

END OF CHAPTER MATERIAL

Discussion and Critical Thinking

Discussion Questions

- 1-1 What are the paths to profits under the marketing concept? (AACSB: Written and oral communication)

Answer:

Customer focus and value are the paths to sales and profits under the marketing concept. Marketing focuses on engaging customers and managing profitable customer relationships. Marketers want to attract new customers by promising superior value and to keep and grow current customers by delivering value and satisfaction.

- 1-2 What is a market offering? Give a recent example of a market offering that has satisfied your need or want. (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:

Market offerings are products, services, information, or experiences offered to a market to satisfy a need or a want. They are not limited to physical products; they include persons, places, organizations, and ideas. Student examples will vary.

- 1-3 Identify the two important questions a marketing manager must answer to design a winning marketing strategy. Briefly describe why the answer to each question is important. (AACSB: Written and oral communication; Reflective thinking)

Answer:

The two questions a marketing manager must answer to design a winning marketing strategy are 1) What customers will we serve (what's our target market)? And 2) How can we serve these customers best (what's our value proposition)?

The first question relates to the decision about who the company will serve, which typically involves segmenting the market and selecting the segments to pursue (target marketing). The company wants to select customer it can serve well and profitably.

The second question relates to the decision about how the company will serve targeted customers. The company will differentiate its offerings and position itself in the marketplace. Its value proposition is the set of beliefs or values it promises to deliver to satisfy customer needs.

1-4 What is consumer-generated marketing? What are the challenges associated with consumer-generated marketing? (AACSB: Written and oral communication; Reflective thinking)

Answer:

A growing part of the new customer dialogue is *consumer-generated marketing*, by which consumers themselves are playing a bigger role in shaping their own brand experiences and those of others. This might happen through uninvited or invited consumer-to-consumer exchanges in blogs, video-sharing sites, and other digital forums. It can be costly and time-consuming. Sometimes when marketers encourage consumers to share stories using a hashtag, consumers turn them into bashtags, or use them as a way to say negative things about the brands. An example is the McDonald's initiative to get people to share heartwarming stories about Happy Meals. Twitter users used the hashtag to share negative messages about fast food. Encourage students to find their own recent examples.

1-5 What are the outcomes of creating superior customer value? Why should companies pay attention to these outcomes? (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:

By creating superior customer value, the firm creates satisfied customers who stay loyal, buy more, and advocate the brand to others. This, in turn, means greater long-run returns for the firm. Keeping customers loyal makes good economic sense. Loyal customers spend more and stay around longer. Companies want to not only create profitable customers but also "own" them for life, earn a greater share of their purchases, and capture their customer lifetime value.

1-6 Explain the growing importance of digital and social media marketing. (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:

Digital and social media marketing involves using digital marketing tools such as websites, social media, mobile ads and apps, online video, email, blogs, and other digital platforms to engage consumers anywhere, anytime via their computers, smartphones, tablets, internet-ready TVs, and other digital devices. Because of the high volume of activity in these areas, marketers view these platforms as opportunities where companies can provide products, brand information, and messaging to current, past, or potential consumers. Student answers will vary based on their personal experiences.

Critical Thinking Exercises

1-7 Describe how a firm like GORE-TEX that follows the pure marketing concept might transform its marketing strategy if it shifted to the societal marketing concept. (AACSB Written and oral communication; Analytical Thinking)

Answer:

The firm might change the way it approaches sourcing and producing its materials. The pure marketing concept might overlook conflicts between what consumers want in the short-run and what is best for consumers in the long-run. If a firm focuses only on the immediate needs and wants of its target markets and wants to shift to an approach that delivers value to customers in a way that maintains or improves the consumer's and society's well-being, it would probably emphasize shared value, which uses societal needs that define markets and focuses on creating economic value and value for society. It would balance company profits, consumer wants, and society's interests as it set its marketing strategy.

