CHAPTER 1 – WHY IS MARKETING MANAGEMENT IMPORTANT?

KNOWLEDGE OBJECTIVES

1. Understand the meaning of the term "marketing."
2. Explain the importance of marketing.
3. Introduce and provide an overview of the marketing management framework.

CHAPTER OUTLINE

- Defining Marketing
- Marketing is an Exchange Relationship
- Why is Marketing Management Important?
- The "Marketing Framework": 5Cs, STP, and the 4Ps
- Managerial Recap

1-1. Defining Marketing

This section relates to knowledge objective #1.

To the average person, the term *marketing* can have many different meanings. It can frequently mean advertising or personal selling. However, marketing is much more than just advertising and sales.

> TEACHING NOTE: Referring to the class as a whole, ask students to identify the differences between sales, advertising, and marketing based on their understanding of these terms. Note student responses on a whiteboard and encourage a discussion by allowing students to agree or disagree with their classmates' views. This activity will highlight the common misconceptions about marketing and will show that these three terms are not synonymous with one another.

1-2. Marketing is an Exchange Relationship

This section relates to knowledge objective #1.

Marketing is defined as an exchange relationship between a firm and its customers wherein the customer wants something from the firm, and the firm wants something from the customer.

Figure 1.1: Marketing is an Exchange

This figure shows the interaction between buyers (customers) and sellers (companies), noting that companies offer benefits to customers and seek profits, while customers seek benefits and are willing to pay for them.

TEACHING NOTE: Students can be asked to provide examples of products of a particular brand that they have been using for a long time (at least a year) and explain the reasons for their continued loyalty. This exercise will help them understand the exchange relationship in marketing.

Figure 1.2: What Can We "Market"?

This figure shows that just about anything can be marketed, including goods, services, experiences, events, people (political campaigns), ideas, information, and places.

TEACHING NOTE: Ask students to imagine that they are attending an interview for their dream job. How would they "sell themselves" to their prospective employer?

1-3. Why is Marketing Management Important?

This section relates to knowledge objective #2.

Marketing can be involved with educating the marketplace. Its importance can be explained through its evolution from the production-focused stage to the sales-oriented stage, and finally the customer-oriented marketing world. Due to the current customer-oriented environment, firms understand the importance of creating and maintaining relationships with their customers.

Because of its importance, marketing has evolved from a function to an organization-wide philosophy. There are an ever increasing number of metrics to examine marketing's effectiveness. However, many marketing programs remain somewhat difficult to quantify.

1-4. The "Marketing Framework": 5Cs, STP, and the 4Ps

This section relates to knowledge objective #3.

This section identifies the 5Cs of marketing: customer, company, context, collaborators, and competitors. It then describes the STP (segmentation, targeting, and positioning) framework, followed by an explanation of the 4Ps of marketing [i.e. product, price, place (distribution), and promotion].

Figure 1.3: Marketing Management Framework: 5Cs, STP, 4Ps

The figure lays out the 5Cs, STP, and 4Ps framework as a flow that is indicated by the direction of the arrows.

First, the 5Cs are examined by conducting a situation analysis. Then proceed to strategic marketing planning via STP. Finally, marketing tactics to execute the intended positioning are developed through a careful analysis of the 4Ps.

<u>TEACHING NOTE</u>: Ask students to select a product and describe how they would segment the market and identify their target audience. They should also explain how they would position their product in the marketplace to distinguish it from competitors' offerings. This exercise will help students understand the STP process.

<u>TEACHING NOTE</u>: Ask students to select any company and to identify its strengths and weaknesses. Then ask them to analyze the company's context, customers, competitors, and collaborators. This activity will allow students to systematically understand the general and specific environments of business.

1-4a. Book Layout

This section notes that the book will discuss the subject matter, keeping customers as the focus. It also acknowledges the omnipresence of the Internet. The text is designed to get students to think like marketers and to understand that great marketing is based upon sound, logical thinking.

1-4b. Learning from the Marketing Framework

Every chapter begins with Figure 1.3 and a "Managerial Checklist" of questions and issues that the reader can expect to understand better at the close of the chapter. Those questions are revisited at the end of the chapter in a list format called "Managerial Recap."

Figure 1-4: Chapters Mapped to Marketing Framework

This figure maps the central topic of each chapter to the marketing framework.

1-4c. The Flow in Each Chapter: What? Why? How?

Each topic in the text is presented from three angles:

- What is the topic in this chapter?
- Why does it matter?
- How do I do this?

