About the Author

Sarah E. White

Sarah E. White provides writing services for individuals, families, businesses, and communities from her home base in Madison, Wisconsin. Typical projects include books, articles, online content, and life histories.

For 12 years she directed her own marketing communication firm. After the sale of that business, she built a freelance writing and consulting practice providing marketing communications and how-to advice for small businesses.

White's specialties include marketing, management, entrepreneurship, and consumer awareness. She has written several mass-market books for business managers, training manuals and online interactive learning scripts for credit unions, and articles for young people on consumer awareness and media literacy.

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Preface

As consumers, we each experience what could be marketing case studies every day. We are exposed to thousands of advertising messages. We develop needs, research solutions, evaluate options, make purchases, and experience satisfaction or disappointment. This makes marketing a particularly stimulating subject for teachers and learners, since its practical application is visible every day.

The practice of marketing is undergoing unprecedented transformation as the 21st century unfolds. Today's consumers are choosing products and companies for new reasons. They are more aware, more active, and more powerful than they have ever been. The old rules of marketing are no longer useful to those who want to influence these new consumers' choices. This textbook explores the leading edge of the paradigm shift that is now underway.

The book is organized into four areas:

1. Introduction to Marketing and Its Processes (Chapter 1 and Chapter 2)
2. The Marketing Mix (Chapter 3, Chapter 4, Chapter 5, and Chapter 6)
3. The Marketing Environment (Chapter 7 and Chapter 8)
4. Marketing Management (Chapter 9 and Chapter 10)

The logic behind this organization is to first introduce students to the concepts and processes of marketing, to follow that with an exploration of the aspects that are under marketers' control, then to broaden the discussion to include the uncontrollable factors of customers and the environment. The final chapters echo the initial introduction but take the student deeper into the work of marketing.

Figures illustrate concepts as needed to facilitate comprehension. Field Trips link to online content related to topics discussed in each chapter. While not required reading, Field Trips give students an opportunity to apply concepts learned and to observe contemporary marketing in action, in real time.

Each chapter concludes with a case study and critical thinking questions that allow you, the learner, to apply concepts by drawing on your own life experience.

1 Marketing Fundamentals

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Learning Outcomes

After reading this chapter, you should be able to

- Summarize the development of marketing thought since its emergence as a business discipline in the early 20th century.
- Describe how marketing thought is evolving in the 21st century.
- Explain how customer value is conceptualized.
- Describe four categories of consumer criteria for determining value.
- Describe three major forces affecting contemporary marketing practices.

Introduction

Marketing is the process that involves all of a firm's activities to get its customers to buy its goods or services. In return, customers get value for their money from buying the firm's goods or services. Marketing is the heart and soul of a successful business plan. A business that does not include a marketing plan is more likely to fail. One can look at marketing as a process that involves a wide range of activities. A marketer's role is to carry out all the activities of marketing.

Suppose you go to the store and purchase a particular product, or a friend calls you and tells you about how good a product is that he or she has used; all of these activities involve marketing. We are all involved in marketing. We are doing it all the time. Marketing has been a part of our life since we learned how to buy things.

The American Marketing Association (AMA) 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" (Marketingpower.com, 2001). This definition includes the term *value*, which this chapter will explore in depth.

Value is the fundamental concept on which marketing is based. **Value** is the perceived trade-off between benefits and the sacrifice required to take possession of those benefits—a relationship that constantly changes based on shifting circumstances.

Marketing activities are intended to convince would-be buyers that they have found a good value—a satisfactory trade-off—and so should exchange their money for that value. **Exchange** is key to achieving the objectives of marketing. Exchange is characterized by trading things of value between buyer and seller so that each perceives him- or herself as better off after the trade.

Although marketing has been a core business activity since the early 20th century—and has existed in some form since the first cave dwellers thought to swap food for their neighbors' furs—its practice is rapidly evolving as marketers adapt to the influences of changing consumers, advancing technologies, and globalization. This chapter introduces the fundamentals that endure from traditional marketing and then builds on that base with insight into the methodology of contemporary marketing practice.

Why is marketing important? Unlike some fields, marketing is a subject with which you will engage for your entire life—and in fact, have engaged with since you were a toddler. The minute you became able to express your desires—and thus influence your parents' purchase decisions—you have been a target of marketers' attention. Until it is time to execute the preplanning form for your funeral, which specifies the make and model of your casket (or urn or mushroom-impregnated biodegradable shroud), you will be a consumer in the marketing process. It is worth studying marketing simply to better understand how you are affected by, and how you can have an effect on, marketing practices. Just as important, you may decide to make marketing your life's work. The field offers interesting and rewarding career opportunities suited to diverse talents and aptitudes (see Chapter 10). And the forecast for marketing's continued relevance and rising employment are good, for the simple reason that no business can exist without it.

Peter Drucker (1974), considered the father of management consulting, said:

> Because the purpose of business is to create a customer, the business enterprise has two—and only two—basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs. Marketing is the distinguishing, unique function of the business. (p. 61)

Marketing and innovation are inextricably linked. Marketing encourages innovation; it is the channel by which firms learn about customers' evolving needs and desires. When firms develop new and better ways to satisfy customers, those firms grow, driving fuller employment and higher incomes. No matter a company's size, marketing is crucial to its survival and, hopefully, its growth. And because a firm's prosperity is linked to the well-being of its employees and customers, effective marketing can help everyone in a firm.

Now that you are (hopefully) convinced that marketing is a subject worthy of your attention, let's begin our investigation of its concepts and practical applications. Imagine it is a summer morning in Anywhere, U.S.A. In the town square, a farm-stand operator positions his produce in appealing pyramids and greets the first buyers of the day. In the industrial park across town, a marketing manager at a corporate office reviews a bid from an ad agency to create a campaign for a new mobile communications product. Back on Main Street, a florist urges a bride to select her wedding's theme so she can prepare a floral design estimate. What's going on here? The answer is marketing.

In each situation, an **exchange process** is taking place—two or more parties are going to give something of value in order to receive something perceived to satisfy a need. Buyers are about to give money to sellers in exchange for vegetables, advertising services, and wedding flowers. All that remains is for both parties in each exchange to be convinced that the relationship between the thing given and the thing received is fair.

Each of these sellers is engaged in a marketing function, which must be managed for their companies to bring out the exchange's profit potential. The AMA defines **marketing management** as "the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives" (Marketingpower.com, 2001).

The goal of this book is to prepare students for a role in marketing management in today's—and tomorrow's—workplace. The goal of this chapter and the next is to solidly ground you in contemporary marketing principles and practices, the foundation for contextual understanding of marketing management.

Understanding contemporary marketing thought and its implications for tomorrow's marketing practitioners, however, requires an understanding of the history of marketing.

1.1 A Brief History of Marketing

Although marketing has always been a function in business, its importance has grown over time. Marketing educators have identified four eras in the history of marketing:

1. production era
2. sales era

3. marketing era or consumer orientation era
4. relationship era

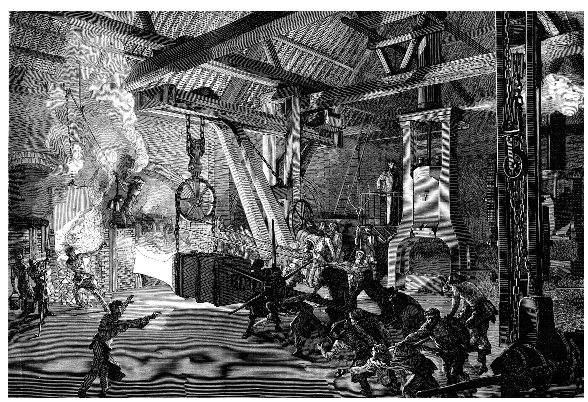
As each of these eras gave way to the next, prevailing attitudes and practices in marketing changed significantly (Kurtz, 2010). Today businesses appear to be on the cusp of what may be a fifth era, which we will discuss later (Kotler, 2010).

Marketing took shape as a key business function in the early 20th century, but it is rooted in exchanges of goods and services that have been with us from the early formation of human societies. Marketing is just one of several means to accomplish the social objective of meeting and satisfying people's needs.

