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1

Creating Customer Relationships and Value through Marketing

LEARNING OBJECTIVES

After reading this chapter you should be able to:

- LO 1-1** Define marketing and identify the diverse factors that influence marketing actions.
- LO 1-2** Explain how marketing discovers and satisfies consumer needs.
- LO 1-3** Distinguish between marketing mix factors and environmental forces.
- LO 1-4** Explain how organizations build strong customer relationships and customer value through marketing.
- LO 1-5** Describe how today's customer relationship era differs from prior eras.

At Chobani, Marketing Is “Nothing but Good”!

If you are like many consumers today, your food tastes have been changing. Interest in healthful, nutritious, organic products is growing dramatically, and companies like Chobani are creating new offerings to provide customer value!

It was Hamdi Ulukaya’s marketing savvy that first helped him create Chobani. As an immigrant from Turkey, he observed that American-style yogurt “was full of sugar and preservatives,” unlike the typical Greek-style yogurt he experienced growing up. The Greek yogurt was strained to remove the liquid whey and had more protein than the unstrained American yogurts marketed by Yoplait and Dannon. To meet the changing tastes of American consumers, Ulukaya bought a recently closed dairy in a small town in New York with a Small Business Administration loan and began developing a new yogurt recipe.¹

Understanding Consumers’ Food Values

“I was very picky. It took us 18 months to get the recipe right. I knew I had only one shot, and it had to be perfect,” says Ulukaya. The result was Chobani Greek Yogurt, a product that is higher in protein, lower in sugar, and thicker and creamier than typical American yogurt. The timing fit perfectly with the shift in demand for healthier and simpler products. Food purchases by young adults, particularly millennials, were increasingly influenced by concern for wellness. Chobani’s yogurt and its message “Nothing But Good” fit consumers’ new values.²

Reaching Customers

Chobani had little money for traditional advertising, so the new company relied on positive word of mouth, with one happy customer telling another about the new style of yogurt. In 2010, Chobani’s “CHOMobile” started to tour the country, handing out free samples to encourage consumers to try Chobani’s Greek Yogurt for the first time. In addition, one of Chobani’s biggest breakthroughs in gaining public awareness was its sponsorship of the 2012 U.S. Olympic and Paralympic Teams.

The company also created a YouTube channel that featured “Just Add Good” recipes to show customers how to use yogurt in meals and desserts. It also interacted with consumers through other social media sites such as Twitter and Instagram, and in just five years had 800,000 Facebook fans.



Chobani LLC

VIDEO 1-1

Chobani 2014 Super Bowl Ad

kerin.tv/13e/v1-1

Chobani also pushed for distribution in major grocery chains rather than smaller niche stores, and encouraged placement of the product in the main dairy cases of the stores, not the specialty or health food sections. Ulukaya was convinced that Americans would really like Greek yogurt if they tried it, and that they

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would try it if they had heard about it and could find it easily in their grocery store. By Page 3
 2013 Chobani Greek Yogurt was sold nationwide in the United States, the United Kingdom, and Australia.³

Chobani Today



Located in New York City, Chobani SoHo is the brand's first-of-its-kind retail concept, serving yogurt creations with innovative toppings.

© Diane Bondareff/Invision for Chobani/AP Images

Chobani continues to monitor changing consumer tastes and offers new products to accommodate them. For example, the company recently introduced Chobani Kids and Chobani Tots Greek yogurt pouches, Chobani Greek Yogurt Oats—Ancient Grain Blend, and Chobani Flip Creations. The products are designed for new and existing consumers and for new eating occasions.

One way Chobani stays in touch with consumer interests is through its yogurt café in New York's SoHo neighborhood. New ideas are continually tested on the menu and the feedback has been so useful that Chobani plans to open similar outlets in Los Angeles, San Francisco, Chicago, and other U.S. cities. Chobani also recently announced a plan to open the Chobani Food Incubator, which is designed to invest in and cultivate ideas from emerging food entrepreneurs.

Today, Chobani boasts a 40 percent market share of the Greek Yogurt segment, which makes up almost half of the \$8 billion yogurt market. The company's success has even led to a Super Bowl ad featuring a 1,400-pound bear in search of a healthy snack!⁴

Chobani, Marketing, and You

Will Hamdi Ulukaya and his Chobani Greek Yogurt continue this fantastic success story—especially with the recent appearance of competing Greek yogurts from Yoplait, Dannon, and PepsiCo? For Ulukaya, one key factor will be how well Chobani understands and uses marketing—the subject of this book.

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WHAT IS MARKETING?



The good news is that you are already a marketing expert! You perform many marketing activities and make marketing-related decisions every day. For example, would you sell more LG 77-inch 4K UltraHD OLED TVs at \$24,999 or \$2,499? You answered \$2,499, right? So your experience in shopping gives you some expertise in marketing. As a consumer, you've been involved in thousands of marketing decisions, but mostly on the buying and not the selling side. But to test your expertise, answer the "marketing expert" questions posed in **Figure 1–1**. You'll find the answers within the next several pages.

Are you a marketing expert? If so, what would you pay for this cutting-edge TV?

Source: LG Electronics

Answer the questions below. The correct answers are given later in the chapter.

1. What is the name of Pepsi's most recent entry into the mid-calorie market for cola flavored soft drinks? (a) Pepsi XL, (b) Pepsi Edge, (c) Pepsi Next, (d) Pepsi True.
2. True or False. The 60-year lifetime value of a loyal Kleenex customer is \$994.
3. To be socially responsible, 3M puts what material into its very successful Scotch-Brite™ Greener Clean "non-scratch" pads? (a) aluminum, (b) plastic bottles, (c) Agave plant leaves.

Figure 1–1 The see-if-you're-really-a-marketing-expert test.

The bad news is that good marketing isn't always easy. That's why every year thousands of new products fail in the marketplace and then quietly slide into oblivion.

Marketing and Your Career

Marketing affects all individuals, all organizations, all industries, and all countries. This book seeks to teach you marketing concepts, often by having you actually “do marketing”—by putting you in the shoes of a marketing manager facing actual marketing decisions. The book also shows marketing’s many applications and how it affects our lives. This knowledge should make you a better consumer and enable you to be a more informed citizen, and it may even help you in your career planning.



The chief executive officer of the world’s largest social media company started it as a 19-year-old college sophomore.

© David Paul Morris/Bloomberg via Getty Images

Perhaps your future will involve doing sales and marketing for a large organization. Working for a well-known company—Apple, Ford, Facebook, or General Mills—can be personally satisfying and financially rewarding, and you may gain special respect from your friends.

Small businesses also offer marketing careers. Small businesses are the source of the majority of new U.S. jobs. So you might become your own boss by being an

entrepreneur and starting your own business.

In February 2004, a 19-year-old college sophomore from Harvard University started his own small web service business from his dorm room. He billed it as “an online directory that connects people through social networks at colleges.” That student, of course, was Mark Zuckerberg. The success of the Facebook launch defies comprehension. Zuckerberg’s Thefacebook.com website signed up 900 Harvard students in the four days after it appeared in early 2004. By the second week there were almost 5,000 members, and today there are more than 1.4 billion members throughout the world. Perhaps your interest in marketing will lead to the next sensational new business success!⁵

MARKETING: DELIVERING VALUE TO CUSTOMERS

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LO 1-1

Define marketing and identify the diverse factors that influence marketing actions.

The American Marketing Association represents individuals and organizations involved in the development and practice of marketing worldwide. It defines **marketing** as the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.⁶ This definition shows that marketing is far more than simply advertising or personal

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selling. It stresses the need to deliver genuine value in the offerings of goods, services, and ideas marketed to customers. Also, notice that an organization's marketing activities should also create value for its partners and for society.

To serve both buyers and sellers, marketing seeks (1) to discover the needs and wants of prospective customers and (2) to satisfy them. These prospective customers include both individuals, buying for themselves and their households, and organizations, buying for their own use (such as manufacturers) or for resale (such as wholesalers and retailers). The key to achieving these two objectives is the idea of **exchange**, which is the trade of things of value between a buyer and a seller so that each is better off after the trade.⁷

The Diverse Elements Influencing Marketing Actions

Although an organization's marketing activity focuses on assessing and satisfying consumer needs, countless other people, groups, and forces interact to shape the nature of its actions (see **Figure 1–2**). Foremost is the organization itself, whose mission and objectives determine what business it is in and what goals it seeks. Within the organization, management is responsible for establishing these goals. The marketing department works closely with a network of other departments and employees to help provide the customer-satisfying products required for the organization to survive and prosper.