MANAGERIAL RECAP

Marketing is about trying to find out what customers would like, providing it to them, and doing so profitably. It facilitates a relationship between customers and a company. The marketing management framework—5Cs, STP, 4Ps—will structure the book and help you think methodically about the big picture of marketing. Focusing on the customer keeps a company ahead of its competition.

SUGGESTED ANSWERS TO MARKETING PLAN QUESTIONS

Encourage students to download an Excel® spreadsheet on the book's website at www.cengagebrain.com that contains all of these Chapter 17 tables to assist them in developing a marketing plan. A set of marketing plan questions is provided in the Instructor's Manual as a guide to help students develop a marketing plan as they take the course and work through the chapters. By Chapter 17, all of the pieces will have come together and created a marketing plan if the students work through each section as they study each chapter. The Marketing Plan tear-out reference card in the student edition of *MM* serves as a chapter guide for the students to know when to fill out each section of the Marketing Plan.

Customer:	**Fill in descriptions here:**
Demographics (e.g., age, income, household composition, ZIP Code):	Customer 1
Psychographics (e.g., attitude to product, to competition, to ads):	Customer 2
Buying behavior (e.g., frequency, only on sale, etc.):	Customer 3
Current levels/measures of customer satisfaction:	Customer 4
Do we have a loyalty program, efforts at CRM?	Customer 5
Why don't non-buyers buy?	Customer 6
When our buyers buy, what channel do they prefer?	Customer 7
When our buyers buy, do they seem to be price sensitive?	Customer 8
What changes have we seen over buyers? Expect any in future?	Customer 9

For illustrative purposes, the product will be an energy drink targeting women. Background: while there are in excess of 100 energy drinks on the market, few specifically target women. TAB is the only such drink regularly found in mainstream stores. Given the limited number of energy drinks targeting women and the fragmented nature of the market, such a product was deemed reasonable. General market information can easily be obtained through publicly available sources.

Marketing Plan for Energy Drink for Women

Customer

General customer description: young (under 40), middle income, single or with children, urban or suburban

Psychographic: women with active lifestyles and busy schedules

Buying behavior: unknown

Current levels/measures of customer satisfaction: unknown

Loyalty: if currently use energy drinks, typically have a preferred brand but are open to possible new alternatives

Why don't non-buyers buy: various reasons, lack of awareness, lack of interest, health concerns

Where do most users buy: multiple outlets—grocery stores, convenience stores, warehouse clubs

Price sensitivity: energy drinks in general are not heavily discounting although discounting does exist (two for $)

What changes have we seen over buyers? Expect any in future: main change in the market is increased variety, introduction of sugar-free varieties, and continued erosion of market leader's market share

SUGGESTED ANSWERS TO DISCUSSION QUESTIONS

1. Before reading this chapter or beginning class, what did you expect marketing to be? Ask a family member, classmate, or coworker what they think marketing is. See whether you can persuade them that marketing enhances a mutually beneficial exchange between a customer and a company.
   Answer:
   What you want to come out is a person or group who thinks marketing is unethical, and then the marketing students in the room to defend it. It'll be a lively discussion. A nice way for a professor to close it is to give nonprofit marketing examples and social marketing examples.
   BUSPROG: Reflective Thinking
   Tier II: DISC: Marketing Plan
   Tier III: MBA: Knowledge of General Business Functions
   Bloom's: Analysis
   Topic: Defining Marketing
   Difficulty: Moderate

2. What are examples of brands and companies you like? Why do you think you like them? What is a brand you can't stand? Why not?
   Answer:
   They can mention whatever brands and firms they want. Get them to start thinking in terms of brand associations (attributes, images), as well as the source of those associations (advertising, celebrity endorsers, and friends using the brand).
   BUSPROG: Reflective Thinking
   Tier II: DISC: Marketing Plan
   Tier III: MBA: Generative Thinking
   Bloom's: Application
   Topic: Marketing Is an Exchange Relationship
   Difficulty: Moderate

3. Think about a recent time when you bought something or tried to do so and you were treated poorly as a customer. What was the essential problem? If you ran the company, what would you do to ensure happier and more loyal customers?
   Answer:
   They can mention any experience, but certainly airlines will come up (so you have something prepared). You can say that most customers/fliers are reasonable about weather delays, etc., but want to be kept informed, not waiting without drinks, etc.
   BUSPROG: Reflective Thinking
   Tier II: DISC: Customer
   Tier III: MBA: Knowledge of Human Behavior and Society
   Bloom's: Application
   Topic: Why Is Marketing Management Important?
   Difficulty: Moderate