The earliest form of marketing could be said to have emerged when individuals went beyond producing goods for their own use to some form of reciprocity. Some societies practiced *redistribution*, a system in which an authority assembles goods and redistributes them, as a medieval lord might manage the needs of his serfs. As societies became more sophisticated, social systems based on **trade** emerged. This form of exchange involves price equivalencies determined by treaties or administrative decisions. When economic forces (primarily supply and demand) supplant other systems for supplying a society's material needs, that society has achieved a **market system**, which is the model currently in use throughout most developed countries (Bartels, 1976). In some developing countries, market systems have not yet supplanted other means of exchanging value to meet material needs. Gift giving, reciprocity, and trade are still valid systems for exchanging value, but there is little place for marketers in those systems.

The Production Era

After the Industrial Revolution (roughly 1750–1850) offered merchants the ability to distribute goods more widely, opportunity arose for production on a larger scale. The transition from an agricultural economy to an industrial one created both markets for goods and great quantities of goods to buy. By the end of the 19th century, the shift from production for use to production for exchange was well established. Business managers began to use concepts from economics related to distribution (Bartels, 1976).



Ivan-96/DigitalVision Vectors/Getty

The rise of the industrial economy created both goods to buy and markets with the means to buy them.

As the 20th century commenced, a **buyer's market** (in which there are more goods and services available than people wanting to buy them) was replacing a **seller's market** (in which buyers outnumber the goods and services they want to buy). The proliferation of goods introduced the need for those goods to be differentiated from each other. In response, marketing rose in importance. The first marketing practitioners strove to comprehend the concept of value, leading to our current understanding of the exchange of money for goods or services that deliver needed or desired benefits (utility). Still, the prevailing attitude was that "a good product will sell itself." Manufacturers focused producing goods and then looked for customers to buy them (Kurtz, 2010).

The Sales Era

In the early 20th century, what we recognize as modern marketing thought emerged from the work of economists who recognized that **demand** consisted of more than simple purchasing power. Desire and ability to purchase also affected demand. The breakthrough that created a recognizable discipline of marketing was the realization that desire could be driven by factors other than merely supply—and that the effectiveness of selling, advertising, and promotional activity could be enhanced through study of social sciences such as psychology and sociology.

Between 1900 and 1930, the advertising discipline came into being, concerned with copy and layout in advertising campaigns, based on principles of economics and psychology as well as trends in the arts and cultural environment. **Market research**, the "nucleus for strategic market planning" (Hair, Bush, & Ortinau, 2003, p. 7), also took shape as a discipline, and the paradigm of marketing as a blend of art and science was established. By the 1940s market research was driven by rigorous statistical methodology. The functions of middlemen (distributors, sales agents, etc.) were recognized. The power of advertising to persuade and motivate was also recognized.

When major business strategies were discussed, people with a marketing perspective began to take a seat at the table alongside production and engineering leaders. However, they tended to remain subordinates in terms of power and to hold titles like "sales manager" rather than "marketing director" (Kurtz, 2010). The belief that a sufficiently powerful sales message could overcome any consumer's resistance prevailed.

The Marketing Era

The emergence of the marketing era can be linked to the end of World War II, when factories shifted from producing for the war effort back to manufacturing consumer products. The seller's market created by wartime shortages became a buyer's market again, booming with pent-up demand.

The marketing era was characterized by increasing professional specialization in the marketing discipline, with an emphasis on managerial decision making, quantitative analysis, and recognition of the societal aspects of marketing (Bartels, 1976).

In the postwar 1950s and 1960s, marketing thought developed along two main avenues—the power of creativity and the power of science. Those decades were characterized by increasing analysis of consumer motivation, drawing on concepts from the behavioral sciences. This analysis brought recognition of markets as having segments distinguished by geography, mental attitudes, density of population, and ethnic/racial characteristics (Bartels, 1976). This gave rise to the use of psychological constructs like consumer motivation, beliefs, and attitudes to develop sales appeals. These new techniques drove the era of advertising's "creative revolution" (*Ad Age*, 2003, para. 2).

The 1970s brought awareness that not only did society influence marketing, but marketing influenced society. Deceptive marketing practices were increasingly criticized (*Ad Age*, 2003). This marked the first glimmer of another radical shift in marketing thought. Companies began not just to measure and observe consumers but to *listen* to them. Businesses shifted toward a **consumer orientation**—the philosophy that suggests that by determining consumers' unmet needs, businesses can better design goods and services to satisfy them. This in turn led companies to commit to the **marketing concept**. The objective became company-wide consumer orientation to enjoy long-term success. Even during economic downturns, when companies sought to cut costs to raise revenues, the marketing concept kept companies focused on the objective of long-term success rather than short-term profits (Kurtz, 2010). Company-wide, the word went out that the customer was king, and the company's duty was to identify potential customers' needs and fill them.

Marketers began to realize the need to develop products to meet the varying preferences of different customer segments, and they quickly embraced **segmentation** systems based on the work of social scientists. The first system to gain broad acceptance was the VALS (Values, Attitudes, and Lifestyles) framework, developed in 1978 by SRI International, which segmented consumers by primary motivation and resources (Lawson & Todd, 2002).

Segmentation heralded greater understanding of consumer behavior. Fast on its heels came the concept of **target marketing**—the realization that not all segments can be served profitably. Targeting is essential to focus marketing resources on the people who are likely to have the most use for a company's offerings as well as to be the most profitable as customers. Marketers began focusing attention on **positioning** their products and services—creating an image or identity in the minds of the **target market**, striving for a unique place (position) that would allow one offering to stand out among many. Marketers termed this goal **competitive differentiation**.

In 1980 Theodore Levitt made a compelling case that the key to differentiation lay in recognizing that buyers purchase more than just a particular physical product or service in the buying exchange. They also place value on the ease of the transaction, the credit terms offered, the reliability of the seller, and more. "Even when the physical product or service is immutable, the augmented product is invariably differentiable," he wrote (Levitt, 1980, p. 85). By the close of the marketing era, marketing practice was characterized by the **STP approach**—segmentation, targeting, and positioning. A rising emphasis on differentiation matched the increasing array of goods and services available in a burgeoning consumer marketplace.

The Relationship Era

Toward the close of the 20th century, companies increasingly focused on controlling costs to maintain profitability in the face of increasing competition. Marketers recognized that long-term relationships with customers not only reduced investment in new-customer acquisition but created more value for both the customers and the companies themselves. **Relationship marketing** began to emerge around 1990. In the relationship era, organizations realized that by focusing on establishing enduring relationships with customers, suppliers, and other partners, they could not just capture today's sale but convert today's new customer into tomorrow's regular purchaser and perhaps earn a customer loyal for a lifetime. Marketers added the phrase **customer experience** to their vocabulary, expressing the insight that the experience customers remember about interacting with a company and its products makes or breaks that relationship. The concept of **customer lifetime value** was recognized and defined—a calculation that could put a dollar value on these relationships by estimating the total profit (or loss) likely to result from an ongoing business relationship with a customer over the life of that relationship.

Around this time, another important consumer shift was taking place that reshaped marketing. It began with proliferation of the personal computer. Technology reshaped access to information, leading to better informed consumers with greater ability to compare similar product offerings. By the end of the 20th century, marketers faced a new challenge: how to differentiate offerings in a crowded marketplace in the minds of these well-informed and savvy shoppers. The key marketing insight of the relationship era is that the profitability promised by long-term relationships with customers is sufficient to make the challenging act of differentiating offerings worth the considerable investment required. The imperative for marketers is to find and hold a unique position in the minds of consumers in order to gain and maintain those valuable relationships.

Table 1.1 depicts the four eras of marketing history as defined by marketing professor and author David L. Kurtz.

Table 1.1: Kurtz's four eras of marketing

	Production era	Sales era	Marketing era	Relationship era
Objective	Produce quality products with increasing efficiency.	Match output to customer demand.	Determine consumers' unmet needs; design goods and services to satisfy them.	Develop long-term relationships with customers, suppliers, and other partners.
Time frame	Roughly 1750–1920	1920–1950	1950–1990	1990–present
Insights	The essence of marketing is the exchange process.	Desire can be affected by other factors beyond supply.	Company-wide, "the customer is king."	Better informed consumers can compare similar offerings more easily.
Marketing response	Recognize concept of value in exchange of money for utility.	Develop sales techniques to overcome any consumer resistance.	Increase specialization in the practice of marketing; increase application of analysis and creativity.	Differentiate using positioning; place value on relationships with customers.