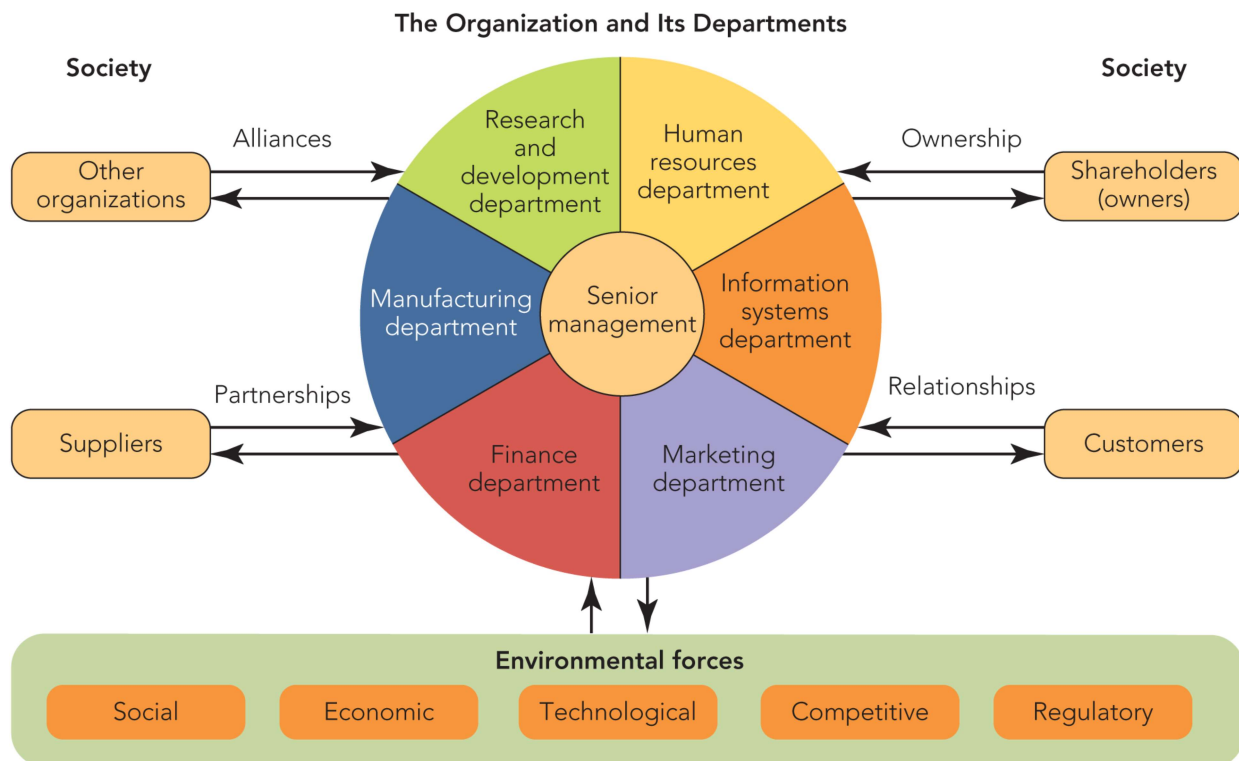


Figure 1–2 A marketing department relates to many people, organizations, and forces. Note that the marketing department both *shapes* and *is shaped by* its relationship with these internal and external groups.

Figure 1–2 also shows the key people, groups, and forces outside the organization that influence its marketing activities. The marketing department is responsible for facilitating relationships, partnerships, and alliances with the organization's customers, its shareholders (or often representatives of nonprofit organizations), its suppliers, and other organizations. Environmental forces involving social, economic, technological, competitive, and regulatory considerations also shape an organization's marketing

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actions. Finally, an organization's marketing decisions are affected by and, in turn, often have an important impact on society as a whole. Page 6

The organization must strike a balance among the sometimes differing interests of these groups. For example, it is not possible to simultaneously provide the lowest-priced and highest-quality products to customers and pay the highest prices to suppliers, the highest wages to employees, and the maximum dividends to shareholders.

What Is Needed for Marketing to Occur

For marketing to occur, at least four factors are required: (1) two or more parties (individuals or organizations) with unsatisfied needs, (2) a desire and ability on their part to have their needs satisfied, (3) a way for the parties to communicate, and (4) something to exchange.

Two or More Parties with Unsatisfied Needs

Suppose you've developed an unmet need—a desire for a late-night dinner after studying for an exam—but you don't yet know that Domino's Pizza has a location in your area. Also unknown to you is that Domino's has a special offer for its tasty Handmade Pan Pizza, just waiting to be ordered, handmade, and delivered. This is an example of two parties with unmet needs: you, desiring a meal, and your local Domino's Pizza owner, needing someone to buy a Handmade Pan Pizza.



Marketing doesn't happen in a vacuum. The text describes the four factors needed to buy a product like a Domino's Handmade Pan Pizza.

Source: © Domino's Pizza

Desire and Ability to Satisfy These Needs

Both you and the Domino's Pizza owner want to satisfy these unmet needs. Furthermore, you have the money to buy the Domino's Handmade Pan Pizza and the time to order it online or over the telephone. The Domino's owner has not only the desire to sell its Handmade Pan Pizza but also the ability to do so since the pizza is easily made and delivered to (or picked up by) you.

A Way for the Parties to Communicate

The marketing transaction of purchasing a Domino's Handmade Pan Pizza will never occur unless you know the product exists and its location (street/web address and/or phone number). Similarly, the Domino's Pizza owner won't sell the Handmade Pan Pizza unless there's a market of potential buyers nearby. When you receive a coupon on your phone or drive by the Domino's store location, this communication barrier between you (the buyer) and the Domino's Pizza owner (the seller) is overcome.

Something to Exchange

Marketing occurs when the transaction takes place and both the buyer and seller exchange something of value. In this case, you exchange your money (\$8.99) for the Domino's Handmade Pan Pizza. Both you and the Domino's Pizza owner have gained and also given up something, but you are both better off because each of you has satisfied the other's unmet needs. You have the opportunity to eat a Domino's Handmade Pan Pizza to satisfy your hunger, but you gave up some money to do so; the Domino's Pizza owner gave up the Handmade Pan Pizza but received money, which will help the owner remain in business. The ethical and legal foundations of this exchange process are central to marketing and are discussed in **Chapter 4**.

learning review

- 1-1.** What is marketing?
- 1-2.** Marketing focuses on _____ and _____ consumer needs.
- 1-3.** What four factors are needed for marketing to occur?

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HOW MARKETING DISCOVERS AND SATISFIES CONSUMER NEEDS

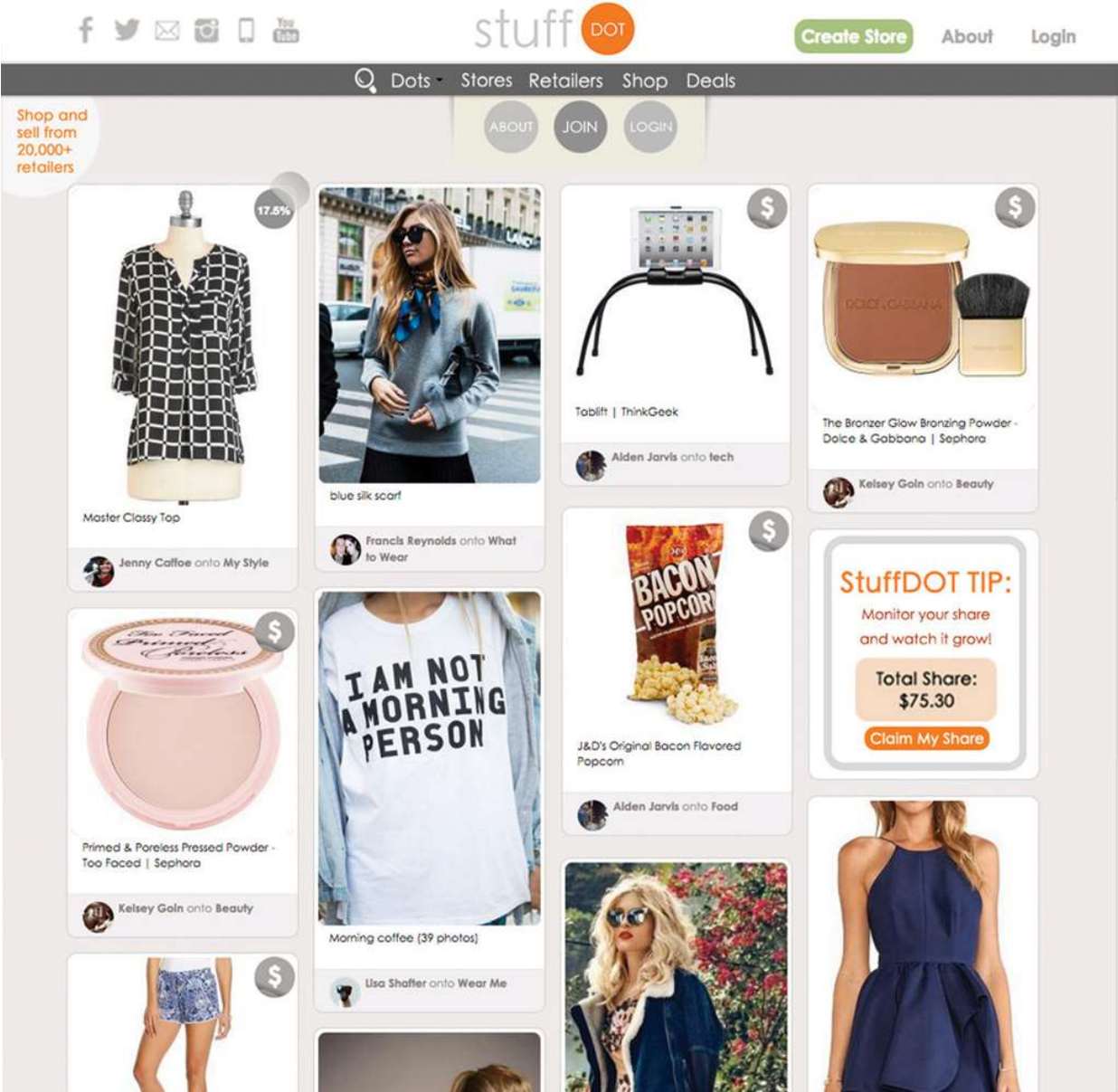
LO 1-2

Explain how marketing discovers and satisfies consumer needs.

The importance of discovering and satisfying consumer needs in order to develop and offer successful products is so critical to understanding marketing that we look at each of these two steps in detail next. Let's start by asking you to analyze the three products below.



