



Principles of Marketing

An Asian Perspective

Fourth Edition

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Pearson Education Limited
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Authorized adaptation from the United States edition, entitled Principles of Marketing, 16th Edition, ISBN 978-0-13-379502-8 by Philip Kotler and Gary Armstrong, published by Pearson Education © 2017.

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ISBN 10: 1-292-08966-0
ISBN 13: 978-1-292-08966-9

British Library Cataloguing-in-Publication Data

A catalogue record for this book is available from the British Library

10 9 8 7 6 5 4 3 2 1

Typeset in Times NRMT Pro by S4Carlisle Publishing Services.
Printed and bound by Vivar in Malaysia

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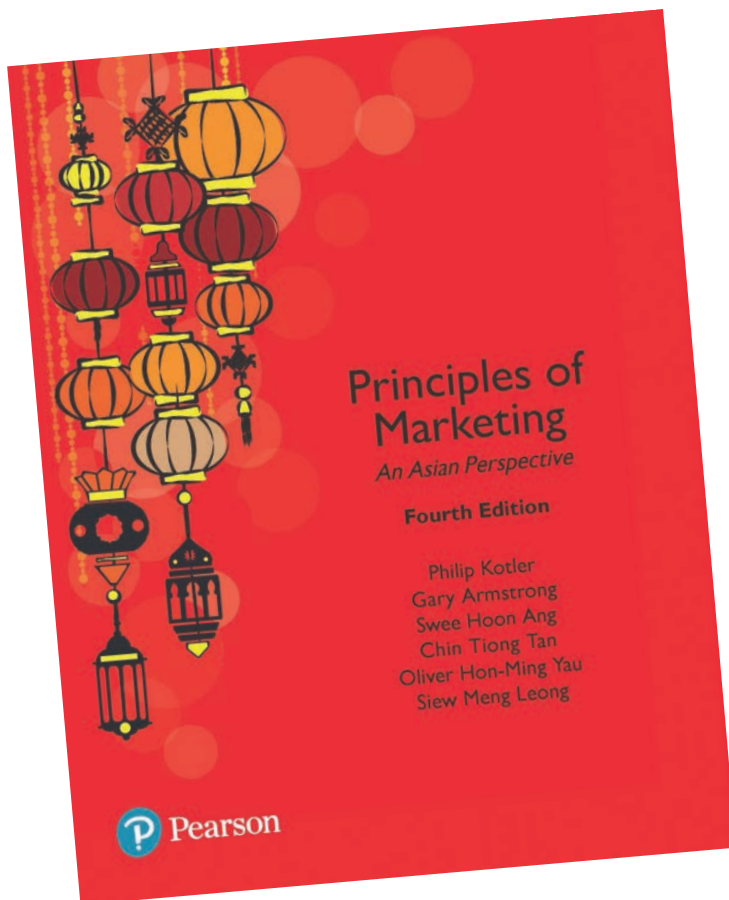
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Credits 733

Index 737



About the Book



A good mix of Asian and international cases and vignettes to give your students a stronger understanding of global marketing, with an Asian focus.



An enhanced learning designed to make learning more efficient.



Added coverage on contemporary marketing issues with new and updated material.



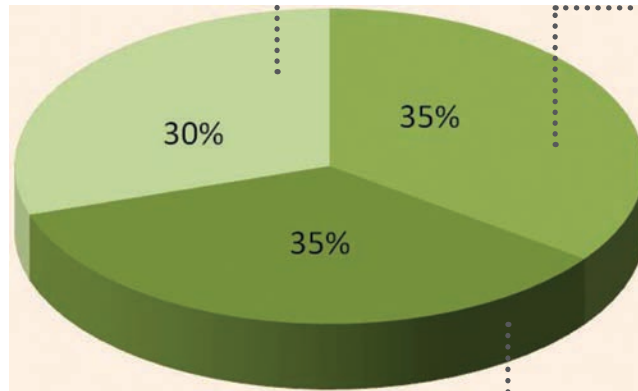
An improved instructor's resources to help you with your lesson planning and preparation.

Marketing with a Focus on Asia: An Enhanced Learning Design

The cases and examples in *Principles of Marketing: An Asian Perspective* are carefully selected to give students a comprehensive understanding of marketing in today's globally connected world.

International Brands in an International Context

- Dyson: Solving Customer Problems in Ways They Never Imagined
- Cisco Systems: Solving Business Problems Through Collaboration
- Pepsi: Marketing Insight and "Live for Now" and more...



Asian Brands in an International Context

- Daiso: Cost Effective Approach
- Sony: Battling the Marketing Environment's "Perfect Storm"
- Lexus: Delighting Customers After the Sale to Keep Them Coming Back and more...

International Brands in an Asian Context

- Hindustan Unilever: Skincare Products for Men
- How KFC Adapts to Chinese Culture
- Tata Group, India: Doing Business with a Heart and more...

These cases and examples are presented in each chapter as one of the following:



1 Opening Cases

These opening cases set the stage for each chapter and use examples of well-known brands that your students can identify with in order to ease them into the topic.

5 Focus on Technology

Enable your students to better harness emerging marketing technologies of this digital age. These application exercises provide students with valuable discussion on the development and effective use of these technologies

Focus on Technology

Picture yourself with wires hooked up to your head or entering a magnetic tube that can see inside your brain. You must be undergoing some medical test, right? Think again—it's marketing research! Marketing research is becoming more like science fiction with a new field called neuromarketing, which uses technologies such as magnetic resonance imaging (MRI) to peer into consumers' brains in an attempt to understand cognitive and affective responses to marketing stimuli. One company, Thinkingcraft, uses a methodology called "neurographix" to help marketers develop messages that fit the way customers think. Omnicom, the advertising agency, uses "neuroplanning" to determine the appropriate media mix for a client. One study found that consumers preferred Pepsi over Coke in blind taste tests but preferred Coke when they could see the names of the brands tasted. Different areas of the brain were activated when they knew the brand compared to when they did not, suggesting that what marketers make us believe is more persuasive than what our own taste buds tell us.