Note. The four eras of marketing history defined by Kurtz is but one possible framework for understanding the evolution of marketing thought and practice.

Source: Kurtz, 2010.

Field Trip 1.1: *AMA History Resources*

Follow this link to resources on the history of marketing collected in the Academic Resource Center of the AMA.

http://www.marketingpower.com/Community/ARC/Pages/Additional/History/default.aspx

Questions to Consider

Are any companies still operating as if we are still doing business in a previous era? Name a company that is marketing in the manner of a production era, sales era, or marketing era company. Discuss why you think it has chosen that strategy.

Would you have preferred to work in marketing in a previous era? Which era appeals to you most, and why?

1.2 Marketing in the 21st Century

Marketing thought leader Philip Kotler conceptualizes development of the marketing profession somewhat differently than the model introduced in the previous section.

Associated Press

Philip Kotler has been a leading marketing practitioner and teacher for decades. In 2010 Kotler observed that marketing is undergoing another radical shift.

According to Kotler, who is also a professor of international marketing at the Kellogg School of Management at Northwestern University, the terms *product-centric*, *consumer-centric*, and *humanity-centric* characterize three major generations of marketing thought. Most of the 20th century was dominated by **product-centric** marketing, in which the goal was to scale up production of standardized products with an emphasis on lowering costs of production so the goods could be made more affordable to more buyers (Kotler, 2010). But consumers vary widely in their preferences. By the 1980s computing power and research techniques brought new methodologies to understand and respond to consumers (Lawson & Todd, 2002). To use Kotler's terms, the practice of marketing became **consumer-centric**.

As the 21st century gets under way, Kotler has observed that marketing is undergoing another radical shift. The marketing discipline is evolving away from consumer-centricity, which for all its emphasis on consumers still viewed them as passive targets of marketing. The discipline is recognizing the collaborative and participatory nature of the business landscape, transformed by the latest wave of communication technology. Consumers increasingly influence each other by sharing opinions and experiences, diminishing marketers' influence through advertising channels. Consumers increasingly participate directly in business by contributing ideas for product development and advertising messages.

Recognizable in this shift described by Kotler are elements of the relationship era, with its focus on collaboration and participation. But Kotler takes the idea further.

Kotler (2010) characterized this new generation as **humanity-centric**—concerned with "whole human beings with minds, hearts, and spirits" (2010, p. 10). Marketing now seeks to contribute to sustaining and improving the world, not just meet customer expectations or serve corporate goals. Following the practice of numbering software generations, Kotler has dubbed the new generation **Marketing 3.0**.

Kotler differentiates the humanity-centric Marketing 3.0 now emerging from the two past generations of *Marketing 2.0* (information-driven and consumer-centric) and *Marketing 1.0* (industry-driven and product-centric). In Kotler's writing and teaching since publishing *Marketing 3.0* in 2010, he has put forward an even more empowered and engaged view of the consumer. He places new emphasis on a marketplace where power has shifted to "horizontal, inclusive, social forces" (Kotler, 2017, p. 35)—those empowered consumers who demand socially and environmentally responsible behavior from the organizations that market to them.

Table 1.2: Kotler's three generations of marketing thought and practice

	Product-centric	Consumer-centric	Humanity-centric
Kotler's label	Marketing 1.0	Marketing 2.0	Marketing 3.0
Objective	Manufacture more at lower cost.	Segment markets and develop products to meet various segment preferences.	Contribute to sustaining and improving the world.
Time frame	Roughly 1750–1970	1970–2000	2000–present
Insights	Shift from production for use to production for exchange created supply and demand.	Desire and ability to purchase affected demand.	View of customers shifts from passive targets to collaborative partners.
Marketing response	Focus on product development.	Apply science from fields of economics, psychology, and sociology; use segmentation systems.	Invite customers into collaboration; cocreation of value.

Note. The three generations of marketing thought and practice defined by Kotler is another possible framework for understanding the evolution of marketing.

Kotler's framework, which may already be evolving toward Marketing 4.0, is useful in that it points toward significant consumer shifts not recognized by the earlier "four eras" framework.

What Comes Next?

When you enter the marketing field, will you take your place in the relationship era, or Marketing 3.0's humanity-centric era, or will other terms have come into use? How will marketing objectives, insights, and responses to the business environment be characterized as the 21st century unfolds? What's in a name?

Marketing thought and practice change at different paces in different industries and within different companies. There is still a lot of consumer-centric Marketing 2.0 being practiced. Even product-centric Marketing 1.0 can be observed—and in surprising places. Steve Jobs, former CEO of Apple, famously said, "It's not the consumers' job to know what they want" (as cited in Carr, 2011, para. 11).

Kotler's proposition that the Marketing 3.0 era is upon us has not yet been proven, and the idea of it will no doubt evolve over time. Still, given his track record as a leader in marketing thought, his proposition is worth closer study.

As we begin to do business in a Marketing 3.0 world, Kotler states that three major forces are shaping the business landscape:

1. consumers' demand for participation, via meaningful dialogue and engagement
2. the **globalization paradox**, in which businesses must serve individuals who are feeling the pressure to be both global as well as local citizens
3. the age of a creative society, in which more people work and live like creative scientists and artists

Kotler draws these threads together, observing that spirituality has replaced survival as the prime need of human beings. He states, "Supplying meaning is the future value proposition of marketing" (Kotler, 2010, p. 20). At the close of this chapter, we will return for a closer look at the three major forces identified by Kotler. But first, let's consider the needs of humans—what they want, what they require, and how they place monetary value on the goods and services that meets those needs and desires.

Field Trip 1.2: *TED Talks*

TED Talks (TED stands for Technology, Entertainment, Design) are a living example of Marketing 3.0. These global conferences focus on improving the world and invite participants to cocreate value. For more leading-edge marketing thought, follow this link to an article titled "4 TED Talks Every Marketer Should Watch," with links to those videos.

http://blog.hubspot.com/marketing/marketing-ted-talks

Questions to Consider

Does Kotler's framework of Marketing 1.0, 2.0, and 3.0 gloss over significant developments in the evolution of marketing thought? Why do you think he chose to build a new proposed framework rather than simply add to the prevailing thought of other marketers?

1.3 Delivering Customer Value

In the introduction, marketing was defined as an activity designed to stimulate exchanges that have *value* for customers, partners, and society at large. Value was defined as the perceived trade-off between benefits and the sacrifice required to take possession of those benefits. Another definition states, "Value is what customers get (benefits, quality, worth, utility) from the purchase and use of a product versus what they pay (price, costs, sacrifices), resulting in an attitude toward, or an emotional bond with, the product" (Smith & Colgate, 2007, p. 10).

Customer value, then, is simply a name for the value a specific exchange has for the customer (buyer) as opposed to the company (seller). No one questions whether companies attempt to deliver customer value in the goods and services they offer. The question is how well they succeed in that attempt. To study that question requires a framework for understanding customer value.

Value doesn't stand still to be studied under a microscope. It is, in the words of Smith and Colgate (2007), interactive, conditional, relativistic, and dynamic. What do they mean? Let's break this down word by word:

- *Interactive:* Individuals perceive value in unique ways; thus, value interacts with the person perceiving it. The value Bob places on a box of Froot Loops will be different from the value Katie places on the same box of cereal.
- *Conditional:* Value changes depending on context—the individual, the situation, and the product(s) involved at the moment value is appraised. The value Bob or Katie places on Froot Loops goes up or down with how hungry they each are while considering the purchase.
- *Relativistic:* Value depends on comparing with known or imagined alternatives. If Bob prefers unsweetened cereal, the value he places on Froot Loops will be lower than the value he places on Shredded Wheat.
- *Dynamic:* Value changes within an individual over time. If Bob and Katie ate Froot Loops frequently as children, as adults they may regard Froot Loops with nostalgia that creates desire for an occasional bowlful, even though it is not their usual breakfast choice.