A message pad with handwriting recognition software.
© SSPL/Getty Images



An e-commerce site with financial benefits for users.
Courtesy of StuffDOT, Inc.



A mid-calorie cola.

© Consumer Trends/Alamy

For these three products, identify (1) what benefits the product provides buyers and (2) what factors or “showstoppers” might doom the product in the marketplace. Answers are discussed in the text.

Discovering Consumer Needs

The first objective in marketing is discovering the needs of prospective customers. Marketers often use customers surveys, concept tests, and other forms of marketing research (discussed in detail in **Chapter 8**) to better understand customer ideas. Many firms also use “crowdsourcing” websites to solicit and evaluate ideas from customers. At LEGO Group, for example, ideas that receive 10,000 votes from site visitors are considered for possible addition to the product line. LEGO Group products that were discovered through the website include its Ghostbuster ambulance, its Mars rover Curiosity, and a set based on the Minecraft video game! Sometimes, however, customers may not know or be able to describe what they need and want. Personal computers, smartphones, and electric cars are all examples of this, in which case an accurate long-term prediction of consumer needs is essential.⁸

The Challenge: Meeting Consumer Needs with New Products

While marketers are improving the ways they can generate new product ideas, experts estimate that it takes 3,000 raw ideas to generate one commercial success. Market intelligence agency Mintel estimates that 33,000 new products are introduced worldwide each month. In addition, studies of new-product launches indicates that about 40 percent of the products fail. Robert M. McMath, who has studied more than 110,000 of these new-product launches, has two key suggestions: (1) focus on what the customer benefit is, and (2) learn from past mistakes.⁹

The solution to preventing product failures seems embarrassingly obvious. First, find out what consumers need and want. Second, produce what they need and want, and don't produce what they don't need and want. The three products shown above illustrate just how difficult it is to achieve new-product success, a topic covered in more detail in **Chapter 10**.

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Without reading further, think about the potential benefits to customers and possible “showstoppers”—factors that might doom the product—for each of the three products pictured. Some of the products may come out of your past, and others may be on your horizon. Here’s a quick analysis of the three products:

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- *Apple Newton*. In the 1990s Apple launched its Newton MessagePad, the first handheld device in a category that came to be known as personal digital assistants. Apple invested more than \$1.5 billion in today’s dollars but sold just a few hundred thousand units before Steve Jobs took the product off the market. In many ways the showstopper for this product was that it was before its time. It launched before the World Wide Web, before cellphones, and before the broad use of e-mail. As a result, while the product was revolutionary, the uses for consumers were limited!¹⁰

• VIDEO 1-2

StuffDOT Strategies

kerin.tv/13e/v1-2

StuffDOT®. This recent start-up is a social e-commerce site that seeks to reward consumers for their online shopping and sharing activity. This is possible because Internet retailers like Amazon and Target.com make small payments to the owners of websites that refer shoppers to their products. These payments are a big and growing business, generating a projected \$4.5 billion in 2016.¹¹ StuffDOT’s founders believe that consumers deserve to share in those payments, so they have developed a platform that enables users to earn a portion of the revenue that they generate by sharing links and shopping online. A potential showstopper: Will consumers understand the benefits of StuffDOT well enough to change their shopping habits to take advantage of the opportunity?

- **VIDEO 1-3**

Pepsi True Adkerin.tv/13e/v1-3

Pepsi True. At the 2014 Clinton Global Initiative, PepsiCo and Coca-Cola announced an agreement to reduce the calorie content of their products by 20 percent before 2025. As part of this agreement PepsiCo launched a new product—Pepsi True. The new cola is sweetened with a combination of sugar and stevia leaf extract, resulting in a soft drink with the same flavor of Pepsi-Cola but only 60 calories. Pepsi True is offered in the U.S. through Amazon.com and in grocery stores, and will be introduced in Great Britain where it will compete with Coca-Cola's Coca-Cola Life. A potential showstopper: In the past, mid-calorie soft drinks such as Pepsi Next (2012), Pepsi Edge (2004), and Pepsi XL (1995) have not been successful as “transition” sodas from regular to diet. Will Pepsi True be next? As always, as a consumer, you will be the judge!¹²

Firms spend billions of dollars annually on marketing and technical research that significantly reduces, but doesn't eliminate, new-product failure. So meeting the changing needs of consumers is a continuing challenge for firms around the world.

Consumer Needs and Consumer Wants

Should marketing try to satisfy consumer needs or consumer wants? Marketing tries to do both. Heated debates rage over this question, fueled by the definitions of needs and wants and the amount of freedom given to prospective customers to make their own buying decisions.

A *need* occurs when a person feels deprived of basic necessities such as food, clothing, and shelter. A *want* is a need that is shaped by a person's knowledge, culture, and personality. So if you feel hungry, you have developed a basic need and desire to eat something. Let's say you then want to eat a Cool Mint Chocolate Clif Bar because, based on your past experience, you know it will satisfy your hunger need. Effective marketing, in the form of creating an awareness of good products at fair prices and convenient locations, can clearly shape a person's wants.

Certainly, marketing tries to influence what we buy. A question then arises: At what point do we want government and society to step in to protect consumers? Most consumers



Studying late at night for an exam and being hungry, you decide to eat a Cool Mint Chocolate Clif Bar. Is this a need or want? The text discusses the role of marketing in influencing decisions like this.

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would say they want government to protect us from harmful drugs and unsafe cars but not from candy bars and soft drinks. To protect college students, should government restrict their use of credit cards?¹³ Such questions have no clear-cut answers, which is why legal and ethical issues are central to marketing. Because even psychologists and economists still debate the exact meanings of *need* and *want*, we shall use the terms interchangeably throughout the book.

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As shown in the left side of **Figure 1–3**, discovering needs involves looking carefully at prospective customers, whether they are children buying M&M's candy, college students buying Chobani Greek Yogurt, or firms buying Xerox color copiers. A principal activity of a firm's marketing department is to scrutinize its consumers to understand what they need and want and the forces that shape those needs and wants.

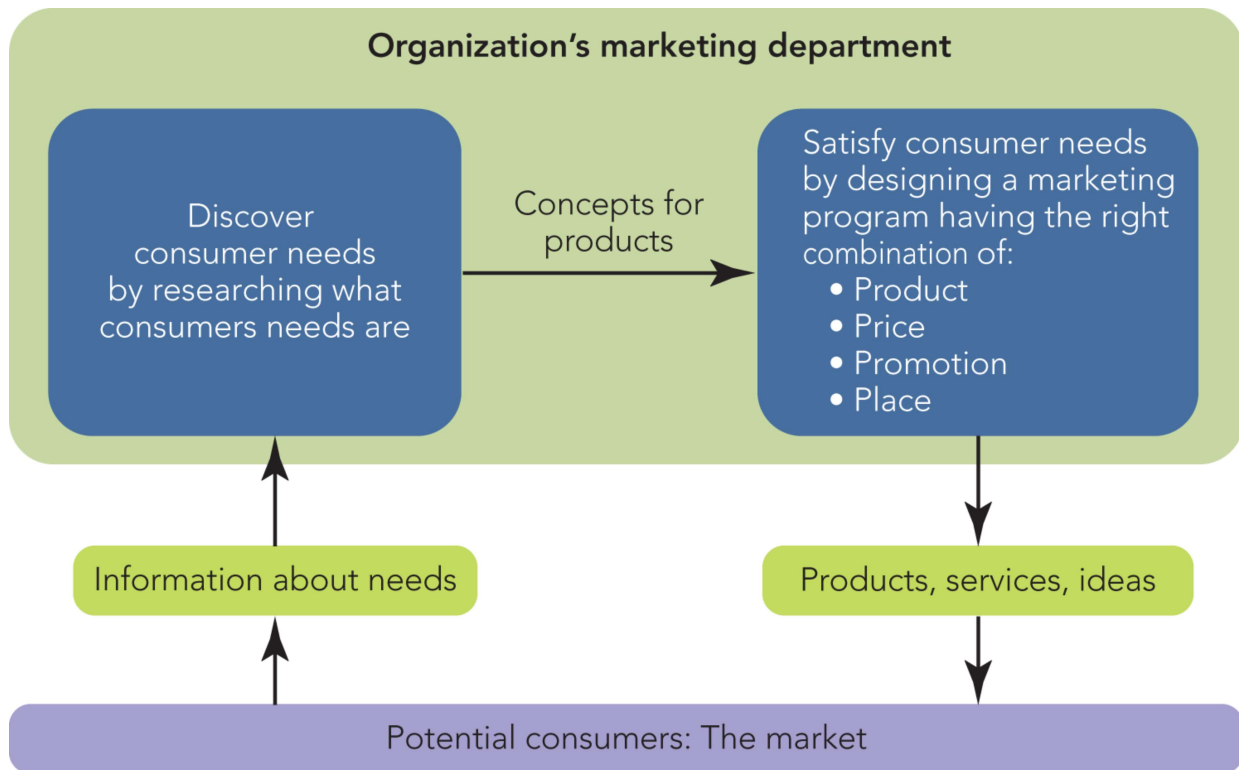


Figure 1–3 Marketing seeks first to discover consumer needs through extensive research. It then seeks to satisfy those needs by successfully implementing a marketing program possessing the right combination of the marketing mix—the four Ps.

What a Market Is

Potential consumers make up a **market**, which is people with both the desire and the ability to buy a specific offering. All markets ultimately are people. Even when we say a firm bought a Xerox copier, we mean one or several people in the firm decided to buy it. People who are aware of their unmet needs may have the desire to buy the product, but that alone isn't sufficient. People must also have the ability to buy, such as the authority, time, and money. People may even "buy" an idea that results in an action, such as having their blood pressure checked annually or turning down their thermostat to save energy.