Focus on Ethics

Marketing information helps develop insights into the needs of customers, and gathering competitive intelligence (CI) data supplies part of this information. CI has blossomed into a full-fledged industry, with most major companies establishing CI units. But not all CI gathering is ethical or legal—even at P&G. In 1943, a P&G employee bribed a Lever Brothers (now Unilever) employee to obtain bars of Swan soap, which was then under development, to improve its Ivory brand. P&G settled the case by paying Unilever almost \$6 million (about \$60 million in today's context) for patent infringement—a small price to pay given the market success of Ivory. In 2001, P&G once again paid a \$10 million settlement to Unilever for a case that involved a contractor rummaging through a trash dumpster outside Unilever's office, an infraction that was actually reported by P&G itself. More recently, the U.S. Attorney General's office stopped a corporate espionage lawsuit between Starwood Hotels and Hilton Hotels because it is already pursuing criminal charges against Hilton and two executives it hired away from Starwood. The U.S. Secret Service estimates that employees commit 75 percent of intellectual property theft. The threat is not just internal. The FBI is tracking approximately 20 countries actively spying on U.S. companies.

1. Find another example of corporate espionage and write a brief report on it. Did the guilty party pay restitution or serve prison time? Discuss what punishments, if any, should be levied in cases of corporate espionage.
(AACSB: Communication; Ethical Reasoning)
2. How can businesses protect themselves from corporate espionage?
(AACSB: Communication; Reflective Thinking)

6 Focus on Ethics

It's not easy being a marketer with good morals. Equip your students with the mindset to deal with ethical challenges and dilemmas by exploring these difficult issues through the use of situational descriptions and analysis. Questions are provided to guide students in their quest for what's right or wrong.

7 Enhanced-learning design

Break it down and build it back up. These aids reinforce students' understanding of marketing concepts with visual organizers such as spider diagrams and flowcharts that present complicated ideas in simpler, illustrated forms. This helps students to make better sense of what is being covered in each section. Exciting color visuals bring the study of marketing to life and motivate your students to learn.

Reviewing Objectives and Key Terms

In Chapter 2, we defined marketing and outlined the steps in the marketing process. In this chapter, we examined company-wide strategic planning and marketing's role in the organizations. Then, we looked into marketing strategy and the marketing mix, and reviewed the major marketing management functions. In future chapters, we'll expand on these fundamentals.

OBJECTIVE 1 Explain company-wide strategic planning and its four steps. (pp.41-45)

Strategic planning sets the stage for the rest of the company's planning. Marketing contributes to strategic planning, and the overall plan defines marketing's role in the company. Although formal planning offers a variety of benefits to companies, not all companies use it or use it well.

Strategic planning involves developing a strategy for long-run survival and growth. It consists of four steps: defining the company's mission, setting objectives and functional plans, designing a business portfolio, and developing a marketing plan. Defining a clear company mission should be market oriented, realistic, specific, motivating, and consistent with the market environment. The mission is then translated into detailed supporting goals and objectives to guide the entire company. Based on these goals and objectives, the headquarters designs a business portfolio, deciding which businesses and products should receive more or fewer resources. In turn, each business and product unit must develop detailed marketing plans in line with the company-wide plan.

OBJECTIVE 2 Discuss how to design business portfolios and develop growth strategies. (pp.46-52)

Guided by the company's mission statement and objectives, management plans its business portfolio, or the collection of businesses and products that make up the company. The firm wants to produce a business portfolio that leverages its strengths and weaknesses to maximize its performance. To do this, it must evaluate its current portfolio and consider how to design more customized portfolio-planning approaches that better suit their unique situations. The product/market expansion grid suggests four possible growth paths: market penetration, market development, product development, and diversification.

OBJECTIVE 3 Explain marketing's role in strategic planning and explain how marketing works with its partners to create and deliver customer value. (pp.52-54)

Under the strategic plan, the major functional departments—marketing, finance, accounting, purchasing, operations, information systems, human resources, and others—must work together to accomplish strategic objectives. Marketing plays a key role in the company's philosophy and inputs regarding attractive market opportunities. Within individual business units, marketing designs strategies for reaching the unit's objectives and helps to carry them out profitably.

Marketers alone cannot produce superior value for customers. A company's success depends on how well each department performs its customer value-adding activities and how well the departments work together to serve the customer. Thus, marketers must practice partner relationship management. They must work with other company departments to form an effective value chain that serves the customer. And they must partner effectively with other companies in the marketing system to form a competitively superior value delivery network.

OBJECTIVE 4 Describe the elements of a customer-driven marketing strategy and mix, and the forces that influence it. (pp.54-58)

Consumer value and relationships are at the center of marketing strategy and programs. Through market segmentation, market targeting, differentiation, and market positioning, the company divides the market into smaller segments, selects the segments it wants to serve, and designs marketing programs to serve those segments.

Objective Outline

OBJECTIVE 1 Define product and the major classifications of products and services. What is a Product? (247-252)

OBJECTIVE 2 Describe the decisions companies make regarding their individual products, product lines, and product mixes. Product Decisions (252-260)

OBJECTIVE 3 Discuss branding strategy—the decisions companies make in building and managing their brands. Branding Strategy: Building Strong Brands (260-272)

OBJECTIVE 4 Identify the four characteristics that affect the marketing of services and the additional marketing considerations that services require. Services Marketing (272-276)

Preface

Still Creating More Value for You!