Choness/iStock/Getty Images Plus

If you ate Froot Loops frequently as a child, you might occasionally want a bowl of them, even though they may not be your usual choice—evidence of the marketing insight that value is dynamic.

Let's consider another example. Imagine that Katie and Bob are both part of a growing trend to go car-free. Katie has chosen to purchase a commuter bicycle with a vintage style that reflects her personal tastes. Its comfortable seat and upright riding posture suit her need for a bicycle that can get her to her job a few miles from her home. Meanwhile, Bob, who has joined the trend toward urban poultry farming, has chosen a cargo bike. That big box over the front wheel isn't very aerodynamic, but it is perfect for quick jaunts to the store to buy more chicken feed.

Bob and Katie's idea of the perfect bicycle is interactive—perceived differently by each. The value they place on these bikes is conditional: If either wanted to enter a road race, they would borrow a different pair of wheels. The value is relativistic, meaning Bob doesn't covet Katie's commuter bike, and Katie wouldn't take Bob's cargo bike if you paid her. It is also dynamic; neither would have wanted a bicycle 10 years ago, when buying their first cars was a thrilling rite of passage; and in another decade, either may decide to ditch the bike—whatever the style—for the convenience of a car again.

As Bob and Katie have shown us, the value an individual places on any particular exchange depends on that individual's needs and wants. To deepen our understanding of customer value, then, we must turn our attention to the aspect of human behavior concerned with needs and desires.

Value Is Driven by Needs and Desires

Persons in a market economy must continually acquire goods and services to fill certain needs, while those in other social systems make what they need or engage in gift giving or reciprocal exchanges to fill their needs. Every individual and organization has needs and desires, the distinction being that

needs are essential to survival, while **desires** (wants) are nonessential.

Abraham Maslow subdivided "essential" and "nonessential" into five levels in the model he termed the **hierarchy of needs**. He suggested that people have different types of needs that drive them to behave in certain ways. The most basic needs, according to Maslow, are physiological—for food and drink. Once these basic needs are met, we become concerned with the need for shelter. With that secured, we can experience our need for social interaction. When we are interacting in society, we feel the need to be liked by others—labeled an *esteem need* by Maslow. Finally, when our more fundamental needs are met, we can address our need for creativity and self-expression that fulfill us mentally, emotionally, and spiritually, which Maslow called *self-actualization* (Pride & Ferrell, 2017).

Some purchases address a basic need—buying a bottle of water after a long hike on a hot day—while others address a complex suite of Maslow's needs—like purchasing a Harley Davidson motorcycle to project a desired identity. Whether you think of needs simply as "essential" or "nonessential" or parse them to the level of Maslow's pyramid, value is driven by these needs and desires.

Maslow's work is not without its critics, some of whom feel the ultimate level should be transcending the self, rather than actualizing it (Brooks, 2017), and others who suggest that "life is messier than that" or feel that Maslow underestimated the importance of social connection (Denning, 2012).

Regardless of how you parse the factors driving needs and desires, human beings experience them. People in a market economy become **consumers** when they are driven to fulfill their needs and desires through exchanges. The purchases they make transform them into **customers** of the organizations they buy from. Individuals aren't the only ones driven to fill needs and wants—organizations are also buyers with needs for supplies, personnel, and resources to fulfill their missions.

When consumers perceive a need or desire, the inner drive that moves them to fulfill the need is called **motivation**. We will look closer at motivation in Chapter 7 when we address consumers' buying behavior and decision making as part of the larger topic of target markets. For now, let's focus on the implications of customers' needs and desires and how marketing responds.

Getty Images

On one side of the scale hang the benefits of an offering; on the other the sacrifices required to gain the benefits. Customers perceive value when the scale meets expectations.

The Customer Value Equation

As stated earlier, customers place a value on a particular exchange in terms of the perceived trade-off between benefits and the sacrifice required to get those benefits. That relationship can be described as a ratio of perceived benefits to price, money being the typical sacrifice required. Mathematically, it can be expressed as follows (Churchill & Peter, 2003):

Value = Perceived benefits/Price

This is easily understood by envisioning the ratio as a traditional pan scale. On a scale, it is easy to tell when two items are equal—the pans hang in balance. In commercial transactions in which value is defined by weight, a scale is a perfect tool to determine the equality of two values—money and the goods to be exchanged for it. Firms offer value "proposition" for their products (goods or services). According to Tucker (1995), product value proposition (PVP) is composed of quality, service, and price.

PVP = **Q**uality + **S**ervice + **P**rice

Q is the quality of the good or service

S is the service provided by the product

P is the price of the product

Tucker (1995) asserts that "when that proposition satisfies, or exceeds the customer's expectation, the sale goes through. When it doesn't, the sale doesn't" (p. 34).

A pan scale gives tangible evidence of a formula that is present in every purchase transaction: the **customer value equation (CVE)**. When customers perceive a balance between the value given—money—and the value received—the goods or services—they perceive a good value. If the scale hangs a bit out of balance, with the value-received side heavier than the money side—customers see a bargain. But if the scales are too far out of balance, customers begin to think something's not right. "Too good to be true," they murmur, and start to look more closely to see if there is a hidden cost that, if known, would change the CVE.

A marketer's objective is to develop an offering and price it in such a way that its value attracts customers and creates a profitable **bottom line**.

But what's all this talk about benefits? People buy stuff to get stuff, don't they? In the production era, that was indeed how consumer behavior was perceived. But as marketing thought moved forward, a new understanding emerged. People don't buy stuff to get stuff—they buy stuff to get the benefits or solutions those purchases deliver.

Solutions for Sale

Consider Betty, who has a dining room chair that wobbles. A dowel that pins a cross brace in place has sheared off, and that brace no longer keeps the chair stable. Someday soon Betty is going to sit down and crash to the floor.

Betty has a problem. What's the solution? A hole, and a dowel just slightly smaller than that hole, so she can drill out the sheared-off dowel, fix the cross brace, and sit down to dinner without fear. Betty never wanted a bit, a drill, a dowel, or even a Saturday project. She just wanted her dining room chair whole again. But she is going to buy a drill and a dowel and maybe even an instructional booklet on furniture repair. Somewhere out there a solution is for sale, and she's looking for it. At the same time, a marketer is looking for her. Right now he's probably writing ad copy that says something like "Buy high-quality drill bits for less."

The fundamental marketing insight behind this story is that people don't buy goods or services to possess them—they buy to get the benefit that derives from possession. This insight reflects marketing thought in Kotler's consumer-centric Marketing 2.0 generation or, in other words, the marketing era.

Service-Dominant Logic

A new way of describing this insight moves it forward to the current era, whatever we choose to call it. The concept of **service-dominant logic** was proposed in 2004 by Stephen Vargo and Robert Lusch to describe the relationship between benefits and possessions. Their term quickly found resonance in the marketing community. Service-dominant logic proposes that organizations, markets, and society are fundamentally concerned with the exchange of services for the benefits of all parties. Put another way, as Evert Gummesson wrote in 1995, "Customers do not buy goods or services. They buy offerings which render services, which create value . . . activities render services, things render services" (as cited in Lusch & Vargo, 2007, p. 27).

Under this proposition, all firms are service firms, all markets are centered on the exchange of services, and all economies and societies are service based. This replaced the inadequate "goods-dominant logic" (Lusch & Vargo, 2004) of the past. That logic focused on tangible resources, embedded value, and transactions. Lusch and Vargo reframed the discussion to focus on intangible resources, the cocreation of value, and the importance of relationships.

Seen through the lens of service-dominant logic, the solution to Betty's wobbly chair begins to look not like a product at all but a need for a new relationship—with a furniture repair service.

Experiences Matter, Not Transactions

From the viewpoint of service-dominant logic, experiences matter—not transactions. Customers buy offerings that render services, which create value. This approach embraces the concepts of **value-in-use** (benefits that accrue to a specific owner during a specific use) and **cocreation of value**, wherein customers are able to customize and personalize their experience through interacting with the service (benefits) of the offering.