Satisfying Consumer Needs

Marketing doesn't stop with the discovery of consumer needs. Because the organization obviously can't satisfy all consumer needs, it must concentrate its efforts on certain needs of a specific group of potential consumers. This is the **target market**—one or more specific groups of potential consumers toward which an organization directs its marketing program.

The Four Ps: Controllable Marketing Mix Factors

Having selected its target market consumers, the firm must take steps to satisfy their needs, as shown in the right side of **Figure 1–3**. Someone in the organization's marketing department, often the marketing manager, must develop a complete marketing program to reach consumers

LO 1-3

Distinguish between marketing mix factors and environmental forces.

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by using a combination of four elements, often called “the four Ps”—a useful shorthand reference to them first published by Professor E. Jerome McCarthy:¹⁴

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- *Product.* A good, service, or idea to satisfy the consumer’s needs.
- *Price.* What is exchanged for the product.
- *Promotion.* A means of communication between the seller and buyer.
- *Place.* A means of getting the product to the consumer.

We’ll define each of the four Ps more carefully later in the book, but for now it’s important to remember that they are the elements of the **marketing mix**. These four elements are the controllable factors—product, price, promotion, and place—that can be used by the marketing manager to solve a marketing problem. For example, when a company puts a product on sale, it is changing one element of the marketing mix—namely, the price. The marketing mix elements are called *controllable factors* because they are under the control of the marketing department in an organization.

Designing an effective marketing mix also conveys to potential buyers a clear **customer value proposition**, which is a cluster of benefits that an organization promises customers to satisfy their needs. For example, Walmart’s customer value proposition can be described as “help people around the world save money and live better—anytime and anywhere.” Michelin’s customer value proposition can be summed up as “providing safety-conscious parents greater security in tires at a premium price.”¹⁵

The Uncontrollable, Environmental Forces



Firms can affect some environmental forces with breakthrough products such as the Apple Watch.

© Chesnot/Getty Images

While marketers can control their marketing mix factors, there are forces that are mostly beyond their control (see **Figure 1–2**). These are the **environmental forces** that affect a marketing decision, which consist of social, economic, technological, competitive, and regulatory forces. Examples are what consumers themselves want and need, changing technology, the state of the economy in terms of whether it is expanding or contracting, actions that

competitors take, and government restrictions. Covered in detail in **Chapter 3**, these five forces may serve as accelerators or brakes on marketing, sometimes expanding an organization’s marketing opportunities and at other times restricting them.

Traditionally, many marketing executives have treated these environmental forces as rigid, absolute constraints that are entirely outside their influence. However, recent studies and marketing successes have shown that a forward-looking, action-oriented firm can often affect some environmental forces by achieving technological or competitive breakthroughs, such as Apple's new Apple Watch.

THE MARKETING PROGRAM: HOW CUSTOMER RELATIONSHIPS ARE BUILT

LO 1-4

Explain how organizations build strong customer relationships and customer value through marketing.

An organization's marketing program connects it with its customers. To clarify this link, we will first discuss the critically important concepts of customer value, customer relationships, and relationship marketing. Then we will illustrate these concepts using 3M's marketing program for its Post-it® Flag Highlighter products.

Relationship Marketing: Easy to Understand, Hard to Do

Intense competition in today's fast-paced global markets has prompted many successful U.S. firms to focus on "customer value." Gaining loyal customers by providing unique value is the essence of successful marketing. What is new is a more careful attempt at

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understanding how a firm's customers perceive value and then actually creating and delivering that value to them.¹⁶ **Customer value** is the unique combination of benefits received by targeted buyers that includes quality, convenience, on-time delivery, and both before-sale and after-sale service at a specific price. Firms now actually try to place a dollar value on the purchases of loyal, satisfied customers during their lifetimes. For example, loyal Kleenex customers average 6.7 boxes a year, about \$994 over 60 years in today's dollars (see question 2, **Figure 1-1**).¹⁷

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EXPECT MORE. PAY LESS.

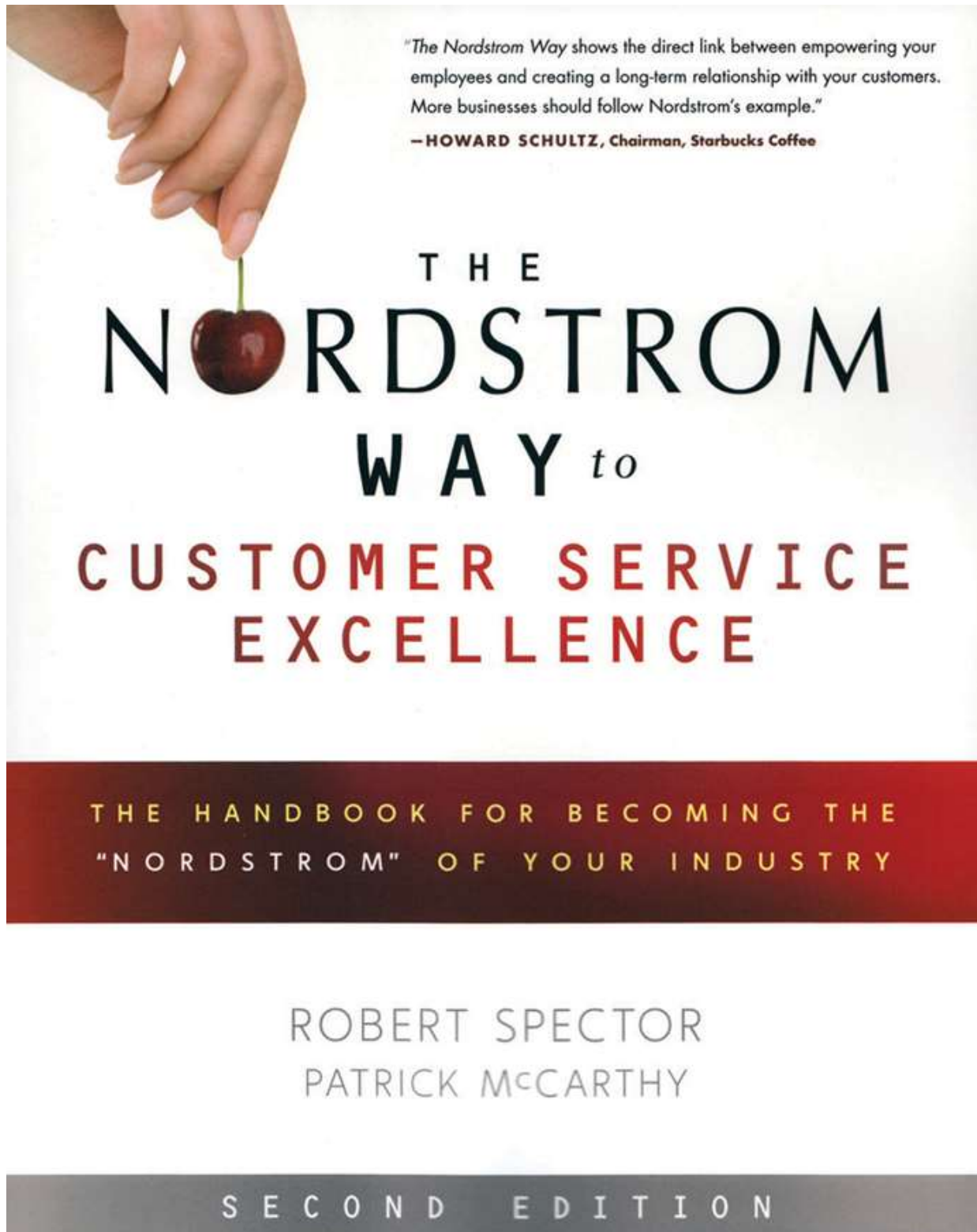
sale
17.99
each dress

Mossimo® and Merona®
dresses shown
• Other selected women's
dresses on sale.

pretty price
on fresh spring picks

The advertisement features four women of diverse ethnicities smiling and posing on bicycles against a white brick wall. The women are wearing colorful dresses: teal with a green cardigan, white, pink with a white cardigan, and blue with a white floral pattern. The Target bullseye logo is in the top left, and a blue price tag is on the left side. The text 'EXPECT MORE. PAY LESS.' is inside the bullseye. The phrase 'pretty price' is written in large white letters across the bottom, with 'on fresh spring picks' underneath it.





Target, Starbucks, and Nordstrom provide customer value using three very different approaches. For their strategies, see the text.

Sources: Left: Target; Center: Starbucks; Right: © Studio Works/Alamy

Research suggests that firms cannot succeed by being all things to all people. Instead, firms seek to build long-term relationships with customers by providing unique value to them. Many successful firms deliver outstanding customer value with one of three value strategies: best price, best product, or best service.¹⁸

With the intense competition among U.S. businesses, being seen as “best” is admittedly difficult. Still, the three firms shown in the ads on the previous page have achieved great success as reflected in the mission, vision, and values statements they stress and live by:¹⁹

- **Best price:** Target. It uses the Target brand promise of “Expect More, Pay Less®” to “make Target the preferred shopping destination for our guests by delivering outstanding value.”
- **Best product:** Starbucks. Starbucks seeks “to inspire and nurture the human spirit—one person, one cup and one neighborhood at a time,” stressing “The best coffee for the best YOU,” in the process.
- **Best service:** Nordstrom. As a leading fashion specialty retailer, Nordstrom works to “deliver the best possible shopping experience, helping customer possess style—not just buy fashion.” Nordstrom is “committed to providing our customers with the best possible service—and improving it every day.”

Remaining among the “best” is a continuing challenge for today’s businesses.