The goal of every marketer is to create more value for customers. So it makes sense that our goal for the fourth edition of *Principles of Marketing: An Asian Perspective* is to continue creating more value for you—our customer. Specifically, we want to introduce new marketing students the fascinating world of modern marketing in an innovative yet practical and enjoyable way. We've pored over every page, table, figure, fact, and example in an effort to make this the best text yet to learn about and teach marketing. This text provides the fundamental principles and puts them in the context of Asian businesses and contemporary MNCs.

Marketing is much more than just an isolated business function—it is a philosophy that guides the entire organization. The marketing department cannot create customer value and build profitable customer relationships by itself. This is a company-wide undertaking that involves broad decisions about who the company wants as its customers, which needs to satisfy, what products and services to offer, what prices to set, what communications to send, and what partnerships to develop. Marketing must work closely with other company departments and with other organizations throughout its entire value-delivery system to delight customers by creating superior customer value.

Marketing: Creating Customer Value and Relationships

Top marketers at outstanding companies share a common goal: putting the customer at the heart of marketing. Today's marketing is all about creating customer value and building profitable customer relationships. It starts with understanding customer needs and wants, determining which target markets the organization can serve best, and developing a compelling value proposition by which the organization can attract and grow valued consumers. If the organization does these things well, it will reap the rewards in terms of market share, profits, and customer equity.

Five Major Value Themes

From beginning to end, *Principles of Marketing: An Asian Perspective* develops an innovative customer-value and customer-relationships framework that captures the essence of today's marketing. It builds on five major value themes:

- **Creating value for customers to capture value from customers in return.** Asian marketers must be good at creating customer value and managing customer relationships. They must attract targeted customers with strong value propositions. Then, they must keep and grow customers by delivering superior customer value and effectively managing the company-customer interface. Outstanding marketing companies in Asia understand the marketplace and customer needs, design value-creating marketing strategies, develop integrated marketing programs that deliver customer value and delight, and build strong customer relationships. In return, they capture value from customers in the form of sales, profits, and customer loyalty. This *innovative customer-value framework* is introduced at the start of Chapter 1 in a five-step marketing process model, which details how marketing creates customer value and captures value in return. The framework is carefully explained in the first two chapters, providing students with a solid foundation. The framework is then integrated throughout the remainder of the text.
- **Building and managing strong, value-creating brands.** Well-positioned brands with strong brand equity provide the basis upon which to build customer value and profitable customer relationships. Asian marketers must position their brands powerfully and manage them well.
- **Measuring and managing return on marketing.** Marketing managers in Asia must be good at measuring and managing the return on their marketing investments to ensure that their marketing dollars are being well-spent. In the past, many marketers spent freely on big, expensive marketing programs, often without thinking carefully about the financial and customer response returns on their spending. But all that is changing rapidly. Measuring and managing return on marketing investments has become an important part of strategic marketing

decision making. This emphasis on marketing accountability is addressed throughout the third edition.

- **Harnessing new marketing technologies.** New digital and other high-tech marketing developments are dramatically changing how Asian consumers and marketers relate to one another. Marketers in Asia must know how to leverage new computer, information, communication, and distribution technologies to connect more effectively with customers and marketing partners in this digital age. The third edition explores the new technologies impacting marketing including digital marketing and online technologies in Chapters 1, 15, and 17 to the exploding use of online social networks and customer-generated marketing in Chapters 1, 5, 14, 15, 17, and elsewhere.
- **Sustainable marketing around the globe.** As technological developments make the world an increasingly smaller place, Asian marketers must be good at marketing their brands globally and in socially responsible ways that create not just short-term value for individual customers but also long-term value for society as a whole. New materials throughout the third edition emphasizes the concept of sustainable marketing.

New in the Fourth Edition

Principles of Marketing: An Asian Perspective reflects the major trends and forces impacting marketing in this era of customer value and relationships. We've thoroughly revised the text. This new edition builds on and extends the innovative customer-value framework from previous editions. No other marketing text presents such a clear and comprehensive customer-value approach. Here are just some of the major and continuing changes you'll find in this edition:

- Throughout the third edition, you will find revised coverage of the rapidly **changing nature of customer relationships** with companies and brands. Today's marketers aim to create deep consumer involvement and a sense of community surrounding a brand—to make the brand a meaningful part of consumers' conversations and their lives. Today's new relationship-building tools include everything from Web sites, blogs, in-person events and video sharing, to online communities and social networks such as Facebook, YouTube, Twitter, or a company's own social networking sites.
- The third edition contains new material on the continuing trend toward two-way interactions between customers and brands, including such topics as **customer-managed relationships**, **crowdsourcing**, and **consumer-generated marketing**. Today's customers are giving as much as they get in the form of two-way relationships (Chapter 1), a more active role in providing customer insights (Chapter 4), crowdsourcing and shaping new products (Chapter 9), consumer-generated marketing content (Chapters 1, 14, and 15), developing or passing along brand messages (Chapters 1 and 15), interacting in customer communities (Chapters 5, 15, and 17), and other developments.
- New material throughout the third edition highlights the increasing importance of **sustainable marketing**. The discussion begins in Chapter 1 and ends in Chapter 20, which pulls marketing together under a sustainable marketing framework. In between, frequent discussions and examples show how sustainable marketing calls for socially and environmentally responsible actions that meet both the immediate and the future needs of customers, companies, and society as a whole.
- The fourth edition also includes articles from Think Business, an online knowledge portal from the National University of Singapore Business School (www.thinkbusiness.nus.edu) that highlights knowledge from faculty and prominent business leaders.
- The fourth edition continues its emphasis on **measuring and managing return on marketing**, including many new end-of-chapter financial and quantitative marketing exercises that let students apply analytical thinking to relevant concepts in each chapter and link chapter concepts to the text's innovative and comprehensive *Appendix 2: Marketing by the Numbers*.
- The fourth edition provides revised and expanded coverage of the developments in the fast-changing areas of **integrated marketing communications** and **direct and online marketing**. It tells how marketers are blending new digital and direct technologies with traditional media to create more targeted, personal, and interactive customer relationships. No other text provides more current or encompassing coverage of these exciting developments.