DonNichols/iStock/Getty Images Plus

Is an ice cube tray merely an object designed to facilitate the freezing of water for beverages? Seen through the lens of service-dominant logic, the ice cube tray is the means to an ice-cold drink.

Consider an ice cube tray. In a product-centric interpretation, it is what it is—a rectangular grid of small receptacles designed to facilitate the freezing of water in small units suitable for chilling beverages. Using service-dominant logic, the ice cube tray is reconceptualized as a tool for chilling beverages via creation of ice. From a purely service-dominant logic point of view, consumers don't want an ice cube tray—they don't even want ice. What they want is an ice-cold beverage. They make the purchase that will render the service of making ice cubes that will render the service of chilling their drink.

Take a moment now to think about Peter Drucker's (1974) statement that "the business enterprise has two—and only two—basic functions: marketing and innovation" (p. 61). When Yeti Coolers developed a roto-molded thermal drink cup capable of keeping a beverage cool for 24 hours, the humble service rendered by ice cube trays was made obsolete by the experience of owning a Yeti cooler cup, in the eyes of the tribe of Yeti aficionados (Kurutz, 2017).

Let's return to the concept of customer value and see how the four attributes presented earlier appear through the lens of service-dominant logic:

- *Interactive:* Service value interacts with the person perceiving it; the value placed on a chilled drink will be different among individuals from different cultures.
- *Conditional:* Service value changes depending on the situation at the moment value is appraised. The service that ice renders has more value to an individual finishing a grueling workout than to an individual rising from a nap in the shade.
- *Relativistic:* Service value depends on comparison. Given a choice between crushed ice and a block of ice to put on a sprained ankle, the injured person is more likely to value the service the crushed ice can deliver as it adjusts to the shape of the ankle.
- *Dynamic:* Service value changes within an individual over time. The service that ice renders loses much of its value in winter.

For another example, look at a reading lamp. In a transactional, product-centric sense, it is simply an object composed of some electric wiring, a lightbulb, a shade, and a supporting structure. Now view it with service-dominant logic—it's a pool of light, delivered. What's valuable is not the transaction of purchasing a lamp but the solution achieved through the purpose—the experience of comfortably reading a well-lit page.

Field Trip 1.3: *Service-Dominant Logic*

To learn more about service-dominant logic, follow this link to the website of Robert Lusch and Stephen Vargo.

http://sdlogic.net

Concepts in any discipline get reframed on a cyclical basis; the "solutions for sale" taught in marketing classes with a consumer-centric focus have morphed into the current concept of "service-dominant logic." The terms used to discuss product and service offerings will no doubt evolve further, but the fundamental insight that "people don't buy products; they buy solutions to problems" is likely to persist.

Questions to Consider

Is service-dominant logic consistent with the insights and marketing responses of the relationship era of marketing? With Marketing 3.0 as described by Kotler? How might marketers change their approach to promoting goods and services based on service-dominant logic?

1.4 Customer Criteria for Determining Value

You have learned that people value things for how they can use them, not just for what they are. Different offerings will serve in different ways, to different degrees. Consumers make comparisons, weighing the relative value of competing alternatives and using purchase criteria that reflect their expectations and beliefs about what will satisfy the want or need driving their search for a solution.

The Four Utilities of Customer Value

Marketers have categorized consumers' purchase criteria into four categories, termed the **four utilities of customer value**. These are explained in Table 1.3.

Table 1.3: The four utilities of customer value

Utility	Description	Example: Espresso maker
Form	The attributes that make an offering useful to customers. Form utility is created as the company converts raw materials and components into deliverable products and services.	Moka pot: a hexagonal steel stove-top device that produces coffee by forcing hot water pressurized by steam through ground coffee.
Time	Making offerings available when customers want them.	Can be purchased by mail (delay for shipping) or directly through some retail stores.
Place	Where the consumer takes ownership of the offering. This utility can add or subtract value in the consumer's eye.	Available through online catalogs and many kitchen stores.
Ease of possession	The attributes that make it possible to transfer title to an offering from the seller to the buyer—price, payment plan, and any warranties or guarantees that go into a purchase.	Inexpensive, reliable, no need for reassurance via money-back guarantees or facilitation of possession via payment plans.

Note. The four utilities of customer value are categories to which consumers' various purchase criteria may be assigned.

The **form** utility consists of everything the manufacturer has put into a product, from its aesthetics to its durability. The **time** and **place** utilities add value when consumers find the product or service available when and where they want to buy it. The **ease of possession** utility adds value by reducing reasons not to buy or by adding incentives to purchase. It is worth noting that the four utilities of customer value are not just limited to products; they also hold true for the marketing of services and are valid for both consumer and organizational buyers.

The four utilities of form, time, place, and ease of possession represent what the consumer hopes to get out of purchasing a particular offering. All products or services that might deliver the four utilities adequately become part of a **consideration set**—a group of alternatives that meet purchase criteria.

Field Trip 1.4: *Four Utilities of Customer Value in Action*

Use your favorite search engine to find websites that sell espresso machines. Pick two options to compare using the four utilities of customer value. How do different vendors' offerings vary in terms of form, time, place, and ease of possession?

Strategic Response: Targeting and the Marketing Mix

It is essential to understand the four utilities of customer value to develop a marketing strategy. The STP approach involving segmentation, targeting, and positioning is as relevant as ever to marketers, and in it lies the strategic response to customers' perception of value based on the four utilities. The ever-increasing need to differentiate goods and services in a crowded field of competitors only increases the importance of selecting profitable customer segments to target, then positioning offerings in ways that appeal to specific segments. Consumers' criteria for making purchase decisions represents a powerful means of separating them into unique segments for targeting.

Once marketers have selected a market niche to target, they manipulate thousands of variables to design the exact offering that will stand out as the best value compared to competing offerings. These thousands of decisions can be grouped into four strategic areas that, taken together, make up the **marketing mix**.

First popularized in the 1960s, the term *marketing mix* continues to be used to identify the concept of the **four Ps** of product, price, place, and promotion—the controllable elements of a marketing strategy for any particular offering. Table 1.4 defines the four Ps of the marketing mix.

Table 1.4: Marketing mix: The four Ps

Product: The combination of tangible goods, services, and beliefs offered at a specific price.	*Price:* The amount of money or any other consideration a customer must exchange for the offering.
Place: The strategy by which a company gets the right goods in the right quantity to the right place.	*Promotion:* The advertising and selling activity a company undertakes to create demand for the offering.

Note. The marketing mix describes the controllable elements of a product's marketing plan: decisions about product, price, place, and promotion.

Product addresses the form utility, describing what makes an offering useful or, in the language of service-dominant logic, how it renders service. Price is driven by value, because the customer must find the price reasonable in exchange for the "solution for sale" that the product or service delivers. Place can mean an actual retail location, an online presence, or a distribution strategy—and usually covers all three. Promotion represents the campaign development process by which the company creates demand. It defines all selling activity and advertising that will take place—for example, specifying what media will be used to deliver a message and how it will be used to create demand. Chapters 3, 4, 5, and 6 cover each of the four Ps in much greater detail.

The marketing mix represents the elements of a product's marketing strategy that marketers can control—or at least have significant input on. The product aspect is the only one of the four that springs from an organization's production function. Because most companies no longer function in a product-centric mode, the marketing department typically has significant impact on product design to create the form utility consumers want.

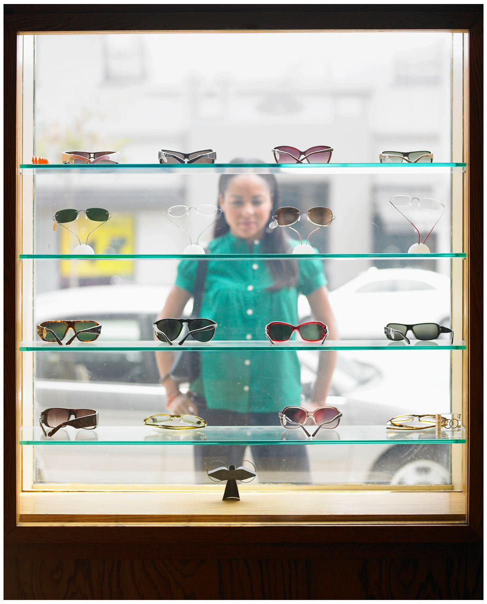
The place aspect of marketing strategy responds to consumers' wants in terms of time and place utilities, while the price aspect responds to consumers' expectations regarding ease of possession.