A firm achieves meaningful customer relationships by creating connections with its customers through careful coordination of the product, its price, the way it’s promoted, and how it’s placed.

The hallmark of developing and maintaining effective customer relationships is today called **relationship marketing**, which links the organization to its individual customers, employees, suppliers, and other partners for their mutual long-term benefit. Relationship marketing involves a personal, ongoing relationship between the organization and its individual customers that begins before and continues after the sale.²⁰



Zappos uses relationship marketing concepts—tailoring the purchase experience to each individual—to “deliver happiness” and create lifelong customers.

Source: Zappos

Information technology, along with cutting-edge manufacturing and marketing processes, better enables companies to form relationships with customers today. Smart, connected products, now elements of “the Internet of everything,” help create detailed databases about product usage. Then, using data analytics, or the examination of data to discover relevant patterns, companies can gain insights into how products create value for customers. For example, BMW receives data transmitted by each new vehicle it sells and General Electric collects information sent in by the jet engines it builds to help them understand how customers use

their products and when service may be needed.

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Online shoe retailer Zappos observes and tracks its customers' purchases to provide personal connections and create customers for life.²¹ Page 12

The Marketing Program and Market Segments

Effective relationship marketing strategies help marketing managers discover what prospective customers need and convert these ideas into marketable products (see **Figure 1–3**). These concepts must then be converted into a tangible **marketing program**—a plan that integrates the marketing mix to provide a good, service, or idea to prospective buyers. Ideally, they can be formed into **market segments**, which are relatively homogeneous groups of prospective buyers that (1) have common needs and (2) will respond similarly to a marketing action. This action might be a product feature, a promotion, or a price. As shown in **Figure 1–3**, in an effective organization this process is continuous: Consumer needs trigger product concepts that are translated into actual products that stimulate further discovery of consumer needs.

learning review

- 1- An organization can't satisfy the needs of all consumers, so it must focus on one or
- 4- more subgroups, which are its _____.
- 1- What are the four marketing mix elements that make up the organization's marketing
- 5- program?
- 1- What are environmental forces?
- 6.

3M's Strategy and Marketing Program to Help Students Study

"How do college students *really* study?" asked David Windorski, a 3M inventor of Post-it® brand products, when thinking about adding a new item to the Post-it® line.²²

VIDEO 1-4

3M Post-it® Flag Highlighters Ad

kerin.tv/13e/v1-4

To answer this question, Windorski worked with a team of four college students. Their task was to observe and question dozens of students about their study behavior, such as how they used their textbooks, took notes, wrote term papers, and reviewed for exams. Often, they watched students highlight a passage and then mark the page with a Post-it® Note or the smaller Post-it® Flag. Windorski realized there was an opportunity to merge the functions of two products into one to help students study!

Moving from Ideas to a Marketable Highlighter Product

After working on 15 or 20 models, Windorski concluded he had to build a highlighter product that

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would dispense Post-it® Flags because the Post-it® Notes were simply too large to put inside the barrel of a highlighter. Page 13



3M's initial product line of Post-it® Flag Highlighters and Post-it® Flag Pens includes variations in color and line widths.

© Mike Hruby

Hundreds of the initial highlighter prototypes with Post-it® Flags inside were produced and given to students—and also office workers—to get their reactions. This research showed users wanted a convenient, reliable cover to protect the Post-it® Flags in the highlighter. So the Post-it® Flag Highlighter with a rotating cover was born.

Adding the Post-it® Flag Pen

Most of David Windorski's initial design energies had gone into his Post-it® Flag Highlighter research and development. But Windorski also considered other related products. Many people in offices need

immediate access to Post-it® Flags while writing with pens. Students are a potential market for this product, too, but probably a smaller market segment than office workers.

A Marketing Program for the Post-it® Flag Highlighter and Pen

After several years of research, development, and production engineering, 3M introduced its new products. **Figure 1–4** outlines the strategies for each of the four marketing mix elements in 3M's program to market its Post-it® Flag Highlighters and Post-it® Flag Pens. Although similar, we can compare the marketing program for each of the two products:

- *Post-it® Flag Highlighter.* The target market shown in the orange column in **Figure 1–4** is mainly college students, so 3M's initial challenge was to build student awareness of a product that they didn't know existed. The company used a mix of print ads in college newspapers and a TV ad and then relied on word-of-mouth advertising—students telling their friends about how great the product is. Gaining distribution in college bookstores was also critical. Plus, 3M charged a price to distributors that it hoped would give a reasonable bookstore price to students and an acceptable profit to distributors and 3M.
- *Post-it® Flag Pen.*

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The primary target market shown in the green column in **Figure 1–4** is people working in offices. The Post-it® Flag Pens are mainly business products—bought by the purchasing department in an organization and stocked as office supplies for employees to use. So the marketing program for Post-it® Flag Pens emphasizes gaining distribution in outlets used by an organization’s purchasing department.

MARKETING MIX ELEMENT	MARKETING PROGRAM ACTION TO REACH:		RATIONALE FOR MARKETING PROGRAM ACTION
	COLLEGE STUDENT MARKET SEGMENT	OFFICE WORKER MARKET SEGMENT	
Product strategy	Offer Post-it® Flag Highlighter to help college students in their studying	Offer Post-it® Flag Pen to help office workers in their day-to-day work activities	Listen carefully to the needs and wants of potential customer segments to use 3M technology to introduce a useful, innovative product
Price strategy	Seek retail price of about \$3.99 to \$4.99 for a single Post-it® Flag Highlighter or \$5.99 to \$7.99 for a three-pack	Seek retail price of about \$3.99 to \$4.99 for a single Post-it® Flag Pen; wholesale prices are lower	Set prices that provide genuine value to the customer segment being targeted
Promotion strategy	Run limited promotion with a TV ad and some ads in college newspapers and then rely on student word-of-mouth messages	Run limited promotion among distributors to get them to stock the product	Increase awareness among potential users who have never heard of this new, innovative 3M product
Place strategy	Distribute Post-it® Flag Highlighters through college bookstores, office supply stores, and mass merchandisers	Distribute Post-it® Flag Pens through office wholesalers and retailers as well as mass merchandisers	Make it easy for prospective buyers to buy at convenient retail outlets (both products) or to get at work (Post-it® Flag Pens only)

Figure 1–4 Marketing programs for the launch of two Post-it® brand products targeted at two target market segments.

How well did these new 3M products do in the marketplace? They have done so well that 3M bestowed a prestigious award on David Windorski and his team. And in what must be considered any inventor’s dream come true, Oprah Winfrey flew Windorski to Chicago to appear on her TV show and thank him in person. She told Windorski and her audience that the Post-it® Flag Highlighter is changing the way she does things at home and at work—especially in going through potential books she might recommend for her book club. “David, I know you never thought this



Welcome to the third generation of Post-it® Flag Highlighters: the 3-in-1 Post-it® Flag Pen and Highlighter. The cap contains the Post-it® flags.

© Mike Hruby

would happen when you were in your 3M lab...but I want you to take a bow before America for the invention of this...(highlighter). It's the most incredible invention," she said.²³

Extending the Product Line

Feedback about these two products led Windorski to design a second generation of Post-it® Flag Highlighters and Pens *without* the rotating cover to make it easier to insert replacement flags. The new tapered

design is also easier for students to hold and use.

The success of the second generation of Post-it® Flag Highlighters, in turn, encouraged Windorski to continue to ask questions about how students study.

Is it too much trouble when you're studying to grab for a 3M Post-it® Flag, then a highlighter, and then your pen? You're in luck! New to the family of 3M products is the latest generation of Windorski's innovations: A 3-in-1 combination that has a highlighter on one end, a pen on the other, and 3M Post-it® Flags in the removable cap, as shown in the photo.

HOW MARKETING BECAME SO IMPORTANT

LO 1-5

Describe how today's customer relationship era differs from prior eras.

To understand why marketing is a driving force in the modern global economy, let us look at (1) the evolution of the market orientation, (2) ethics and social responsibility in marketing, and (3) the breadth and depth of marketing activities.

Evolution of the Market Orientation

Many American manufacturers have experienced four distinct stages in the life of their firms.²⁴ The first stage, the *production era*, covers the early years of the United States up until the 1920s. Goods were scarce and buyers were willing to accept virtually any goods that were available and make do with them.²⁵ In the *sales era* from the 1920s to the 1960s, manufacturers found they could produce more goods than buyers could consume. Competition grew. Firms hired more salespeople to find new buyers. This sales era continued into the 1960s for many American firms.

Starting in the late 1950s, marketing became the motivating force among many American firms and the *marketing concept era* dawned. The **marketing concept** is the idea that an organization should (1) strive to satisfy the needs of consumers while also (2) trying to achieve the organization's goals. General Electric probably launched the marketing concept and its focus on consumers when its 1952 annual report stated: "The concept introduces...marketing...at the beginning rather than the end of the production cycle and integrates marketing into each phase of the business."²⁶

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Firms such as General Electric, Marriott, and Facebook have achieved great success by putting huge effort into implementing the marketing concept, giving their firms what has been called a *market orientation*. An organization that has a **market orientation** focuses its efforts on (1) continuously collecting information about customers' needs, (2) sharing this information across departments, and (3) using it to create customer value.²⁷ Today's *customer relationship era*, the brown bar in **Figure 1–5**, started in the 1980s and occurs as firms continuously seek to satisfy the high expectations of customers.