- 1-8 Your manager sets a goal for your office: 100 percent satisfaction from 100 percent of customers. How would you communicate with your manager about the limitations of this goal? Describe why firms might use different relationship management strategies for customers with different potential profitability and loyalty. (AACSB: Written and Oral communication; Reflective Thinking)

Answer:

Customer satisfaction depends on the product's perceived performance relative to a buyer's expectations. If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted. Companies aim to delight customers by promising only what they can deliver and then delivering more than they promise.

The challenge with 100 percent satisfaction from 100 percent of customers is that different customers are likely to have different needs, wants, and expectations. As a result, a goal that completely satisfies all customers may be costly, as it reduces the efficiencies gained by segmenting and targeting specific segments and based on the firm's ability to profitably meet their expectations. The needs of the entire market may not match the company's offerings. Therefore, it may be more profitable to satisfy a segment of potential customers than to try to satisfy all customers.

The example in the chapter separates groups into strangers (low potential profitability and little projected loyalty); butterflies (potentially profitably but not loyal); true friends (profitable and loyal); and barnacles (not profitable but very loyal). It suggests different relationship management strategies for each:

- 1) Do not invest in strangers; make money on every transaction.
- 2) Capture as much of the business from butterflies as possible in the moment but do not invest to try to convert them to loyal customers.
- 3) Invest in continuous relationships to delight true friends; engage, nurture, retain, and grow them. Turn them into true believers who advocate on behalf of the firm.
- 4) Sell barnacles more, raise fees, or reduce services to make the relationships profitable. If that can't be done, fire them.

- 1-9 Visit the Clorox website at www.clorox.com. Scroll to the bottom of the page and notice how Clorox is currently connecting with customers on social media platforms including

Facebook, Twitter, Pinterest, YouTube, and Instagram. Click on one or more of the platforms to view ways in which Clorox is building and maintaining customer linkages while illustrating value and providing information behind the brand. Evaluate Clorox's effectiveness in creating customer engagement through its web and social media sites. (AACSB: Communication; Reflective Thinking)

Answer:

Student responses will depend on the social media channel they review. For example, a recent visit to the Clorox Facebook page showed it had more than 1.16 million likes. It featured videos related to the What Comes Next Project, which aims to transform the world by cleaning. The video promoting the project had been viewed 2.1 million times and shared by more than 700 people in the past seven months. It also had a recent video with a child throwing up in a car, used to promote its disinfecting wipes, which had more than 359,000 views, 1,300 reactions, 864 comments, and 879 shares. It responded to individual comments from consumers, which may have increased consumer engagement. It also featured organizations that were being sponsored as part of the What Comes Next Project, including a teenager who was helping provide clean laundry and animal shelters that were providing clean spaces for animals to increase the likelihood they would be adopted. The examples reinforced the brand messages in an authentic way and made positive emotions resulting from use of the Clorox products part of the stories, which helped create customer engagement.

Applications and Cases

Online, Mobile, and Social Media Marketing: Fionamania

Fiona, a young hippo who was born prematurely and survived, lives in the Cincinnati Zoo's Africa exhibit. Fiona became a star when the zoo's communication director and her team started posting every move she made from the day she was born prematurely. She became a symbol of resilience and positivity, earning millions of fans and engaging the not-for-profit zoo's visitors and potential donors. Today, videos of Fiona twirling around the internet gain millions of views, she has had her own seven-episode reality show on Facebook, people on Twitter even follow her flatulence, and she has inspired everything from a children's book to beer and ice cream flavors. People are invested in Fiona's story.

1-10 Go to www.facebook.com/cincinnati-zoo and find posts that feature Fiona the hippo. How does the zoo's communications team engage with Fiona's fans? (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:

The Facebook page includes features that highlight Fiona's history and capitalizes on emotions from Fiona's team and from user-generated content. People post messages for Fiona, for the team that cares for her, and for each other. Fans ask for new or updated content and express how much they care about Fiona.