The marketing response to the four utilities of customer value is to develop product, place, price, and promotion strategies that deliver the mix that will satisfy customers in a specific target market, thus winning the purchase and, hopefully, creating a long-term relationship.

From Customer Value to Marketing Response

You have now been exposed to each facet of the PVP and CVE. It should be clear how value is created by companies and evaluated by consumers, with the goal of making buying exchanges. You have learned how value is created by responding to consumers' needs and desires, with attention to the relationship between price paid (sacrifice) and solution received (benefit). You have learned to see the exchange as taking possession of an experience, rather than a transaction about tangible goods.

You have learned about the criteria by which customers evaluate the merits of various alternatives, using the language of the marketers' four utilities of customer value. And finally, you have encountered the marketing mix and its four Ps of product, price, place, and promotion—variables that marketers blend to satisfy the needs of target markets and serve organizational goals.



Digital Vision/Getty Images Plus

Value is created by companies and evaluated by consumers, who view the purchase experience as more than a mere transaction about tangible goods.

Questions to Consider

Give examples of how three of the four utilities of customer value are manipulated through marketing strategy.

1.5 The Marketing 3.0 Landscape

As stated earlier, Philip Kotler defined three major forces at work in the Marketing 3.0 landscape:

1. consumers' demand for participation
2. the globalization paradox
3. an increasingly creative society

A closer look at these three factors and how they affect marketing practice will close this chapter's investigation of marketing fundamentals.

Consumers as Business Partners

As social media becomes more pervasive, consumers are increasingly sharing their opinions about and experiences with companies. The influence of corporate advertising on buying behavior is diminishing as consumers' ability to influence each other increases (Kotler, 2010). Marketers no longer fully control their brands; consumers are doing that for them.

A new model of consumers as business partners is taking shape. Consumers are helping companies develop products, contributing ideas for advertising, and helping cocreate value as they customize goods and services to their individual tastes.

Cocreation takes place when stakeholders (for example, a company and a group of its customers) come together to jointly produce a valued outcome. It can take many forms. Personalization, as when a consumer uses the Nike website to custom design and then order a pair of running shoes, is one form of cocreation. Collaboration, when customers of a company ask for specific service utility that the company then provides, is another. **Adaptive innovation** is a business approach that places cocreation at the center of a firm's various organizational functions, so that the process of collaborating with customers and offering personalized experiences never stops. Companies adopting this approach focus on tracking their customers' evolving needs and desires, rapidly validating assumptions about innovations that would meet that demand, and rolling out pilots and prototypes rather than developing full-blown launches of new products or services (Nour, 2017).

The Globalization Paradox

Globalization is creating a more uniform culture worldwide, increasing the speed and reach of business but also heightening consumers' anxiety about the unintended consequences of the increasing homogenization of culture that globalization encourages. This has several implications for marketers. But first, we must understand what is driving this increasing globalization.

Technology has contributed to the globalization of business by making possible

- faster communications,
- faster transportation, and
- faster financial transactions.

The near-instantaneous exchange of information around the globe has been one of the most dramatic shifts in history. Not only can we communicate anywhere, in real time, but we can also pay for and take delivery of goods and services (such as mobile game apps and music downloads) over the Internet. Financial transactions now take place in near real time as well. There is relatively little cost associated with these Internet-enabled transactions. All of this communication, transportation, and financial activity is available to any business, from the smallest craft workshop to the biggest corporation. Both consumer exchanges and business-to-business relationships have been dramatically reshaped by the evolution of technology and the resulting globalization.

Thanks to technology, companies now do business in a marketplace without borders and with few barriers to entry. New markets become available due to easier and faster communication, transportation, and financial services—an opportunity. But competition increases when anyone in the world can sell anywhere in the world—a threat. This powerful shift leaves marketers struggling to find and maintain a competitive advantage in the world of Marketing 3.0. Increasingly, that competitive advantage comes from the **authenticity** of the mission, vision, and values of the company itself. Consumers seek companies that have a philosophical center and express commitment to humanity-centric values.

When exploring global issues, ethical concerns come into play. Consider the case of quinoa. This grain-like Andean seed, which has been consumed for thousands of years in Colombia, Peru, Chile, Bolivia, and other South American countries, provides an exceptional balance of protein, fiber, and amino acids (Romaro & Shahriari, 2011).

Quinoa has recently been gaining attention outside of South America. Vegetarians find it appealing because it offers a complete protein source. Even nonvegetarians interested in a healthy, low-fat, high-fiber, cholesterol-free diet are drawn to quinoa. The nutty flavor works well in any dish that typically requires grains. It's even popular as a breakfast alternative to hot oatmeal. Recognizing its market potential, European and American foreign aid organizations began in the 1980s to help South American farmers grow quinoa for export.

So where's the catch? Demand for quinoa is rising rapidly in rich countries, such as the United States and those in the European Union. This is helping South America's farmers across a number of poorer countries. Rising exports are lifting living standards in quinoa-growing areas. But while cultivation of quinoa is reducing economic emigration and strengthening local families—the price of quinoa has almost tripled over the past 5 years—it's also robbing those families of a food staple. In many areas of South America, quinoa is no longer affordable for mass consumption. The balanced nutrition of quinoa is being replaced with less complete foodstuffs. Recent studies have shown that chronic malnutrition in children is increasing in quinoa-growing areas. A shift in taste preference has also begun to undermine quinoa consumption in South American homes, where children raised on loaves of bread and packaged noodles find quinoa unappealing. With consumers in America and Europe competing for quinoa, the consequences are a cause for concern (Romaro & Shahriari, 2011). What began as a major opportunity for quinoa growers, exporters, and marketers has become a threat to the sustainability of the home market from which it comes.

The globalization driven by faster communications, transportation, and financial transactions has brought new opportunities for profit—but at a cost, as the quinoa example shows. Some companies are responding by operating under a new business model in which they are responsible to a **triple bottom line** of economic value, environmental health, and social progress. These firms develop and offer value propositions based on the inherent interconnectedness of all stakeholders in the marketplace; thus, financial profit cannot take priority over social or environmental impacts (Mish & Scammon, 2010).

Consumers' anxieties about the effects of globalization can be addressed by companies that adopt an authentically ethical, values-driven business model. In fact, aligning with companies that do good in the world allows consumers to experience self-actualization—thus addressing the third major force of Marketing 3.0 identified by Kotler.

Self-Actualization in a Creative Society

A number of contemporary authors, including Daniel Pink (*A Whole New Mind*) and Richard Florida (*The Rise of the Creative Class*), have offered views of the worldwide rise of a creative society. Creativity is playing an increasingly dominant role in society as more people are working as artists and scientists or in other creative professions (Kotler, 2010). A key characteristic of this new creative class of connected consumers is an increasing craving for meaning. In part this is possible because so many people in modern consumer culture are relatively affluent. For these people, self-actualization is a prime need as relevant as shelter, food, or security. The popularity of crowdfunding platforms like Kickstarter and Indiegogo implies that many people get a taste of self-actualization through supporting other people's creative endeavors.

There is some debate whether this aspect of Kotler's Marketing 3.0 is relevant in developing countries, where the standard of living is not so high. Many of the markets emerging as globalization continues will not share the same freedom to focus on higher meaning until they, too, reach the level of affluence and connectivity of the fully developed world. Kotler (2010) argues that creativity and technology are relevant even in low-income markets. Ultimately, time will prove or disprove his belief.

The Marketing 3.0 Response

How are marketers responding to the major forces identified with Marketing 3.0? By searching for authentic competitive differentiation and communicating it in ways that engage consumers, alleviate their anxieties about globalization, and serve the spirit as well as the mind, body, and heart.

In response to consumers' desire for participation, companies are increasingly inviting their collaboration in creation of advertising, discussion of brands, and customization of goods and services.

Companies are adopting a business model that balances financial profit with social and environmental impacts, recognizing that a company is not sustainable unless all three aspects of the triple bottom line are neutral or positive.