- The fourth edition continues to improve on its **innovative learning design**. The text's active and integrative presentation includes learning enhancements such as annotated chapter-opening stories, and a chapter-opening objective outline. The chapter-opening layout helps to preview and position the chapter and its key concepts. End-of-chapter features help to summarize important chapter concepts and highlight important themes, such as marketing and the economy, marketing technology, ethics, and financial marketing analysis. In all, the innovative learning design facilitates student understanding and eases learning.
- The phenomenal success of online market site Taobao.com and Internet site Tencent in China are discussed; so is Li & Fung's supply chain that has expanded in the United States. We've discussed how Japan's UNIQLO's customer-centric approach has seen to its marketing success. Similarly, the likes of Scoot, Xiaomi, Charles & Keith, Daiso, Lenovo, and Gmarket are highlighted.

Principles of Marketing: An Asian Perspective also includes expanded material on a wide range of other topics, including managing customer relationships (CRM), brand strategy and positioning, SWOT analysis, data mining and data networks, consumer research, marketing and diversity, generational marketing, buzz marketing, supplier satisfaction and partnering, environmental sustainability, cause-related marketing, socially responsible marketing, global marketing strategies, and much, much more.

Countless new examples have been added within the running text. Tables, examples, and references throughout the text represent updated facts and figures. *Principles of Marketing: An Asian Perspective* contains mostly new images and advertisements that illustrate key points and make the text more effective and appealing. All new or revised company cases and many new video cases help to bring the real world directly into the classroom. The text even has a new look, with freshly designed figures. We don't think you'll find a fresher, more current, or more approachable text anywhere.

An Emphasis on Real Marketing

Principles of Marketing: An Asian Perspective features in-depth, real-world examples and stories that show concepts in action and reveal the drama of modern marketing. In this edition, chapter-opening cases and Real Marketing highlights have been updated or replaced to provide fresh and relevant insights into actual marketing practices. Learn how:

- Xiaomi scored success in India.
- Charles & Keith adapts its shoes and handbags for foreign markets.
- Tupperware makes Indonesia its No. 1 market.
- Scoot tackles a competitor that imitated its strategy.
- Procter & Gamble understands the psyche of Chinese mothers and convinces them to switch from cloth to disposable diapers for their babies.
- IKEA adapts its products for the Chinese market.

These and countless other examples and illustrations throughout each chapter reinforce key concepts and bring marketing to life.

Valuable Learning Aids

A wealth of chapter-opening, within-chapter, and end-of-chapter learning devices help students to learn, link, and apply major concepts:

- *Previewing the Concepts*. As part of the active and integrative chapter-opening design, a brief section at the beginning of each chapter previews chapter concepts, links them with previous chapter concepts, and introduces the chapter-opening story.
- *Chapter-opening marketing stories*. Each chapter begins with an engaging, deeply developed marketing story that introduces the chapter material and sparks student interest.
- *Objective outline*. This chapter-opening feature provides a helpful preview outline of chapter contents and learning objectives, complete with page numbers.

- *Real Marketing highlights.* In every chapter, these highlights provide an in-depth look at the actual marketing practices of large and small companies.
- *Reviewing the Objectives and Key Terms.* A summary at the end of each chapter reviews major chapter concepts and chapter objectives. Key terms which are highlighted within the text, are clearly defined in the margins of the pages in which they first appear, and listed at the end of each chapter.
- *Discussing the Concepts and Applying the Concepts.* Each chapter contains a set of discussion questions and application exercises covering major chapter concepts.
- *Marketing and the Economy.* End-of-chapter situation descriptions provide for discussion of the impact of recent economic trends on consumer and marketer decisions.
- *Focus on Technology.* Application exercises at the end of each chapter provide discussion on important and emerging marketing technologies in this digital age.
- *Focus on Ethics.* Situation descriptions and questions highlight important issues in marketing ethics at the end of each chapter.
- *Marketing by the Numbers.* An exercise at the end of each chapter lets students apply analytical and financial thinking to relevant chapter concepts and links the chapter to Appendix 2: Marketing by the Numbers.
- *Video Case.* Short vignettes and discussion questions appear at the end of every chapter, to be used with the set of 4- to 7-minute videos that accompany this edition.
- *Company Cases.* All new or revised company cases for class or written discussion are provided at the end of each chapter. These cases challenge students to apply marketing principles to real companies in real situations.
- *Marketing Plan appendix.* Appendix 1 contains a sample marketing plan that helps students to apply important marketing planning concepts.
- *Marketing by the Numbers appendix.* An innovative Appendix 2 introduces students with a comprehensive introduction to the marketing financial analysis that helps to guide, assess, and support marketing decisions.

More than ever before, *Principles of Marketing: An Asian Perspective* creates value for you—it gives you all you need to know about marketing in an effective and enjoyable total learning package!

A Valuable Total Teaching and Learning Package

A successful marketing course requires more than a well-written book. A total package of teaching supplements extends this edition’s emphasis on creating value for both the student and instructor. The following aids support *Principles of Marketing: An Asian Perspective*.

Supplements for Instructors

The following supplements are available to adopting instructors.