4. List three brands you're loyal to. List three things you tend to buy on sale. How are the product categories represented on these two lists different for you?
   Answer:
   Usually, the primary difference is their customer involvement, which is greater for the "loyal" brands than the price-sensitive ones.
   BUSPROG: Reflective Thinking
   Tier II: DISC: Product
   Tier III: MBA: Generative Thinking
   Bloom's: Analysis
   Topic: The "Marketing Framework": 5Cs, STP, and the 4Ps
   Difficulty: Moderate

5. What social problem do you think is the world's biggest? Wars? Global warming? Resource imbalances? How could you start to solve a big social problem through marketing?
   Answer:
   This revisits question 1—take one of the problems, say global warming, and ask about its fundamental causes. One that will be mentioned in the class discussion will be car emissions. Ask them to talk about what can be done, what kind of behavior (and attitude) changes would be required, and how a campaign could be used to achieve these desired changes.
   BUSPROG: Reflective Thinking
   Tier II: DISC: Strategy
   Tier III: MBA: Generative Thinking
   Bloom's: Analysis
   Topic: The "Marketing Framework": 5Cs, STP, and the 4Ps
   Difficulty: Moderate

VIDEO EXERCISE & DISCUSSION QUESTIONS

Southwest Airlines

Southwest Airlines is a unique and powerful brand in the airline industry. The company has its own distinctive way of marketing and delivering air travel to customers—a way that other companies in the airline industry, as well as outside of it, might find instructive.

"Southwest Airlines was incorporated in Texas and commenced Customer Service on June 18, 1971, with three Boeing 737 aircraft serving three Texas cities—Houston, Dallas, and San Antonio. Today [that is, mid-2011], Southwest operates 548 Boeing 737 aircraft among 72 cities. … Year end results for 2010 marked Southwest's 38th consecutive year of profitability. … Southwest is the United States' most successful low fare, high frequency, point-to-point carrier. Southwest operates more than 3,400 flights a day coast-to-coast, making it the largest U.S. carrier based on domestic passengers carried as of September 30, 2010."[1]

"The mission of Southwest Airlines is dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit."[2] This mission gives shape, form, and direction to the Southwest Airlines brand and its marketing strategies and activities.

Al St. Germain, who is global director of the airline practice at Landor Associates, a brand consulting company, asserts that "[a]n airline brand is essentially the sum of the experiences that passengers have when they fly with that carrier."[3] St. Germain also points out that many airlines have been inconsistent in the experiences they have provided customers over time but that "Southwest hasn't failed customer expectations because it's always been a no-frills airline."[4] From a brand standpoint, St. Germain considers Southwest Airlines to be "a testament to consistency."[5]

One powerful example of this testament to brand consistency is Southwest's approach to advertising. According to Herb Kelleher, a Southwest Airlines co-founder and until recently its long-time CEO, good advertising contains three essential elements: (1) advertising must be true; (2) advertising should fairly reflect the company's attitude; and (3) advertising should be consistent over time.[6] Generating good advertising and achieving brand consistency at Southwest Airlines is, in part, attributable to top executive participation in monthly advertising meetings. Kelleher says that such involvement is helpful with respect to communicating the congruency of the company's message to the outside world as well as in communicating to Southwest's employees that the advertising messages are consistent with the treatment they receive.[7]

Another powerful example of the testament to consistency is found in Southwest's tag line *Freedom to Fly*. Employees think of their jobs in terms of "giving people the freedom to fly"[8]—a perspective that permeates not just employees' thinking but all of Southwest's operations. With regard to employees' beliefs, for instance, "on the busiest holidays of the year, … [Southwest's employees] don't think their objective is to load bags or to serve in-flight beverages; they know they provide a service which gives people the ability and freedom to spend holidays with their loved ones."[9] With respect to the broader corporate perspective, Gary Kelly, Southwest's current chairman, president, and CEO, in commenting on the recent acquisition of AirTran, says: "Once integration is complete in a couple of years, we will have one Brand, one Customer Experience, one livery, one operation under a Single Operating Certificate, and one mission—to give the world the Freedom to Fly while spreading low fares farther."[10]

The *Freedom to Fly* perspective also contributes to creating memorable customer experiences. "Building a memorable customer experience involves strategy, discipline, technology, relationship management, branding, leadership and commitment—all wrapped in a process to engage, surprise and delight. You can be sure that … Southwest Airlines … spends countless hours on how best to deliver a unique customer experience."[11] Sandra Howard, director of advertising at Southwest Airlines, indicates the company has been re-embracing its brand, emphasizing the emotional touch points about customer service, Southwest's employees, and the experience provided by the brand.[12]