Marketing must evolve to be relevant to all aspects of the human—mind, body, heart, and spirit (thus Kotler's use of the term *humanity-centric* to characterize Marketing 3.0). The most visible of marketers' response to Marketing 3.0 expectations is the increased use of tie-ins between companies and causes. Many of today's advertising messages appeal to self-actualization by including in the pitch an aspect of "doing good." When you see an advertiser offer to donate a percentage of sales to a charitable cause, you're seeing Marketing 3.0 in action. Such campaigns are known as **cause-related marketing**.

Launched in 2015, Walgreens' Red Nose Day provides an example of cause marketing used to respond to consumers' desire for meaningful engagement. In this program, consumers show their support for ending child poverty by purchasing a Red Nose for $1. During the annual Red Nose campaign, Walgreens donates 50 cents of each Red Nose purchase to the Red Nose Day Fund, which supports programs that help children living in poverty in the United States and internationally.

Through these campaigns, purchases that fill fairly basic needs (food and health products) are elevated to meaningful charitable acts that satisfy a higher need (Walgreens, 2017).

But "doing good" can be more than a marketing theme, as discussed earlier regarding the triple bottom line. Businesses are "baking into" their business model the well-being of people and the planet. John Mackey, founder and co-CEO of Whole Foods Market, says, "Just as people cannot live without eating, so a business cannot live without profits. But most people don't live to eat, and neither must businesses live just to make profits" (Mackey & Sisodia 2013, p. xii).

See *Field Trip 1.5* for more on these and other Marketing 3.0 campaigns that fall under the umbrella of cause marketing and the triple bottom line.

Field Trip 1.5: *Cause-Related Marketing for Self-Actualization*

Visit Engage for Good to read more about cause marketing and campaigns like Walgreens' Red Nose Day. Find the page that lists current cause marketing campaigns, and then follow links to see these campaigns in action.

http://engageforgood.com

Visit TriplePundit to read about the intersection of people, planet, and profit. The media platform covers topics including natural resources, social justice, corporate social responsibility, and more.

http://www.triplepundit.com

The key insight of Marketing 3.0—that customers are collaborative partners—demands that, above all, companies be authentic. They must hold a vision, mission, and values consistent with their brand, position, and competitive differentiation. Customers will accept nothing less. These marketing responses answer the three major forces Kotler identifies.

1. Respect the consumer community as partners in creation of value.
2. Respond to consumers' anxieties by heeding the triple bottom line of economic value, environmental health, and social progress.
3. Address the whole human, recognizing that creative people value self-actualization.

Questions to Consider

Answer the following questions with examples.

Have you engaged with companies through social media?

Have you experienced anxiety about the impact of globalization by the companies you buy from? Did you inquire into a company's social or environmental impact?

Have you made a consumer purchase specifically because of a cause-related marketing tie-in?

Case Study: *The Craft Beer Movement*

There's a revolution going on in America's beer industry. An underdog category is challenging the dominant brands in the beer aisle. Consumer tastes are driving remarkable growth in a category called "craft beer," a term that refers to the handcrafted, small-batch quality of its manufacture. This shift in consumer taste presents an opportunity to consider the marketing fundamentals discussed in this chapter.

Consumers interested in the quality of the beer they drink represent a market distinct from the mass-market drinkers who focus on quantity and want "beer you can drink more of." The craft beer drinker focuses on the distinct flavor and body of various beer styles. Consumption usually amounts to savoring one or two beverages, taking time to appreciate the unique properties of each. This revolution focuses on a very different consumer, and different marketing strategies are needed.

This case study investigates the marketing of craft beers, using the example of the New Albanian Brewing Company (NABC) in New Albany, Indiana. (The NABC tagline is "Brewing ahead of the curve.") This company, located just outside Louisville, Kentucky, has chosen to stand out by striking an attitude. Right from the start, the brand's images and messages drew heavily on the propaganda symbols and rhetoric of the Russian Revolution of the early 20th century. Owner Roger Baylor's blog reminds readers that beer is "far too important to be left to the unreconstructed swillocrats" (Potable Curmudgeon, 2012). The company refers to its distributors (tavern owners) as "publicanistas" (Potable Curmudgeon, 2012). They sell to a regional market that includes Jefferson County, Kentucky, and the entire state of Indiana. For more information, visit the NABC website, http://newalbanian.com, or Baylor's blog, at http://potablecurmudgeon.blogspot.com.

Consider the four utilities of customer value as they apply to this brand of craft beer. How does a bottle (or can or glass) of craft beer deliver value to meet potential buyers' purchase criteria, when compared with mass-market beers?

Form

- higher quality ingredients
- strong brand identity communicated through packaging, advertising, and social media
- artisanal craftsmanship
- more flavor
- fewer or no preservatives and additives

Time

- fresh product meant to be consumed promptly (because most contain no preservatives)
- bottles, growlers, and kegs allow the product to travel

Place

- difficulty getting distribution (distributors, required by liquor laws, are predisposed toward mass-market brewers)
- competition with many brands for a place among a tavern's tap lines (where the number of lines is typically limited to 6–12 taps)
- expanding availability through local retailers (more convenience stores now carry craft beers)
- mail order available in some states where permitted by law

Ease of possession

- must be of legal drinking age
- premium price makes trying a craft beer a greater risk (cost is often twice that of mass-market products)
- attractive to consumers interested in the "buy-local" movement

The NABC must find ways to differentiate its beers from those of competitors by manipulating these four aspects of customer value to its advantage.

Form: The NABC has begun packaging selected beers in 22-ounce bottles (called "bombers"). On the blog, founder and "carnival barker" Roger Baylor states, "NABC's decision to package beer in bombers reflects our preference for the communal utility of the size. Bombers contain two or more servings of beer, ideal for sharing among friends" (Potable Curmudgeon, 2012).

Time: The NABC sells through its own brewpubs in two locations, delivering the freshest possible beer to consumers. Fans of the NABC's fresh-brewed products can purchase "take-out beer" in growlers (half-gallon reusable bottles) and 50-liter kegs. Bottles are also available.

Place: The NABC leverages its Russian Revolution–inspired brand identity to stand out both in its brewpub locations and on retailers' shelves. A visitor to the RateBeer website commented on the brewpub, "I love this place. One side pizza sports bar, and the other side makes you feel like you're an American spy infiltrating a popular bar of the former USSR (except this bar has beer and not vodka)." On retailers' shelves, the distinctive label designs compete for attention. (The NABC blog carries the slogan "Think Globally, Drink Locally—Indiana Beer" [as cited in Potable Curmudgeon, 2012]).

Ease of possession: No craft beers—or any beers, for that matter—come with a warranty or payment plan. The premium price of craft beer functions as both a mark of premium quality and a barrier to checking out an unknown brand. The NABC, like other craft brewers, participates in many beer festivals and tasting events and offers free samples in its restaurants to help consumers make a choice.

Imagine you are in charge of marketing for the NABC as you consider the following questions.

1. What solutions for sale are found in the beer aisle—in other words, what features translate to

consumer benefits that a craft brewer could leverage for competitive differentiation?
2. How are craft brewers engaging customers in meaningful dialogue?
3. How are Marketing 3.0 shifts, especially globalization, helping or hindering craft brewers?

See *Field Trip 1.6* for more on the economic opportunity presented by the increasing consumer taste for craft beer.

Field Trip 1.6: *Good Beer Leads to Good Profits*

The Motley Fool website publishes investment advice. An article posted on February 10, 2011, reports the economic investment potential of craft beers. Visit the Motley Fool website to read the article.

http://www.fool.com/investing/general/2011/02/10/good-beer-leads-to-good-profits.aspx

Challenge Question

Pick a product that interests you, or use the examples of quinoa or craft beer presented in this chapter. You are now in charge of marketing this product. Describe your offering in terms of its CVE, commenting on each aspect of its four utilities of customer value. Describe the solution for sale in terms of services rendered by the product (benefits). Explain how your marketing of this product will respond to consumers' demand for participation, concerns about globalization, and search for self-actualization.