Instructor’s Manual

The Instructor’s Manual includes the following features:

- *Resource Map.* This is a “Cheat Sheet” for instructors, correlating all resources by use type and chapter/section.
- *Chapter Overview.* The Chapter Overview summarizes each chapter of the textbook and is consistent with the chapter summary in the book.
- *Chapter Objectives.* Each chapter’s objectives are listed as they appear in the textbook.
- *Chapter Outline.* This teaching outline is mapped to the textbook topics and provides a snapshot of the chapter and its resources. The outline integrates references to exhibits and key terms in the book, as well as end-of-chapter concepts, Web links, and more!
- *End-of-chapter Answer Guide.* This section includes answers to all end-of-chapter questions in the book. This will include discussion questions, objective-based questions, application questions, as well as case studies.
- *Additional Material.* This section offers barriers to effective learning, suggestions for students projects and assignments (individual and group assigned), as well as outside examples.

- *Web Resources.* This is a list of useful web links and resources the student can use for additional research, support, and career information.
- *Video Case Notes.* This separate section of the Instructor’s Manual includes a brief summary, discussion questions (with suggested answers), and other useful information for each segment included in the video library that accompanies the textbook. It also includes teaching ideas on how to present the material in class.

Test Item File

The Test Item File offers 3,000 questions. Each chapter consists of multiple-choice, true/false, short answer, and essay questions. Page references, learning objective, concept versus application, relevant AACSB topic, and difficulty level are provided for each question.

Additionally, the questions are offered in two categories—General Concept and Application. The application questions provide real-life situations that take students beyond basic chapter concepts and vocabulary and ask them to apply their newly learned marketing skills. Available in both Microsoft Word and TestGen formats.

PowerPoint

This version of PowerPoint includes basic outlines and key points from each chapter, plus advertisements and art from the text, discussion questions, and Web links.

Custom Videos

The videos available on the companion Web site (www.pearsoned-asia.com/kotler) library feature 20 exciting segments for this edition. Here are just a few of the videos that are offered:

- Stew Leonard’s Customer Relationships
- Eaton’s Dependable Customer Service
- GoGurt’s Winning Brand Management
- FiberOne’s Exponential Growth
- Nestlé Waters’ Personal Selling

Image and Ad Bank

Access many of the images and illustrations featured in the text, which are ideal for PowerPoint customization, from the Instructor’s Resource Center.

Acknowledgements

No book is the work only of its authors. We greatly appreciate the valuable contributions of several people who helped make this new edition possible. Our thanks go to our colleagues at Northwestern University, the University of North Carolina at Chapel Hill, National University of Singapore, Singapore Institute of Technology, and City University of Hong Kong for their support and encouragement.

Special thanks go to Ada Lau, Dr Raymond Chow of The Open University of Hong Kong, and Dr John Leung of City University of Hong Kong for their assistance in adapting several case studies for Chapters 13, 14, 15, 16, and 19.

The staff at Pearson Global Edition deserve mention for their role in shaping this book.

We are also indebted to the following instructors for their thoughtful inputs:

Fourth Edition Contributor::

We are grateful to the following individual and his valuable contributions to the supplements for instructors that are being offered with this book:

- Geoffrey Da Silva, Lecturer of Marketing, Singapore Management University

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- Allan Chia, Head of Programme, SIM University
- Lui Hon-Kwong, Department of Marketing & International Business, Lingnan University
- Mohd. Ismail bin Sayyed Ahmad, Principles of Marketing course, International Islamic University Malaysia
- Tan Boon In, Head, Dept of Marketing, Univerisity Tunku Abdul Rahman

We are grateful to the following individuals and their companies and advertising agencies for providing us permission to use some of the materials for this book:

ABC Sauces	Modern Toilet Restaurant
Amelia Lee	NTUC Fair Price
Campbell Soup Asia Pte Limited	Pepsi
Cerebros Pacific Limited	Shiseido Company Limited
Dentsu Inc	Singapore Airlines
Essilor	SmoothE
Fisher Price	Staples Inc
ILOHAS	TechDirt
Malaysia Dairy Industry	Unza
Ministry of Social and Family Development (MSF)	Wipro

Last but certainly not least, we owe our overriding debt to our families who continue to support and inspire us. To them, we dedicate this book.

Philip Kotler
Swee Hoon Ang
Chin Tiong Tan

Gary Armstrong
Siew Meng Leong
Oliver Hon-Ming Yau





Objective Outline

OBJECTIVE 1

Define marketing and outline the steps in the marketing process.
What is Marketing? (4–6)

OBJECTIVE 2

Explain the importance of understanding customers and the marketplace and identify the five core marketplace concepts.
Understanding the Marketplace and Customer Needs (6–9)

OBJECTIVE 3

Identify the key elements of a customer-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.
Designing a Customer-Driven Marketing Strategy (9–14)
Preparing an Integrated Marketing Plan and Program (14–15)

OBJECTIVE 4

Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return.
Building Customer Relationships (15–22)
Capturing Value from Customers (22–24)

OBJECTIVE 5

Describe the major trends and forces that are changing the marketing landscape in this age of relationships.
The Changing Marketing Landscape (24–30)

Marketing: Managing Profitable Customer Relationships

Welcome to the exciting world of marketing. In this chapter, we will introduce you to the basic concepts. We'll start with a simple question: What is marketing? Marketing is managing profitable customer relationships. The aim of marketing is to create value for customers and to capture value in return. Chapter 1 is organized around five steps in the marketing process—from understanding customer needs, to designing customer-driven marketing strategies and programs, to building customer relationships and capturing value for the firm.

Let's start with a good story about Taobao, the online shopping site by Alibaba that beat eBay and Amazon in China.

Taobao.com: Building Trustworthy Customer Relationships

While eBay and Amazon may be America's everything stores, in China, Alibaba's retail platform Taobao.com dominates the domestic e-market, leaving Amazon fighting in the sidelines and eBay shutting down its China operations in 2006, having entered and failed to meet the market demands.