- 1-11 What can other not-for-profit marketers learn from the Cincinnati Zoo's use of social media to generate interest in Fiona? How does it fit with the Cincinnati Zoo's overall social media strategy? (AACSB: Written and Oral Communication; Reflective Thinking)

Answer:

Student responses will vary. Since the not-for-profit space is competitive, other marketers in this space might use storytelling or mythology to make the cause resonate with the potential donor or customer. They may also choose to highlight an individual beneficiary and his/her/its struggle or triumph. Fiona is one of the animals featured on the Cincinnati Zoo's Facebook page; other animals are also featured and the zoo is doing less live streaming of Fiona than it used to when she was more popular. The user comments reflect a desire for updated content. The lesson for marketers is if an audience is engaged, you should be prepared to keep up your end of the conversation.

Marketing Ethics: Patagonia—Saving Our Home Planet

Companies are increasingly building social and environmental responsibility into their company value and mission statements. More than 500 American companies have signed the UN Global Compact, a commitment to standards that improve human rights, protect the environment, and advance societal goals. Outdoor clothing and gear company Patagonia has grown its business profitably for more than 45 years while advocating for public lands, environmental activism, and sustainable supply chains. Its founding mission was to “build the best product, cause no unnecessary harm, and use business to inspire and implement solutions to the environmental crisis.” Recently, Patagonia changed its mission to “Patagonia is in business to save our home planet.” To ensure movement toward this mission, the company prepared for a full year in advance of publicly announcing the shift. Patagonia recently announced that it would give the \$10 million it gained from a federal tax cut to fight for environmental causes that were threatened by the tax cut, including regenerative agriculture, politics, and protected lands. It has also used its brand marketing to endorse specific political candidates who support sound environmental policies.

- 1-12 Patagonia's mission realignment and its focus on counteracting the causes of global warming may seem more appropriate for a nonprofit organization than for a business. How might Patagonia's new mission affect its reputation among consumers who rely on it to make and market the best products? (AACSB: Written and oral communication; Ethical understanding and reasoning)

Answer:

In the past, Patagonia's stances on CSR have attracted both consumers and employees that share the company's values, resulting in substantial increases in sales. Because of its target audience—people who love the outdoors—its business goals align with the values of its customers. However, consumers may notice that the desire to build the best products is no longer the first part of its mission. Further, Patagonia may have higher costs associated with raw materials if it uses processes such as regenerative agriculture to grow cotton for its

clothing. It wants to use a process that does not use chemicals and takes carbon out of the air, which is a higher priority for the firm than its profits, but it may have to pass the costs on to its customers, which may affect the perceived value associated with the products.

- 1-13 How should a public firm that wants to engage in corporate social responsibility in a way that might sacrifice short-term profitability explain this decision to shareholders? (AACSB: Written and Oral Communication; Ethical Understanding and Reasoning)

Answer:

A public firm could point to the recent study that suggests that although leaders at companies that are committed to CSR are making choices that put social responsibility before profits, the firms have higher profit margins, valuation, and more stable returns on assets but lower risk. However, if the firm is going to engage in CSR, it should do so in an authentic, meaningful way that relates to the firm's values or it could backfire, resulting in a loss of reputation and lower sales revenues.

Marketing by the Numbers: Gillette Trying to Shave Off Competition

Gillette, Proctor & Gamble's powerhouse razor brand, is experiencing challenges from consumer trends and upstart digital competitors. Gillette and close competitor Schick have focused on product innovation and higher prices. Indeed, their cartridges first contained two blades, then three, and now five. Razors now have swiveling balls that let the blades pivot, some used to vibrate, and Gillette recently applied for a patent for a razor that heats up. And with each addition, prices have increased accordingly. Even though Gillette produces excellent products that garnered \$1.5 billion in sales last year, it faces threats posed by the continuing consumer trend of "beardedness," such as the "scruff" or "stubble" look that's not going away soon. Online direct-to-consumer upstarts like Dollar Shave Club (now owned by Unilever), Harry's, and 800Razor.com are also eating away at Gillette's sales. And when Gillette's patent expired on its Mach3 razor, rival Schick came out with a less expensive compatible refill blade cartridge. Although still capturing more than 50 percent market share in the men's grooming market, Gillette's market share has dropped from 70 percent in 2010. To help win back share, Gillette launched its own Gillette on Demand in 2016. But the brand's most significant change was to focus less on product innovation and implement an average 12 percent across-the-board price cut.