Key Ideas to Remember

- The history of marketing thought can be summarized in four time periods: the production era, the sales era, the marketing era, and the relationship era.
- Philip Kotler envisions a coming era of humanity-centric marketing, characterized as Marketing 3.0, that is fundamentally different from previous eras of product-centric and consumer-centric thought and practice.
- Firms offer value propositions for their product (goods or service). PVP = Quality + Service + Price of product
- Consumers assign a monetary value to the benefits and sacrifices represented by a potential purchase, which is termed the CVE.
- Consumers develop criteria to determine value based on the service or utility the goods or

services will deliver, which can be assigned to four categories; the four utilities of customer value include form, time, place, and ease of possession; marketers respond with marketing mix strategies concerning product, place, price, and promotion.
- Kotler's Marketing 3.0 is characterized by consumers' demand for engagement and collaboration, by the globalization paradox, and by the drive for self-actualization.

Critical-Thinking Questions

1. What can today's marketers learn from the marketing responses for the four eras in the history of marketing as defined by David L. Kurtz?
2. How does Philip Kotler's proposed framework of Marketing 1.0, 2.0, and 3.0 resemble or differ from the previous framework attributed to Kurtz?
3. Drawing on your own experience, give an example that demonstrates how value is interactive, conditional, relativistic, and dynamic.
4. Do you agree with the statement that "all markets are centered on the exchange of services, and all economies and societies are service based"? Consider a recent purchase of a product; describe it in terms of service rendered by the object purchased.
5. When is a customer not a consumer? Consider the settings in which the purchaser of an item is not the person who uses or consumes it. Name two situations in which the purchaser of an item is not the end user. (Clue: Think about how parents shop for their children or how purchasing agents operate within businesses.)
6. Why is the concept of utility so important in marketing thought?
7. It has been stated that marketers no longer fully control their brands. For example, a couple planning a trip to London is now more likely to book a hotel, choose restaurants, and plan sightseeing using online reviews from travelers like themselves than to gather ideas from advertising or professional travel agents. Give another example of how consumers are taking over the role of marketers.
8. Evaluate the concept of the triple bottom line of economic value, environmental health, and social progress. Is it feasible for companies to hold themselves to this standard in a tight economy or a highly competitive situation?

Key Terms to Remember

Click on each key term to see the definition.

adaptive innovation

The ability to adjust to fast-changing needs of target markets.

authenticity

The quality of being authentic, reliable, and trustworthy.

bottom line

Net income after tax; a purely profit-based view of the effects of a company's actions and policies on its sustainability as an organization.

buyer's market

A market condition in which more goods and services are available than people wanting to buy them.

cause-related marketing

Use of tie-ins with causes motivated by the pursuit of profits for the company's bottom line.

cocreation of value

A business strategy focusing on interactive relationships with customers that allow them to create a value-rich experience.

competitive differentiation

Result of efforts to create perceptible differences in or between goods or services; making a product or brand stand out as being of unique value to customers when compared with competing offerings.

consideration set

A group of alternatives that meet purchase criteria.

consumer-centric

Philip Kotler's term for the business philosophy of consumer orientation, with its emphasis on segmentation of markets and taking inspiration for the development and promotion of products from the people who will purchase or use them.

consumer orientation

A business philosophy emphasizing the importance of first determining the unmet needs of consumers before designing goods and services to satisfy them.

consumers

Purchasers of a good or service or end users who are not necessarily the purchasers.

customer

The person who acquires, or agrees to acquire, the goods or benefits of usage conveyed by ownership, in exchange for money or other consideration under a contract of sale; the person who has the ability to choose between different products and suppliers. Also known as the buyer or purchaser.

customer experience

The internal and personal responses customers remember as a result of their interaction with an organization over the duration of their relationship.

customer lifetime value

The total profit (or loss) estimated to result from an ongoing business relationship with a customer over the life of relationship.

customer value

The value a customer (buyer) places on a specific exchange, as opposed to the value placed on the exchange by the company (seller).

customer value equation (CVE)

The relationship between the value given (usually money) and the value received in exchange (goods or services) as perceived by a customer.

demand

The desire for certain goods or services supported by the capacity to purchase them.

desires

Longings or cravings, as for something that brings satisfaction or enjoyment; expressed wishes (as opposed to needs).

ease of possession

One of the four utilities of customer value, the attribute that makes it possible to transfer title to an offering from the seller to the buyer—price, payment plan, and any warranties or guarantees.

exchange

The trading of things of value between buyer and seller so that each perceives him- or herself as better off after the trade.

exchange process

An action in which two or more parties give something of value to each other to satisfy perceived wants or needs.

form

One of the four utilities of customer value, the attribute that makes an offering useful to customers, created as the company converts raw materials and components into deliverable products and services.

four Ps

Product, price, place, and promotion make up the marketing mix, the controllable elements of a product's marketing plan.

four utilities of customer value

Form, time, place, and ease of possession; aspects of a company's offerings that are useful (provide utility; hence the name) to customers. Buyers think of these aspects as purchase criteria that a product or service must meet in order to deliver value.

globalization paradox

The recognition that globalization is creating a more uniform culture worldwide, while at the same time it is creating a more diverse culture as a counterbalance; this causes anxiety for individuals who are feeling the pressure to be global as well as local citizens.

hierarchy of needs

Proposed by Abraham Maslow in 1943, a description of the needs that motivate human behavior consisting of five different kinds of human needs, arranged in a hierarchy from the most basic (physiological) through safety, love/belonging, esteem, and concluding with self-actualization.

humanity-centric

The concept of marketing that focuses attention on the fulfillment of higher human needs, such as the need for community, as opposed to product-centric or consumer-centric marketing.

marketing

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.

marketing concept

The management philosophy according to which a firm's goals can be best achieved through identification and satisfaction of the customers' stated and unstated needs and wants.

marketing management

The process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.

marketing mix

A planned mix of the controllable elements of a product's marketing plan, which is made up of the four Ps of product, price, place, and promotion.

Marketing 3.0

According to Philip Kotler, the evolution of marketing practice to a third generation that focuses on fulfillment of higher human needs, such as the need for community.

market research

The pursuit of knowledge of a specific market by using scientific methods to measure its size and other characteristics.

market system

The social system for supplying a society's material needs governed by economic forces such as supply and demand, rather than treaties or administrative decisions.

motivation

The inner drive that moves consumers toward fulfillment of a perceived desire or need.

needs

A motivating force that compels action, ranging from basic survival to cultural, intellectual, and social needs. Needs require satisfaction (as opposed to desires, which can go unmet).

place

One of the four utilities of customer value, the location or means by which the buyer/consumer takes ownership of the offering.

positioning

The practice of creating an image or identity in the minds of prospective customers that allows one offering to stand out among many.

product-centric

The concept of marketing that focuses attention on the development and promotion of products, as opposed to focusing on the consumers who will purchase or use them.

relationship marketing

Development and maintenance of long-term relationships with individual customers, suppliers, and other partners for the benefit of all.

segmentation

The practice of subdividing a population into groups (segments) with similar characteristics, such as geography, income, age, education, or lifestyle.

seller's market

A market condition in which buyers outnumber the goods and services they want to buy.

service-dominant logic

An understanding of the purpose and nature of marketing based on the proposition that organizations, markets, and society are fundamentally concerned with the exchange of services for the benefits of all parties.

STP approach

A type of marketing that emphasizes segmentation, targeting, and positioning.

target market

A segment of the population on which a marketing campaign is focused, based on the likelihood that people in the segment are likely to have a need or desire for a company's offerings and can be profitably served.

target marketing

The act of identifying a segment of the population through detailed research and developing specific marketing campaigns focused on it.

time

One of the four utilities of customer value, the availability of offerings when customers want them.

trade

Exchange carried out in the absence of markets, involving price equivalencies determined by treaties or administrative decisions, rather than behavior of a marketplace.

triple bottom line

The financial, social, and environmental effects of a company's actions and policies that determine its sustainability as an organization.

value

In a marketing context (as opposed to a sociological one), the monetary or material worth for which an offering may be exchanged; the perceived trade-off between benefits and the sacrifice required to take possession of those benefits.

value-in-use

The service rendered or benefits that an asset generates for a specific owner under a specific use.