Established in May 2003 by the Alibaba Group, Taobao is one of the biggest e-tailing platforms today, and in 2014 it commanded around 80 percent of the Chinese consumer-to-consumer (C2C) market segment. Taobao, which means "hunting for treasure," sells almost everything, from cosmetics and accessories to electronic

goods and cadavers. Like Amazon and eBay, it facilitates transactions between individual consumers and sellers including retailers and wholesalers.

Taobao's success was unanticipated. A year before Taobao was established, eBay entered the Chinese market as a joint venture with EachNet, a Chinese e-commerce company, and had every intention to lead the market in China. However, in anticipation of the future competition, founder and CEO of Alibaba, Jack Ma launched a new website to fend off the United States giant. eBay's market share quickly dwindled after Taobao's entry and in 2006 it cut its losses in the light of Taobao's success.

Amazon entered the Chinese market in 2004 by purchasing the Chinese online bookseller and retailer Joyo.com. The site failed to live up to its high hopes and by 2014, held less than 3 percent of the Chinese e-tail market.

“ Taobao understood the Chinese consumer’s fear of being cheated online and focused on instilling trust. ”

So what accounts for Taobao’s dominance over established online players like Amazon and eBay? Taobao understood the Chinese consumer’s fear of being cheated online and tried to instill trust. Domestic consumers were not familiar with making purchases without being able to inspect the items. Widespread fraud and general misapprehension about the Internet made consumers wary of online shopping. To allay such fears of fraudulent practices, Taobao introduced an optional escrow service where the buyer transfers their money to Alipay, a third-party online payment platform, which informs the seller that the money has been transferred. The seller would then send the item to the buyer. Only when the buyer has received and inspected the item would Alipay allow the seller to receive the money transferred. Because most Chinese consumers do not use credit cards, the Alipay system, unlike PayPal, does not require a credit card for transactions to be initiated and can debit from a Chinese bank account.

Taobao also understands that negotiating and bargaining is part of the enjoyable experience that Chinese shoppers look forward to. Taobao’s chat room, AliWangWang, allows shoppers to negotiate prices with sellers; shoppers can even interact directly with sellers and ask them questions about their products.

The platform’s design gives it a strong local identity. To capitalize on Chinese’ nationalistic sentiment, each member of Taobao’s administrative team has a nickname based on a fictional character from famous kung fu novels. This informality gives Chinese shoppers a sense of welcome and being part of the larger Chinese community. Taobao’s corporate red and orange colors are suggestive

of festivity and prosperity—messages that every Chinese individual is familiar with and favorably disposed to. In addition to this, its Web site is filled with information. Unlike Google’s design, which is very sparse, Taobao’s official site is cluttered with many links, imitating the physical shopping environment in China—noisy, busy, and colorful.

Taobao has successfully drawn big businesses into having a presence on the e-tail portal. China’s biggest bookstore, Xinhua, features on Taobao’s platform as does leading Japanese casual-wear maker, UNIQLO. Even China Eastern Airlines has formed an alliance with Taobao and Alipay, setting up an online ticket store and reaching out to more individuals than before.

As another strategic move, Jack Ma, who noted that more people preferred browsing through television channels more than surfing the Web, ensured that Taobao had adequate number of ads aired across major TV channels. Taobao also brings the latest trends in mass-selling online. One of its successful flash sales campaigns was to transform an obscure student holiday into an online holiday. November 11 or 11/11, known as Singles Day, became the largest e-commerce sales day, making \$14.3 billion in sales in 2015. This success resulted in offline retailers holding similar sales on November 11.

With smartphone penetration on the rise, Taobao is poised to do even better. Cities outside the Tier 1 region have the fastest growth rate in smartphone penetration. The “far off” locations work to Taobao’s advantage as the ability of offline retailers to deliver to such areas is limited. The company is looking to address changing tastes and preferences of Chinese consumers with Taobao Mall, focusing on service quality; Taobao is also using its shopping search engine eTao to provide information other than pricing, including product guarantees, reviews, and shipping options.¹

What Is Marketing?

Marketing, more than any other business function, deals with customers. Perhaps the simplest definition of marketing is *managing profitable customer relationships*. The twofold goal of marketing is to attract new customers by promising superior value and keep and grow current customers by delivering satisfaction.

For example, Taobao surges ahead of Amazon and eBay as an online shopping site in China because it meets the needs of Chinese consumers who are concerned with trust issues when shopping online. Jollibee is a favorite fast-food chain among Filipinos because it understands what Filipinos love to eat.



› Jollibee surged ahead of McDonald's in the Philippines with superior value based on customer focus, respect for the individual, teamwork, spirit of family and fun, attention to details—listening and learning, honesty and integrity, and excellent economic sense.



› **Marketing is all around you** – Even in markets such as this in Vietnam, marketing is at work. The fruit seller has to understand her market, distribute her fruits at the right place, sell them at the right price, and be alert of who else are selling fruits or possible substitutes. She has to make sure that she offers superior customer value.

Sound marketing is critical to the success of every organization. Large for-profit firms, such as Procter & Gamble, Google, Toyota, and Shangri-La Hotel use marketing. But so do not-for-profit organizations such as colleges, hospitals, museums, symphony orchestras, and even churches.

You already know a lot about marketing—it's all around you. You see it in products at your nearby shopping mall and the ads that fill your TV screen, spice up your magazines, or stuff your mailbox. But in recent years, marketers have assembled a host of new marketing approaches, everything from imaginative Web sites and online social networks to your mobile phone. These new approaches do more than just blast out messages to the masses. They reach you directly and personally. Today's marketers want to become a part of your life and enrich your experiences with their brands—to help you *live* their brands.