So, what are some of the important components of Southwest's memorable customer experiences? "Southwest's main advantage is that its rivals often treat passengers like cargo. Not only do … [Southwest's competitors] squeeze them into seats that make dentists' chairs seem comfortable, but they do so with an air of ill-concealed resentment."[13] In contrast, Southwest treats passengers as people rather than cargo. "Southwest doesn't have premium-class cabins. But the airline in late 2007 began offering 15 more-expensive Business Select tickets on each of its flights, in return for preferential boarding and a free alcoholic beverage. It also began assigning other passengers boarding numbers to ease jockeying in lines."[14] More recently, passengers who are willing to pay "a $10 fee get boarding priority—after Business Select holders or mileage-award recipients."[15] And even small things contribute to Southwest's memorable customer experiences. "Southwest still gives out free peanuts, an oddly emotive subject among travelers. It lets passengers switch their flights often, for no extra charge."[16]

In contrast to many of its competitors, Southwest Airlines does not charge for checked-in luggage—the "Bags Fly Free®" campaign. "Executives crow that this has allowed Southwest to poach customers from rivals, which has made up for the forgone fees. Meanwhile, Southwest has no qualms about charging for extras that irk passengers less, such as those early check-ins, and this generates a happy whack of cash."[17] Observes Kevin Krone, Southwest's vice president of marketing, "[w]hat other folks are doing is charging money for what they used to do for free. What we're doing is offering new things that we hadn't done before."[18]

Considering all the components of Southwest Airlines' marketing efforts as an integrated package, it is clear that Southwest is a brand that is driven by a purpose—the Freedom to Fly. "[B]rands that are not driven by purpose will have a tougher time … [a]nd purpose isn't just good for the soul; it's good for the bottom line. Studies over the years have shown that organizations driven by purpose and values outperform the general market 15-to-1 and outperform comparison companies 6-to-1."[19]

Source: This case was written for this textbook by Michael K. McCuddy, The Louis S. and Mary L. Morgal Chair of Christian Business Ethics and Professor of Management, College of Business Administration, Valparaiso University. © 2013 Cengage Learning.

1. Describe the marketing exchange relationship that exists between Southwest Airlines and its customers.

   Answer:
   Marketing can be described as an exchange relationship between a company and its customers. Ideally, this is an exchange from which both the company and its customers will benefit. Southwest Airlines provides low-fare air travel among selected locations in the United States. This air travel is intended to be fun, and different packages of air travel experiences are provided to customers according to their needs and desires. In exchange, the customers provide Southwest with a revenue stream, especially strengthened when there is repeat business. The more satisfied the customers are and the more often they patronize Southwest, the stronger the exchange relationship from which both are obviously benefitting.
   BUSPROG: Analytic
   Tier II: DISC: Strategy
   Tier III: MBA: Knowledge of General Business Functions
   Bloom's: Application
   Topic: Marketing Is an Exchange Relationship
   Difficulty: Easy

2. Describe the 5Cs of the marketing framework as they pertain to Southwest Airlines.

   Answer:
   The 5Cs of the marketing framework refer to customers, company, context, collaborators, and competitors. *Customers* are individuals flying to specific locations in the United States and who seek to do so at a low cost. The *company* is a low-fare airline that seeks to provide the highest level of customer service and an enjoyable flying experience. The *context* includes the general economic conditions that impact the demand for air travel, the requirements regarding transportation safety and security, and variations in fuel costs, among others. Key *collaborators* for Southwest Airlines would be vendors that sell tickets as well as airfare/hotel packages, airport catering services, and airport fuel suppliers, among others. *Competitors* for Southwest would be those airlines that fly the same domestic routes as Southwest flies.
   BUSPROG: Analytic
   Tier II: DISC: Strategy
   Tier III: MBA: Strategic and Systems Skills
   Bloom's: Analysis
   Topic: The "Marketing Framework": 5Cs, STP, and the 4Ps
   Difficulty: Moderate

3. How does Southwest Airlines' approach to providing a total product experience capture the marketing framework elements of STP (segmentation, targeting, and positioning) and the 4Ps (product, price, place, and promotion)?

   Answer:
   Segmentation reflects the variations that exist in customers' preferences, needs, and resources. Airline passengers run the gamut from those seeking very cheap, no frills flights, with limited services to those willing to pay high fares for the comforts and amenities of first-class travel. In addition, passengers vary in needs for domestic versus

international travel, and commuter flights versus longer distance travel. Other differentiating dimensions could be identified as well.