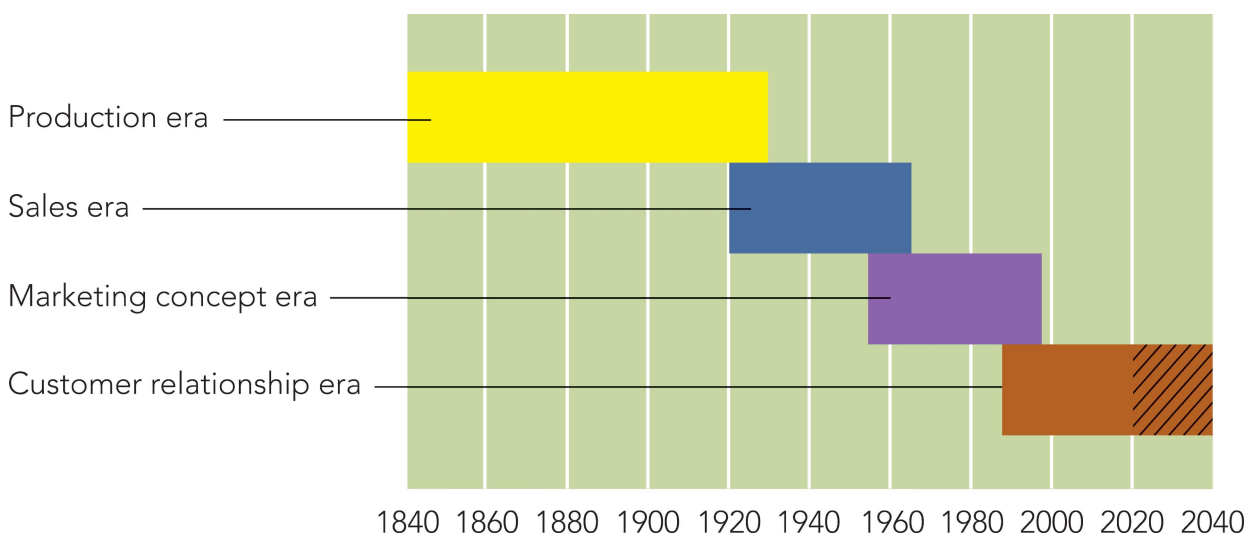


Figure 1–5 Four different orientations in the history of American business. Today's customer relationship era focuses on satisfying the high expectations of customers.

Focusing on Customer Relationship Management

A recent focus in the customer relationship era has been the advent of social networking, in which organizations and their customers develop relationships through social media websites such as Facebook, Twitter, and YouTube, among others. This focus has allowed organizations to understand and market to current and prospective customers in ways that are still evolving, such as in using social media.

An important outgrowth of this focus on the customer is the recent attention placed on **customer relationship management (CRM)**, the process of identifying prospective buyers, understanding them intimately, and developing favorable long-term perceptions of the organization and its offerings so that buyers will choose them in the marketplace.²⁸ This process requires the involvement and commitment of managers and employees throughout the organization²⁹ and a growing application of information, communication, and Internet technology, as will be described throughout this book.



Trader Joe's has been ranked as America's favorite supermarket chain for two consecutive years. This reflects the company's focus on providing a great customer experience, as described in the text.

© David Paul Morris/Bloomberg via Getty Images

The foundation of customer relationship management is really **customer experience**, which is the internal response that customers have to all aspects of an organization and its offering. This internal response includes both the direct and indirect contacts of the customer with the company. Direct contacts include the customer's contacts with the seller through buying, using, and obtaining service. Indirect contacts most often involve unplanned "touches" with the company through word-of-mouth comments from other customers, reviewers, and news reports.

In terms of outstanding customer experience, Trader Joe's is high on the list. It was ranked as America's

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favorite supermarket chain by *Market Force Information* and called “America’s hottest retailer” by *Fortune* magazine:

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But Trader Joe’s is no ordinary grocery chain. It’s an offbeat, fun discovery zone that elevates food shopping from a chore to a cultural experience. It stocks its shelves with a winning combination of low-cost, yuppie-friendly staples (cage-free eggs and organic blue agave sweetener) and exotic, affordable luxuries—Belgian butter waffle cookies or Thai lime-and-chili cashews—that you simply can’t find anywhere else.³⁰

Trader Joe’s has about 415 stores in over 35 states. It started in California and then expanded on the West Coast before jumping to the East Coast in 1996 and the Midwest in 2000.

What makes the customer experience and loyalty of shoppers at Trader Joe’s unique? The reasons include:

- Setting low prices, made possible by offering its own brands rather than well-known national ones.
- Offering unusual, affordable products, like Thai lime-and-chili cashews, not available from other retailers.
- Providing rare employee “engagement” to help customers, like actually walking them to where the roasted chestnuts are—rather than saying “aisle five.”

This commitment to providing an exceptional customer experience is what gives Trader Joe’s its high rankings. Recent studies support this approach, suggesting that companies must watch for differences between the experience they offer and what consumers expect at each interaction, and they must excel at managing the complete experience from start to finish.³¹

Ethics and Social Responsibility in Marketing: Balancing the Interests of Different Groups

As organizations have changed their orientation, society’s expectations of marketers have also changed. Today, the standards of marketing practice have shifted from an emphasis on producers’ interests to consumers’ interests. Guidelines for ethical and socially responsible behavior can help managers balance consumer, organizational, and societal interests.

Ethics

Many marketing issues are not specifically addressed by existing laws and regulations. Should information about a firm’s customers be sold to other organizations? Should advertising by professional service providers, such as

accountants and attorneys, be restricted? Should consumers be on their own to assess the safety of a product? These questions raise difficult ethical issues. Many companies, industries, and professional associations have developed codes of ethics to assist managers.

Social Responsibility



3M's Scotch-Brite® Greener Clean non-scratch scrub sponges—made from agave plants—reflect the increasing concern among today's organizations for society's well-being.

© McGraw-Hill Education/Editorial Image, LLC, photographer

While many ethical issues involve only the buyer and seller, others involve society as a whole. For example, suppose you have the oil in your car changed at a local oil change center. Is this just a transaction between you and the service center? Not quite! The used oil and oil filter have potential to contaminate the environment if they are not recycled, and contamination represents a cost to society in terms of lost use of landfill space or eventual cleanup of the discarded waste products. To reduce the social cost of individual purchases today, many organizations use a variety of strategies that range from pure philanthropy, to environmentally friendly and sustainable practices, to creating “shared” value.³² These strategies illustrate the issue of *social responsibility*, the idea that organizations are accountable to a larger society.

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The well-being of society at large should also be recognized in an organization's marketing decisions. In fact, some marketing experts stress the **societal marketing concept**, the view that organizations should satisfy the needs of consumers in a way that provides for society's well-being.³³ For example, 3M's Scotch-Brite® Greener Clean non-scratch scrub sponges are made from recycled agave plant fibers that remain after the plants are harvested for tequila production (see question 3, **Figure 1-1**). The sponges outlast 30 rolls of paper towels!

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The Breadth and Depth of Marketing



Strategies in marketing art museums include planning new “satellite” museums like this one for the Louvre in Abu Dhabi...
© AFP/Getty Images

Marketing today affects every person and organization. To understand this, let's analyze (1) who markets, (2) what is marketed, (3) who buys and uses what is marketed, (4) who benefits from these marketing activities, and (5) how consumers benefit.

Who Markets?

Every organization markets. It's obvious that business firms involved in manufacturing (Heinz), retailing (Trader Joe's), and providing services (Marriott)

market their offerings. And nonprofit organizations such as museums, your local hospital or college, places (cities, states, countries), and even special causes (Race for the Cure) also engage in marketing. Finally, individuals such as political candidates often use marketing to gain voter attention and preference.

What Is Marketed?



...or taking a “virtual tour” of Russia's State Hermitage Museum—courtesy of IBM.

© Izzet Keribar/Lonely Planet Images/Getty Images

Goods, services, and ideas are marketed. *Goods* are physical objects, such as toothpaste, cameras, or computers, that satisfy consumer needs. *Services* are intangible items such as airline trips, financial advice, or art museums. *Ideas* are thoughts about concepts, actions, or causes.

In this book, goods, services, and ideas are all considered “products” that are marketed. So a **product** is a good, service, or idea consisting of a bundle of tangible and intangible attributes that satisfies consumers' needs and is received in exchange for money or something else of value.

Services like those offered by art museums, hospitals, and sports teams are relying more heavily on effective marketing. For example, financial pressures have caused art museums to innovate to market their unique services—

the viewing of works of art by visitors—to increase revenues. This often involves levels of rare creativity unthinkable several decades ago.

This creativity ranges from establishing a global brand identity by launching overseas museums to offering sit-at-home video tours. France's Louvre, home to the *Mona Lisa* painting, is developing a new satellite museum in Abu Dhabi housed in an architecturally space-age building.³⁴ Russia's world-class 1,000-room State Hermitage Museum wanted to find a way to market itself to potential first-time visitors. So it partnered with IBM to let you take a "virtual tour" of its exhibits while watching on your iPad and relaxing.

VIDEO 1-5

Hermitage Tour

kerin.tv/13e/v1-5

Ideas are most often marketed by nonprofit organizations or the government. So the Nature Conservancy markets the cause of protecting the environment. Charities market the idea that it's

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worthwhile for you to donate your time or money. The Peace Corps markets to recruit qualified volunteers. Page 18
And state governments in Arizona and Florida market taking a warm, sunny winter vacation in their states.

Who Buys and Uses What Is Marketed?

Both individuals and organizations buy and use products that are marketed. **Ultimate consumers** are the people—whether 80 years or eight months old—who use the products and services purchased for a household. In contrast, **organizational buyers** are those manufacturers, wholesalers, retailers, service companies, not-for-profit organizations and government agencies that buy products and services for their own use or for resale. Although the terms *consumers*, *buyers*, and *customers* are sometimes used for both ultimate consumers and organizations, there is no consistency on this. In this book you will be able to tell from the example whether the buyers are ultimate consumers, organizations, or both.