- 1-14 Assuming a contribution margin of 60 percent, what sales would be necessary to breakeven (that is, maintain the current total contribution) on the 12 percent across-the-board price reduction? Refer to Financial Analysis of Marketing Tactics: Price Decrease in Appendix 2: Marketing by the Numbers to learn how to perform this analysis. (AACSB: Oral and Written Communication; Analytic Reasoning)

Answer:

Since price decreases by 12 percent, that means the contribution margin will decrease because costs do not change with a price reduction. Therefore, to determine sales

necessary to maintain the current total contribution in terms of absolute dollars, we must first determine the current total contribution:

$$\begin{aligned}\text{Current total contribution} &= \text{contribution margin} \times \text{sales} \\ &= 0.60 \times \$1.5 \text{ billion} = \$900\text{million}\end{aligned}$$

Though we do not know individual prices, we can base our analyses on 100 percent or price equals \$1.00. Because we know the contribution margin is 60 percent, the unit contribution margin will equal \$0.60 per unit and unit variable costs will equal \$0.40 per unit if price equals \$1.00 per unit. Thus, we can see the effect on unit contribution margin and contribution margin percentage when price is decreased 12 percent to \$0.88 per unit ($\$1.00 \times (1 - 0.12) = \0.88):

	Old	New (reduced 12%)
Price	\$1.00 per unit	\$0.88 per unit
– Unit variable costs	\$0.40 per unit	\$0.40 per unit
= unit contribution margin	\$0.60 per unit	\$0.48 per unit
Contribution margin (%)	60% (given)	$\$0.48/\$0.88 = 0.545$ or 54.5%

As can be seen, a 12 percent reduction in price resulted in a decrease of the contribution margin from 60 percent to 54.5 percent. To determine the level of sales necessary to break even on this price reduction, we calculate the level of sales that must be attained at the new, lower contribution margin to achieve the original total contribution of \$900million:

$$\text{New contribution margin} \times \text{new sales level} = \text{original total contribution}$$

So,

$$\text{New sales level} = \frac{\text{original total contribution (\$)}}{\text{new contribution margin (\%)}} = \frac{\$900,000,000}{0.545} = \$1,651,376,147$$

- 1-15 What absolute increase and percentage increase in sales does this represent? (AACSB: Oral and Written Communication; Analytic Reasoning)

Answer:

The absolute increase in sales to break even on a 12 percent reduction in price equals \$151,376,147 (i.e., \$1,651,376,147– \$1,500,000,000).

So,

$$\% \text{ change in sales} = \frac{\text{sales}_{\text{new}} - \text{sales}_{\text{old}}}{\text{sales}_{\text{old}}} = \frac{\$151,376,147}{\$1,500,000,000} = 0.10 \Rightarrow 10\% \text{ increase}$$

Company Case: Buffalo Wild Wings: Fueling the Sports Fan Experience

Synopsis

Buffalo Wild Wings has emerged as the largest pourer of draft beer, the largest server of chicken wings, and one of the fastest growing restaurant chains in the U.S. The reason for its success goes far beyond its menu offerings. Rather, BWW is in the business of fueling the sports fan experience. Every aspect of the chain's design supports that focus, from restaurants' interior (made to look like a stadium with 60 flat screens showing any game customers want to see) to employees (Guest Experience Captains ensure each table has a personalized, engaging experience) to its use of innovative technology (table-top tablets provide entertainment, ordering, and payment) to its menu offerings (over 20 varieties of wings and as many as 30 different quality beers on tap). With a mission to "WOW people every day", BWW has created the perfect place for sports fans to hang out with friends and experience their passion.

Teaching Objectives

The teaching objectives for this case are to:

1. Introduce students to the concept of customer perceived value and its central role in marketing.
2. Understand the differences between needs, wants, and demands.
3. Consider the business model for a company and how it fits into marketing management orientations.
4. Introduce the concepts involved in customer relationship management.