At home, at school, where you work, and where you play, you see marketing in almost everything you do. Yet, there is much more to marketing than meets the consumer's eye. Behind it all is a massive network of people and activities competing for your attention and purchases. This book will give you an introduction to the basic concepts and practices of today's marketing. In this chapter, we begin by defining marketing and the marketing process.

Marketing Defined

What *is* marketing? Marketing is more than selling and advertising. It involves *satisfying customer needs*. The marketer needs to understand consumer needs, develop products and services that provide superior customer value, and price, distribute, and promote them effectively. Hence, **marketing** is the process by which companies create value for customers and build strong customer relationships to capture value from customers in return.²

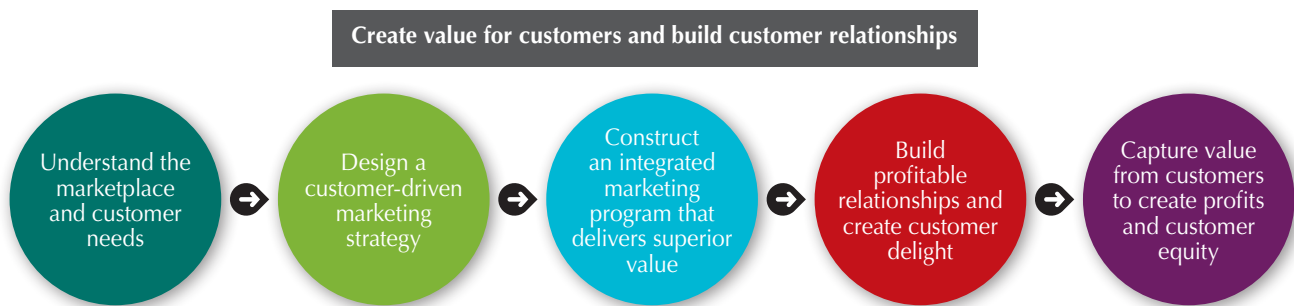
The Marketing Process

Figure 1.1 presents a simple five-step model of the marketing process. In the first four steps, companies work to understand consumers, create customer value, and



Marketing

The process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.



► FIGURE 1.1
A simple model of the marketing process

build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value. By creating value *for* consumers, they in turn capture value *from* consumers in the form of sales, profits, and long-term customer equity.

In this and the next chapter, we will examine the steps of this simple model of marketing. In this chapter, we will review each step but focus more on the customer relationship steps—understanding customers, building customer relationships, and capturing value from customers. In Chapter 2, we’ll discuss the second and third steps—designing marketing strategies and constructing marketing programs.

Understanding the Marketplace and Customer Needs

As a first step, marketers need to understand customer needs and wants, and the marketplace within which they operate. We will discuss five core customer and marketplace concepts:

- needs, wants, and demands;
- marketing offerings (products, services, and experiences);
- value and satisfaction;
- exchanges and relationships; and
- markets.

Customer Needs, Wants, and Demands

The most basic concept underlying marketing is that of human needs. Human **needs** are states of felt deprivation. They include basic *physical* needs for food, clothing, warmth, and safety; *social* needs for belonging and affection; and *individual* needs for knowledge and self-expression. For instance, a survey showed that as Chinese become increasingly cash-rich and time-poor, they want convenience without compromising their health.³

Wants are the form human needs take as they are shaped by culture and individual personality. An American *needs* food but *wants* a Big Mac, French fries, and a soft drink. A person in Japan *needs* food but *wants* rice, sashimi, and green tea. Wants are shaped by one’s society and are described in terms of objects that will satisfy needs. When backed by buying power, wants become **demands**. Given their wants and resources, people demand products with benefits that add up to the most value and satisfaction.

Outstanding marketing companies conduct marketing research to learn about and understand their customers’ needs, wants, and demands. For example, Harley-Davidson’s

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Needs
States of felt deprivation.

Wants
The form human needs take as they are shaped by culture and individual personality.

Demands
Human wants that are backed by buying power.

Chairman regularly mounts his Harley and rides with customers to get feedback and ideas.

Market Offerings—Products, Services, and Experiences

Consumers' needs and wants are fulfilled through a **market offering**—some combination of products, services, information, or experiences offered to a market to satisfy a need or want. Market offerings are not limited to physical *products*. They also include *services*, activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, airline, hotel, tax preparation, and home repair services. Market offerings also include other entities, such as *persons*, *places*, *organizations*, *information*, and *ideas*.

Many sellers make the mistake of paying more attention to the specific products they offer than to the benefits and experiences produced by these products. These sellers suffer from **marketing myopia**. They are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs.⁴ They forget that a product is only a tool to solve a consumer problem. A manufacturer of drill bits may think that the customer needs a drill bit. But what the customer *really* needs is a hole. These sellers will have trouble if a new product comes along that serves the customer's need better or less expensively. The customer will have the same *need* but will *want* the new product. **Figure 1.2** summarizes how to avoid marketing myopia.

Smart marketers look beyond the attributes of the products and services they sell. By orchestrating several services and products, they create *brand experiences* for consumers. For example, Walt Disney World is an experience; so is a stay at the Banyan Tree Resorts. And you don't just watch a Formula 1 race; you immerse yourself in the Formula 1 experience.



› **Market offerings are not limited to physical products**
– The Banyan Tree Resorts provide a sanctuary for the senses to those who want a peaceful respite from the hustle and bustle of city life.



Market offering

Some combination of products, services, information, or experiences offered to a market to satisfy a need or want.

Marketing myopia

The mistake of paying more attention to the specific products a company offers than to the benefits and experiences derived from these products.



► **FIGURE 1.2**
Avoid marketing myopia by focusing on product benefits and customer needs

Customer Value and Satisfaction

Consumers usually face a wide variety of products and services that might satisfy a given need. How do they choose among these market offerings? Customers form expectations about the value and satisfaction that various market offerings will deliver and buy accordingly. Satisfied customers buy again and tell others about their good experiences; while dissatisfied customers often switch to competitors and complain about the product to others.

