategy for this type of customer. This includes all aspects of the product and its performance, its price, how it was promoted and where it was sold (place). All elements of the marketing mix strategy have to work in sync to support a desired positioning strategy.

Every domestic market is limited by its population of consumers and their ability to buy products. For this reason, many companies look to expand globally in their marketing exchange process. While global opportunities are appealing, many business fail to achieve desired results in foreign markets. This is largely due to two major factors. The first is a lack of understanding of the market in terms of laws, competition, corruption, economic conditions, political stability, and ease of market entry. The second factor is a failure to understand customers with respect to their needs, wants, price sensitivity and use behaviors. Language, cultural differences, and the way products are used each make global marketing more difficult. This means the positioning strategy and marketing mix (product, price, promotion and place) will likely have to be different to succeed. For example, every aspect of Pizza Hut's positioning and marketing mix are different in China. Apple's iPad, on the other hand, only required minor adjustments in positioning and their marketing mix. Both have developed successful marketing strategies and have found the Chinese market attractive.

Market-based management takes the marketing exchange process to another level of customer orientation in three fundamental ways. First, a greater emphasis is placed on understanding the customer user experience and voice of the customer. This helps a business understand customer needs and frustrations. Second, marketing performance metrics such as customer satisfaction, the value of a customer, and customer value allow a business to maintain a customer performance scorecard that carries the same importance as other internal company performance metrics. And third, a market-based company strives to build customer relationships in an effort to build customer loyalty. All three of these factors help make a market-based business more profitable.

INTRODUCTION TO MARKETING: DISCUSSION QUESTIONS

1. What would cause the marketing exchange process to result in no transactions between potential consumers and producers?
2. How would the Prius be developed with a marketing exchange process built around a production orientation?
3. Why would a marketing exchange process built around a sales orientation succeed for Abercrombie-Fitch or Benetton?
4. Why would a marketing exchange process built around a customer-orientation help Lexus build customer loyalty and repeat purchases?
5. Do fast food companies have a social responsibility to offer and promote healthy food options in their stores?
6. What responsibility does a smoker or consumer of alcoholic beverages bear in the purchase and use of these products? How would the marketing exchange process be different in a company with a sales orientation vs. a company with a customer orientation?
7. How is the marketing exchange process different for profit-based marketing exchanges vs. non-profit marketing exchanges?

8. How would the marketing exchange process differ for a non-profit cause with a production orientation vs. customer orientation?
9. How does the marketing of fast food impact a society?
10. Kentucky Fried Chicken entered Kenya in 2012 as the first fast food restaurant. People waited 2 to 3 hours in line to buy their fast food. How might fast food impact the Kenyan consumer?
11. What responsibility does a children's cereal manufacturer have in marketing their products?
12. What level of responsibility do consumers have in the consumption of high sugar foods such as cookies, donuts, cakes and ice cream?
13. What is the positioning strategy for Lexus? Why did Toyota not brand it as a Toyota product?
14. Why would Diet Coke vary its marketing mix strategy for different global markets?
15. How would market-based management be used in an airline that had low levels of customer satisfaction?
16. What would Starbuck's learn from the qualitative aspects of a customer experience that it would not learn from quantitative data on purchase behavior and performance metrics?
17. What are the benefits to Southwest Airlines of a customer satisfaction score that is considerably higher than its competitors?
18. Why would a restaurant want to know the value of its customers? What would they do differently with this information?
19. Why is a flat screen TV with a high customer value likely to be more profitable than a competitor's product with a no customer value?

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