Discussion Questions

- 1-16. Describe the Buffalo Wild Wings market offering based on the concepts of needs, wants, and demands, differentiating the three.
- Needs. When considered in a purely "Maslow" sense, the needs experienced by BWW customers are the physiological needs of eating and drinking. These are the most basic level human needs. But given that BWW's market offering goes beyond the menu items, it is clear that it also involves belonging and love needs, oriented toward friendships or intimate connections.*

Wants. *Wants fulfill a consumer need, but in a specific way that isn't necessary for the fulfillment of that need. Thus, while a person can satisfy their hunger or thirst needs in a variety of different ways, BWW customers demonstrate a want each time they choose the brand—that is, a desire to eat a particular variety of food and beverage in an authentic sports environment that facilitates social interaction and bonding.*

Demands. *You need reliable transportation. You want a high-performing luxury sport sedan. A BMW M5 would fit the bill. But you don't have the "buying power" to get your wishes. The concept of "demands" as defined in this chapter is very related to the more general concept of "demand." In other words, the fact that BWW experienced such strong growth and success over a ten-year period indicates the extent to which large amounts of customers support their wants with their buying power. The same concept can be explored to explain why BWW's tremendous growth reach a sudden plateau—at that time, it was apparent that BWW had reached the upper limit in terms of the number of people who desired its market offering enough to pay for it.*

1-17. Discuss Buffalo Wild Wings' success and stagnation in terms of customer perceived value.

Value = benefits – costs.

- *Benefits*
 - *quality wings in dozens of varieties as well as other food options*
 - *more draft beer than any other chain of restaurants*
 - *an ambience that provides customers with an experience of being at a major sports event*
 - *the ability to view virtually any current sporting event at a high level of quality*
 - *intimate customer service*
 - *strengthened social connections*
 - *no dull moments given the variety of entertaining activities*
- *Costs*
 - *price is comparable to offerings from strong competitors*
 - *price is higher than fast food or eating at home*
 - *in most areas of the country, customers don't have to travel far as there are BWW in most cities*
 - *the BWW experience requires at least one hour*

If the total of the benefits exceeds the total of the costs, then value is provided.

At first glance, customer engagement may not seem to fit in the same question as customer value. However, it can be argued that customer engagement itself provides benefits to customers. All the techniques that BWW employs provide a benefits that

are separate and apart from those provided by the food and beverages.

- 1-18. Which of the five marketing management orientations best applies to Buffalo Wild Wings?

The marketing concept is the orientation that best fits the BWW market offering. The company has thrived by studying and understanding customer needs and delivering the desired satisfactions better than its competition. It can be argued that BWW is a market-oriented company (see Chapter 2). Some students may argue for the societal marketing concept. While BWW is a company invested in long-term relationships with customers, it is questionable just how much it focuses on the long-run interest of society.

- 1-19. Do you think Buffalo Wild Wings' turnaround plan will turn things around? Why or why not?

Student responses will vary. A case in favor of a successful turnaround should point out that BWW has achieved success in the past by designing and delivering exceptional customer value. The ability of this company to do so may have stalled. But it is not likely that it has lost this ability all together. However, it will require that BWW adjust to the changes in consumer demands.

Teaching Suggestions

A discussion based on this case is optimal when the concepts of needs/wants/desires, customer value, customer satisfaction, and marketing management orientations have been covered. After these concepts have been covered, ask students to consider the classic scenario of making a choice as to which restaurant option they might choose for a given meal. What did that situation feel like? Is that decision only based on how certain food items taste? Or is it based on far more than that? Ask how many students are familiar with BWW. Then ask what the attitudes toward it are as well as the specific reasons.

This case has been designed to be used with Chapter 1, Marketing: Creating Customer Value and Engagement. This case also works well with the marketing environment chapter (Chapter 3), the marketing channels chapter (Chapter 12), and the competitive advantage chapter (Chapter 18).