Sony Pictures – With a very limited marketing budget in the U.S., Sony Pictures relied on word-of-mouth communications to promote its Chinese sword-fighting film, *Crouching Tiger, Hidden*



› Sony Pictures used word-of-mouth communications to enhance popularity of *Crouching Tiger, Hidden Dragon*.

Dragon. It limited the distribution of the film to only a handful of cinemas to generate intense interest that would spread by word of mouth. Further, over 95 percent of the United States' top critics loved the film despite it being subtitled. This resulted in more people wanting to see the film than there were screens showing it. As word got around, Sony increased the number of screens showing it from 20 to 75, then 120, then 160 and so on, to over 2,000 screens at its peak. People who loved the film told others about it, who could not get tickets because the cinemas were sold out, which heightened the desire, which in turn, fuelled more word of mouth. This resulted in the film staying in the top 10 box-office chart in the United States for months, relying mainly on word of mouth.

Exchanges and Relationships



Exchange

The act of obtaining a desired object from someone by offering something in return.

Marketing occurs when people decide to satisfy needs and wants through exchange relationships. **Exchange** is the act of obtaining a desired object from someone by offering something in return. In the broadest sense, the marketer tries to bring about a response to some market offering. The response may be more than buying or trading products and services. A political candidate, for instance, wants votes; a Web site wants more visits; an orchestra wants an audience; and a social action group wants idea acceptance.

Marketing consists of actions taken to build and maintain desirable exchange *relationships* with target audiences involving a product, service, idea, or other object. Beyond simply attracting new customers and creating transactions, the goal is to retain customers and grow their business with the company. Marketers want to build strong relationships by consistently delivering superior customer value.



Market

The set of all actual and potential buyers of a product or service.

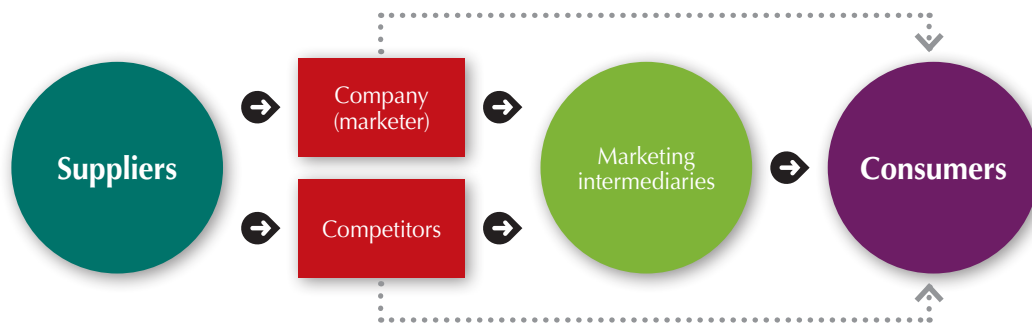
Markets

The concepts of exchange and relationships lead to the concept of a market. A **market** is the set of actual and potential buyers of a product. These buyers share a particular need or want that can be satisfied through exchange relationships.

Marketing means managing markets to bring about profitable customer relationships. Sellers must search for buyers, identify their needs, design good market offerings, set prices for them, promote them, and store and deliver them. Activities such as product development, research, communication, distribution, pricing, and service are core marketing activities.

Although we normally think of marketing as being carried out by sellers, buyers also carry out marketing. Consumers market when they search for products, interact with companies to obtain information, and make their purchases. In fact, today's digital technologies, from Web sites and online social networks to mobile phones, have empowered consumers and made marketing a truly interactive affair. Thus, in addition to customer relationship management, today's marketers must also deal effectively with *customer-managed relationships*. Marketers are no longer asking only "How can we reach our customers?" but also "How should our customers reach us?" and even "How can our customers reach each other?"

Figure 1.3 shows the main elements in a modern marketing system. Marketing involves serving a market of final consumers in the face of competitors. The company and their competitors send their respective offers and messages to consumers. These are affected by major environmental forces (demographic, economic, physical, technological, political/legal, and social/cultural).



► FIGURE 1.3
Elements of a modern marketing system

Each party in the system adds value for the next level. The arrows represent relationships that must be developed and managed. Thus, a company’s success at building profitable relationships depends not only on its own actions but also on how well the entire system serves the needs of final consumers. Toyota cannot deliver high quality to car buyers unless its dealers provide outstanding sales and service.

Designing a Customer-Driven Marketing Strategy

Once it fully understands consumers and the marketplace, marketing management can design a customer-driven marketing strategy. **Marketing management** is the art and science of choosing target markets and building profitable relationships with them. The marketing manager’s aim is to find, attract, keep, and grow target customers by creating, delivering, and communicating superior customer value.

To design a winning marketing strategy, the marketing manager must answer two important questions:

- What customers will we serve (what’s our target market)?
- How can we serve these customers best (what’s our value proposition)?

Selecting Customers to Serve

The company must first decide *who* it will serve. It does this by dividing the market into segments of customers (*market segmentation*) and selecting which segments it will go after (*target marketing*). Marketing managers know that they cannot serve all customers in every way. By trying to serve all customers, they may not serve any customer well. Instead, the company wants to select only customers that it can serve well and profitably. For example, the Mandarin Oriental Hotel profitably targets affluent professionals, while Holiday Inn profitably targets families with more modest means.

Ultimately, marketing managers must decide which customers they want to target and on the level, timing, and nature of their demand. Simply put, marketing management is *customer management* and *demand management*.



Marketing management

The art and science of choosing target markets and building profitable relationships with them.

► **Target market** – The Mandarin Oriental Hotel goes after the affluent professionals and business market.