Marketing the idea of volunteering for the Peace Corps can benefit society.

Source: United States Peace Corps

Who Benefits?

In our free-enterprise society, there are three specific groups that benefit from effective marketing: consumers who buy, organizations that sell, and society as a whole. True competition between products and services in the marketplace ensures that consumers can find value from the best products, the lowest prices, or exceptional service. Providing choices leads to the consumer satisfaction and quality of life that we expect from our economic system.

Organizations that provide need-satisfying products with effective marketing programs—for example, Target, IBM, and Avon—have blossomed. But competition creates problems for ineffective competitors, including the hundreds of dot-com businesses, such as Pets.com, that failed over a decade ago.

Finally, effective marketing benefits society.³⁵ It enhances competition, which both improves the quality of products and services and lowers their prices. This makes countries more competitive in world markets and provides jobs and a higher standard of living for their citizens.

How Do Consumers Benefit?

Marketing creates **utility**, the benefits or customer value received by users of the product. This utility is the result of the marketing exchange process and the way society benefits from marketing. There are four different utilities: form, place, time, and possession. The production of the product or service constitutes *form utility*. *Place utility* means having the offering available where consumers need it, whereas *time utility* means having it available when

needed. *Possession utility* is the value of making an item easy to purchase through the provision of credit cards or financial arrangements. Marketing creates its utilities by bridging space (place utility) and hours (time utility) to provide products (form utility) for consumers to own and use (possession utility).

learning review

- 1-7. What are the two key characteristics of the marketing concept?
- 1-8. What is the difference between ultimate consumers and organizational buyers?

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LEARNING OBJECTIVES REVIEW

LO 1-1 *Define marketing and identify the diverse factors that influence marketing actions.*

Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. This definition relates to two primary goals of marketing: (a) discovering the needs of prospective customers and (b) satisfying them. Achieving these two goals also involves the four marketing mix factors largely controlled by the organization and the five environmental forces that are generally outside its control.

LO 1-2 *Explain how marketing discovers and satisfies consumer needs.*

The first objective in marketing is discovering the needs and wants of consumers who are prospective buyers and customers. This is not easy because consumers may not always know or be able to describe what they need and want. A need occurs when a person feels deprived of basic necessities such as food, clothing, and shelter. A want is a need that is shaped by a person's knowledge, culture, and personality. Effective marketing can clearly shape a person's wants and tries to influence what he or she buys. The second objective in marketing is satisfying the needs of targeted consumers. Because an organization obviously can't satisfy all consumer needs, it must concentrate its efforts on certain needs of a specific group of potential consumers or target market—one or more specific groups of potential consumers toward which an organization directs its marketing program. It then selects its target market segment(s), which are relatively homogeneous groups of prospective buyers that (1) have common needs and (2) will respond similarly to a marketing action. Finally, the organization develops a set of marketing actions in the form of a unique marketing program to reach them.

LO 1-3 *Distinguish between marketing mix factors and environmental forces.*

Four elements in a marketing program designed to satisfy customer needs are product, price, promotion, and place. These elements are called the marketing mix, the four Ps, or the marketer's controllable variables. The marketing mix also provides a clear customer value proposition—a cluster of benefits that an offering satisfies. Environmental forces, also called uncontrollable variables, are largely beyond the organization's control. These include social, economic, technological, competitive, and regulatory forces.

LO 1-4 *Explain how organizations build strong customer relationships and customer value through marketing.*

The essence of successful marketing is to provide sufficient value to gain loyal, long-term customers. Customer value is the unique combination of benefits received by targeted buyers that usually includes quality, price, convenience, on-time delivery, and both before-sale and after-sale service. Marketers do this by using one of three value strategies: best price, best product, or best service.

LO 1-5 *Describe how today's customer relationship era differs from prior eras.*

U.S. business history is divided into four overlapping periods: the production era, the sales era, the marketing concept era, and the current customer relationship era. The production era covers the period up until the 1920s, when buyers were willing to accept virtually any goods that were available. The central notion was that products would sell themselves. The sales era lasted from the 1920s to the 1960s. Manufacturers found they could produce more goods than buyers could consume, and competition grew, so the solution was to hire more salespeople to find new buyers. In the late 1950s, the marketing concept era dawned when organizations adopted a strong market orientation and integrated marketing into each phase of their business. In today's customer relationship era, organizations continuously seek to satisfy the high expectations of customers—an aggressive extension of the marketing concept era. This is increasingly done through social media.

LEARNING REVIEW ANSWERS

1-What is marketing?

1 Answer: Marketing is the activity for creating, communicating, delivering, and exchanging offerings that benefit customers, the organization, its stakeholders, and society at large.

1-Marketing focuses on _____ and _____ consumer needs.

2 Answer: discovering; satisfying

1-What four factors are needed for marketing to occur?

3 Answer: The four factors are: (1) two or more parties (individuals or organizations) with unsatisfied needs; (2) a desire and ability on their part to have their needs satisfied; (3) a way for the parties to communicate; and (4) something to exchange.

1-An organization can't satisfy the needs of all consumers, so it must focus on one or more subgroups, which are its _____.

Answer: target market

1-What are the four marketing mix elements that make up the organization's marketing program?

Answer: product, price, promotion, place

1-What are environmental forces?

6 Answer: Environmental forces are the uncontrollable forces that affect a marketing decision. They consist of social, economic, technological, competitive, and regulatory forces.

1-What are the two key characteristics of the marketing concept?

7 Answer: An organization should (1) strive to satisfy the needs of consumers while also (2) trying to achieve the organization's goals.

1-What is the difference between ultimate consumers and organizational buyers?

8 Answer: Ultimate consumers are the people who use the products and services purchased

for a household. Organizational buyers are those manufacturers, wholesalers, retailers, and government agencies that buy products and services for their own use or for resale.

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FOCUSING ON KEY TERMS

customer experience , 15
customer relationship management (CRM) , 15
customer value , 11
customer value proposition , 10
environmental forces , 10
exchange , 5
market , 9
market orientation , 15
market segments , 12
marketing , 5
marketing concept , 14
marketing mix , 10
marketing program , 12
organizational buyers , 18
product , 17
relationship marketing , 11
societal marketing concept , 17
target market , 9
ultimate consumers , 18
utility , 18

APPLYING MARKETING KNOWLEDGE

1. What consumer wants (or benefits) are met by the following products or services? (a) 3M Post-it® Flag Highlighter, (b) Nike running shoes, (c) Hertz Rent-A-Car, and (d) television

home shopping programs.

2. Each of the four products, services, or programs in question 1 has substitutes. Respective examples are (a) a Bic™ highlighter, (b) regular tennis shoes, (c) a bus ride, and (d) a department store. What consumer benefits might these substitutes have in each case that some consumers might value more highly than those mentioned in question 1?
3. What are the characteristics (e.g., age, income, education) of the target market customers for the following products or services? (a) *National Geographic* magazine, (b) Chobani Greek Yogurt, (c) New York Giants football team, and (d) Facebook.
4. A college in a metropolitan area wishes to increase its evening-school offerings of business-related courses such as marketing, accounting, finance, and management. Who are the target market customers (students) for these courses?
5. What actions involving the four marketing mix elements might be used to reach the target market in question 4?
6. What environmental forces (uncontrollable variables) must the college in question 4 consider in designing its marketing program?
7. Does a firm have the right to “create” wants and try to persuade consumers to buy goods and services they didn’t know about earlier? What are examples of “good” and “bad” want creation? Who should decide what is good and what is bad?

BUILDING YOUR MARKETING PLAN

If your instructor assigns a marketing plan for your class, don’t make a face and complain about the work—for two special reasons. First, you will get insights into trying to actually “do marketing” that often go beyond what you can get by simply reading the textbook. Second, thousands of graduating students every year get their first job by showing prospective employers a “portfolio” of samples of their written work from college—often a marketing plan if they have one. This can work for you.

This “Building Your Marketing Plan” section at the end of each chapter suggests ways to improve and focus your marketing plan. You will use the sample marketing plan in [Appendix A](#) (following [Chapter 2](#)) as a guide, and this section after each chapter will help you apply those Appendix A ideas to your own marketing plan.

The first step in writing a good marketing plan is to have a business or product that enthruses you and for which you can get detailed information, so you can avoid glittering generalities. We offer these additional bits of advice in selecting a topic:

- *Do* pick a topic that has personal interest for you—a family business; a business, product, or service you or a friend might want to launch; or a student organization that needs marketing help.
- *Do not* pick a topic that is so large it can’t be covered adequately or so abstract it will lack specifics.

1. Now to get you started on your marketing plan, list four or five possible topics and compare these with the criteria your instructor suggests and those shown above. Think hard, because your decision will be with you all term and may influence the quality of the resulting marketing plan you show to a prospective employer.
2. When you have selected your marketing plan topic, whether the plan is for an actual business, a possible business, or a student organization, write the “company description” in your plan, as shown in **Appendix A** (following **Chapter 2**).



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Video Case 1 Video Case 1: Chobani®: Making Greek Yogurt a Household Name

VIDEO 1-6

Chobani Video Case

kerin.tv/13e/v1-6

“Everybody should be able to enjoy a pure, simple cup of yogurt. And that’s what Chobani is,” says Hamdi Ulukaya, founder and chief executive officer of Chobani, LLC, in summarizing his vision for the company.

As the winner of the 2013 Ernst & Young World Entrepreneur of the Year award, his words and success story carry great credibility.