Targeting means that the attraction of certain market segments makes more sense for the company to pursue than does attempting to attract other market segments. Southwest Airlines targets domestic fliers on specific city-to-city routes. Within this geographic segment, Southwest targets fliers who seek low fares along with high-quality services provided in a fun manner; Southwest also targets fliers who seek particular experience packages.

Positioning involves communicating to the targeted market segment(s) the benefits that the company provides. Southwest Airlines strives to provide its customers with a total product experience that includes, among other aspects, check-in, boarding, flying, and baggage claim experiences. While maintaining its commitment to low fares, excellent customer service, and fun, Southwest seeks to provide different packages of product experiences that its different market segments would like to have.

Product, price, place, and promotion address four questions about marketing tactics that execute the company's intended positioning. The *product* question seeks to ascertain whether customers actually want what the company produces. Obviously, given that Southwest Airlines is an ongoing, profitable business, and consistently one of the most successful airlines in America, customers do want this product. The *price* question concerns whether customers will pay what the company charges. There is a plentiful supply of people who prefer low cost air fares. The *place* question addresses where and how customers will purchase the product. Purchases of Southwest Airlines tickets are made through the company's website and authorized travel agents. The *promotion* question involves what can be done to entice the customer to purchase the product. Southwest touts its total product experience with different packages of experiences being built into the ticket price structure rather than nickel-and-diming fliers with numerous add-ons. Southwest also emphasizes the fun experience that all fliers can have.

BUSPROG: Analytic
Tier II: DISC: Strategy
Tier III: MBA: Strategic and Systems Skills
Bloom's: Analysis
Topic: The "Marketing Framework": 5Cs, STP, and the 4Ps
Difficulty: Challenging

SUGGESTED ANSWERS TO MINI-CASE: HOW TO DESIGN AN ATTRACTIVE WEARABLE

1. As new product categories enter a marketplace, they do risk confusing customers if they are seen as too innovative. Hence, this new wearable might be designed with some familiar features (worn on the wrist, looks like a small smartphone), and then innovation might be easier in some of the apps. What is important is that students understand that it would be naïve to assume that the managers know best and that the customers would simply find whatever they design to be inherently desirable.
   BUSPROG: Analytic
   Tier II: DISC: Customer
   Tier III: MBA: Managing Decision-Making Processes
   Bloom's: Application
   Topic: Marketing and Customer Satisfaction Is Everyone's Responsibility
   Difficulty: Moderate

2. Students have to realize that their own personal opinions don't matter much, and they need to know what the customers will find attractive (i.e., go conduct some marketing research). The younger managers might be a better proxy to the intended market given the hi-tech nature of the offering.
   BUSPROG: Analytic
   Tier II: DISC: Customer
   Tier III: MBA: Managing Decision-Making Processes
   Bloom's: Application
   Topic: Marketing and Customer Satisfaction Is Everyone's Responsibility
   Difficulty: Moderate

3. The company needs customer data. It should collect information on consumers' perceptions of the attractiveness of the possible attributes and benefits.
   BUSPROG: Analytic
   Tier II: DISC: Research
   Tier III: MBA: Managing Decision-Making Processes
   Bloom's: Application
   Topic: Marketing and Customer Satisfaction Is Everyone's Responsibility
   Difficulty: Moderate

4. It might be worth discussing whether to conduct focus groups or interviews, but FYI, the data that we'll see in the marketing research chapter come from, first, surveys, to screen the numerous combinations of these attributes (in a conjoint), and second, from a field experiment conducted via direct marketing to further test the best of the combinations culled from the survey data.
   BUSPROG: Analytic
   Tier II: DISC: Research
   Tier III: MBA: Managing Decision-Making Processes
   Bloom's: Application
   Topic: Marketing and Customer Satisfaction Is Everyone's Responsibility
   Difficulty: Moderate

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[4][4] M. E. Morrison, "Most Airlines Shun Marketing as Way to Fly through Storm," *B to B* 93(10) (July 14, 2008): 1, 45.

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[15][15] M. Esterl, "Corporate News: Southwest Airlines Finds a New Fee—Discount Carrier Unveils $10 Priority-Boarding Charge to Scratch Out Profit," *The Wall Street Journal* (Eastern edition) (September 3, 2009): B2.

[16][16] Anonymous, "Business: Smiles and Free Peanuts; Southwest Airlines," *The Economist* 399(8736) (June 4, 2011): 76.

[17][17] Anonymous, "Business: Smiles and Free Peanuts; Southwest Airlines," *The Economist* 399(8736) (June 4, 2011): 76.

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