THE IDEA

Hamdi Ulukaya came to the United States in 1994 to learn English and study business. He started a feta cheese company, Euphrates, when his visiting father complained about the quality of American feta cheese. In 2005, Kraft Foods closed its New Berlin, New York, yogurt plant built in 1885. While tidying up his office, Ulukaya stumbled upon a postcard about the sale of the shuttered Kraft plant and threw it out. After sleeping on the decision, he fished it out of the wastebasket, visited the plant, and purchased it with the help of a U.S. Small Business Administration loan.



© Diane Bondareff/Invision for Chobani/AP Images

Ulukaya (center in photo) had no real experience in the yogurt business. He grew up milking sheep at his family's dairy in eastern Turkey and eating the thick, tangy yogurt of his homeland. Describing the regular yogurt he found on shelves in America, he has one comment: "Terrible!" In his view, it is too thin, too sweet, and too fake. So he decided to produce what is known as "Greek yogurt"—an authentic strained version that produces a thick texture, high protein content, and with little or no fat. With the help of four former Kraft employees and yogurt master Mustafa Dogan, Ulukaya worked 18 months to perfect the recipe for Chobani Greek Yogurt.

The very first cup for sale of Ulukaya's Greek yogurt appeared on shelves of a small grocer on Long Island, New York, in 2007. The new-product launch focused on the classic "4Ps" elements of marketing mix actions: product, price, place, and promotion.

PRODUCT STRATEGY

From the start Ulukaya's Greek yogurt carried the brand name "Chobani." There was no room for error, and the product strategy for the Chobani brand focused on the separate elements of (1) the product itself and (2) its packaging.

The Chobani product strategy stresses its authentic straining process that removes excess liquid whey. This results in a thicker, creamier yogurt that yields 13 to 18 grams of protein per single-serve cup, depending on the flavor. Chobani is free of ingredients like milk protein concentrate and animal-based thickeners, which some manufacturers add to make "Greek-style" yogurts.

Chobani uses three pounds of milk to make one pound of Chobani Greek Yogurt. Some other features that make Chobani Greek Yogurt "*nothing but good*," to quote its tagline:

- Higher in protein than regular yogurt.
- Made with real fruit and only natural ingredients.
- Preservative-free.
- No artificial flavors or artificial sweeteners.
- Contains five live and active cultures, including three probiotics.

Then, and still today, Ulukaya obsesses about Chobani's packaging of the original cups. In 2007, Ulukaya concluded that *not any cup* would do. He insisted on a European-style cup with a circular opening *exactly* 95 millimeters across. This made for a shorter, wider cup that was more visible on retailer's shelves. Also, instead of painted-on labels, Ulukaya chose shrink-on plastic sleeves that adhere to the cup and offer eye-popping colors.

"With our packaging people would say, 'You're making it all look different and why are you doing that?' " says Kyle O'Brien, executive vice president of sales. "If people pay attention to our cups—bright colors and all—we know we have won them, because what's inside the cup is different from anything else on the shelf."

PRICE STRATEGY

To keep control of their product, Ulukaya and O'Brien approached retailers directly rather than going through distributors.

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Prices were set high enough to recover Chobani's costs and give reasonable margins to retailers but not so high that future rivals could undercut its price. Today, prices remain at about \$1.29 for a single-serve cup.

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PLACE STRATEGY

The decision of Ulukaya and O'Brien to get Chobani Greek Yogurt into the conventional yogurt aisle of traditional supermarkets—not on specialty shelves or in health food stores—proved to be sheer genius. Today Chobani sees its Greek Yogurt widely distributed in both conventional and mass supermarkets, club stores, and natural food stores. On the horizon: growing distribution in convenience and drugstores, as well as schools. Chobani is also focused on educating food service directors at schools across the United States about Greek yogurt's health benefits for schoolkids.

The Chobani growth staggers imagination. From the company's first order of 200 cases in 2007, its sales have grown to over 2 million cases per week. To increase capacity and bring new products to market faster, in 2012 Chobani opened a nearly one million square foot plant in Idaho. Built in just 326 days, it is the largest yogurt manufacturing facility in the world.

Along the way Chobani faced a strange glitch: Demand for Chobani's Greek yogurt far surpassed supply, leading to unhappy retailers with no Chobani cups to sell. Kyle O'Brien launched Operation Bear Hug. "Instead of hiding behind letters to retailers, we decided to get on a plane and to communicate with them within 24 hours about the problem and what we proposed to do about it," says O'Brien. "So we found it critical to be very transparent and open with our communication at times like that."

PROMOTION STRATEGY

In its early years Chobani had no money for traditional advertising, so it relied on word-of-mouth recommendation from enthusiastic customers. The brand harnessed consumer passion on social media channels early on and found that people loved the taste of Chobani once they tried it. So in 2010, Chobani kicked off its CHOMobile tour: a mobile vehicle sampling Chobani at events across the country, encouraging consumers to taste Greek yogurt for the first time. As Chobani grew, it began to launch new promotional activities tied to (1) traditional advertising, (2) social media, and (3) direct communication with customers.

In 2011, Chobani launched its first national advertising campaign, "Real Love Stories." The only problem: apparently it was *too* successful! The resulting additional consumer demand for Chobani Greek Yogurt exceeded its production capacity, leaving retailers unhappy because of complaining consumers. What did Chobani do then? It stopped the advertising campaign and sent in another Operation Bear Hug team to communicate with retailers. Since then it has run other successful national advertising campaigns, including sponsorship of the 2012 and 2014 U.S. Olympic Teams.

"Social media has been important to Chobani, which has embraced a high-touch model that emphasizes positive communication with its customers," says Sujean Lee, head of corporate affairs. Today, Chobani's Customer Loyalty Team receives about 7,000 inbound customer e-mails and phone calls a month and are able to make return phone calls to most of them. Consumers also get a handwritten note. Chobani launched its "Go Real Chobani" campaign in 2013 to highlight that they are a *real* company making *real* products and engaging consumers through *real* conversations.

Aside from Facebook (www.Facebook.com/Chobani), the company interacts with its consumers through Twitter, Pinterest, Instagram, Foursquare, and other social media platforms. Chobani Kitchen (www.chobanikitchen.com) is an online resource with recipes, videos, and tips on how to use its Greek yogurt in favorite recipes.

AGGRESSIVE INNOVATION AND POSITIVE SOCIAL CHANGE

Dannon, Yoplait, and PepsiCo were shocked by the success of Chobani Greek Yogurt. Each now offers its own competing Greek yogurt. With giant competitors

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like these, what can Chobani do? Chobani's focus: Innovate! And with creative, new Greek yogurt products!

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“Today we offer our Chobani Greek Yogurt in single-serve and multi-serve sizes, while expanding our authentic strained Greek yogurt to new occasions and forms,” says Joshua Dean, vice president of brand advertising. Its recent new-product offerings include:

- Chobani Simply 100™—a 5.3-ounce cup of yogurt made with only natural ingredients and 100 calories for the calorie conscious segment. Sample flavor: Tropical Citrus.
- Chobani Kids Pouches—made with 25 percent less sugar than other kids’ yogurt products, in pouches with twist-off lids that are resealable. Sample flavor: Vanilla Chocolate Dust.
- Chobani Flip™ —a 5.3-ounce, two-compartment package that lets consumers bend or “flip” mix-ins like granola or hazelnuts into the Chobani Greek Yogurt compartment. Sample flavor: Almond Coco Loco, a coconut low-fat yogurt paired with dark chocolate and sliced toasted almonds.

Chobani gives 10 percent of all profits to its Shepherd’s Gift Foundation to support people and organizations working for positive, long-lasting change. The name comes from the “spirit of a shepherd,” an expression in Turkey used to describe people who give without expecting anything in return. To date the foundation has supported over 50 projects—from local ones to international famine relief efforts.

WHERE TO NOW?

International operations and a unique test-market boutique in New York City give a peek at Chobani's future.

International markets provide a growth opportunity. Already sold internationally in Australia, Chobani opened its international headquarters office in 2013. Other countries have far greater annual per capita consumption than that for U.S. consumers. For example, some Europeans eat five or six times as much on average. So while entrenched competitors exist in many foreign countries, the markets are often huge, too.

How do you test ideas for new Greek yogurt flavors? In Chobani's case, it opened what it calls a "first-of-its-kind Mediterranean yogurt bar"—called Chobani SoHo—in a trendy New York City neighborhood. Here, customers can try new yogurt creations—from Strawberry + Granola to Toasted Coconut + Pineapple. The Chobani marketing team obtains consumer feedback at Chobani SoHo, leading to potential new flavors or products in the future.

Hmmm! Ready to schedule a visit to New York City and Chobani SoHo? And then sample a creation made with Pistachio + Chocolate (plain Chobani topped with pistachios, dark chocolate, honey, oranges, and fresh mint leaves), and perhaps influence what Chobani customers will be buying in the future?³⁶

Questions

1. From the information about Chobani in the case and at the start of the chapter, (a) whom did Hamdi Ulukaya identify as the target for his first cups of Greek yogurt and (b) what was his initial "4Ps" marketing strategy?
2. (a) What marketing actions would you expect the companies selling Yoplait, Dannon, and PepsiCo yogurts to take in response to Chobani's appearance and (b) how might Chobani respond?
3. What are (a) the advantages and (b) the disadvantages of Chobani's Customer Loyalty Team that handles communication with customers—from phone calls and e-mails to Facebook and Twitter messages?
4. As Chobani seeks to build its brand, it opened a unique retail store in New York City: Chobani SoHo. Why did Chobani do this?
5. (a) What criteria might Chobani use when it seeks markets in new countries and (b) what three or four countries meet these criteria?

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