

GLOBAL  
EDITION



# Principles of Marketing

FIFTEENTH EDITION

Philip Kotler • Gary Armstrong



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# Principles of Marketing

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# Principles of Marketing

Global Edition

**Philip Kotler**

Northwestern University

**Gary Armstrong**

University of North Carolina



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# Dedication

*To Kathy, Betty, Mandy, Matt, KC, Keri, Delaney, Molly, Macy, and Ben;  
Nancy, Amy, Melissa, and Jessica*

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# About **The Authors**

**As a team**, Philip Kotler and Gary Armstrong provide a blend of skills uniquely suited to writing an introductory marketing text. Professor Kotler is one of the world's leading authorities on marketing. Professor Armstrong is an award-winning teacher of undergraduate business students. Together they make the complex world of marketing practical, approachable, and enjoyable.



**Philip Kotler** is S. C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management, Northwestern University. He received his master's degree from the University of Chicago and his PhD from M.I.T., both in economics. Dr. Kotler is author of *Marketing Management* (Pearson Prentice Hall), now in its fourteenth edition and the most widely used marketing textbook in

graduate schools of business worldwide. He has authored dozens of other successful books and has written more than 100 articles in leading journals. He is the only three-time winner of the coveted Alpha Kappa Psi award for the best annual article in the *Journal of Marketing*.

Professor Kotler was named the first recipient of two major awards: the Distinguished Marketing Educator of the Year Award given by the American Marketing Association and the Philip Kotler Award for Excellence in Health Care Marketing presented by the Academy for Health Care Services Marketing. His numerous other major honors include the Sales and Marketing Executives International Marketing Educator of the Year Award; the European Association of Marketing Consultants and Trainers Marketing Excellence Award; the Charles Coolidge Parlin Marketing Research Award; and the Paul D. Converse Award, given by the American Marketing Association to honor "outstanding contributions to science in marketing." A recent *Forbes* survey ranks Professor Kotler in the top 10 of the world's most influential business thinkers. In a recent *Financial Times* poll of 1,000 senior executives across the world, Professor Kotler was ranked as the fourth "most influential business writer/guru" of the twenty-first century. And he recently topped BusinessEducators.com's "Management A-List of Academics," based on outstanding achievements as well as Google global Web search interest.

Dr. Kotler has served as chairman of the College on Marketing of the Institute of Management Sciences, a director of the American Marketing Association, and a trustee of the Marketing Science Institute. He has consulted with many major U.S. and international companies in the areas of marketing strategy and planning, marketing organization, and international marketing. He has traveled and lectured extensively throughout Europe, Asia, and South America, advising companies and governments about global marketing practices and opportunities.



**Gary Armstrong** is Crist W. Blackwell Distinguished Professor Emeritus of Undergraduate Education in the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill. He holds undergraduate and master's degrees in business from Wayne State University in Detroit, and he received his PhD in marketing from Northwestern University. Dr. Armstrong has contributed numerous articles to

leading business journals. As a consultant and researcher, he has worked with many companies on marketing research, sales management, and marketing strategy.

But Professor Armstrong's first love has always been teaching. His long-held Blackwell Distinguished Professorship is the only permanently endowed professorship for distinguished undergraduate teaching at the University of North Carolina (UNC) at Chapel Hill. He has been very active in the teaching and administration of Kenan-Flagler's undergraduate program. His administrative posts have included Chair of Marketing, Associate Director of the Undergraduate Business Program, Director of the Business Honors Program, and many others. Through the years, he has worked closely with business student groups and has received several UNC campus-wide and Business School teaching awards. He is the only repeat recipient of the school's highly regarded Award for Excellence in Undergraduate Teaching, which he received three times. Most recently, Professor Armstrong received the UNC Board of Governors Award for Excellence in Teaching, the highest teaching honor bestowed by the 16-campus University of North Carolina system.

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# Preface

## The Fifteenth Edition of *Principles of Marketing!* The World's Most-Trusted Undergraduate Marketing Text

Students across six continents, more than 40 countries, and 24 languages rely on Kotler/Armstrong's *Principles of Marketing* as the world's most-trusted source for learning about basic marketing concepts and practices. More than ever, the fifteenth edition introduces new marketing students to the fascinating world of modern marketing in an innovative, complete, and authoritative yet fresh, practical, and enjoyable way. We've poured over every page, table, figure, fact, and example in an effort to keep this the best text from which to learn about and teach marketing. Enhanced by MyMarketingLab, our online homework and personalized study tool, the fifteenth edition of *Principles of Marketing* remains the world standard in introductory marketing education.

## Marketing: Creating Customer Value and Relationships

Top marketers at outstanding companies share a common goal: putting the consumer at the heart of marketing. Today's marketing is all about creating customer value and building profitable customer relationships. It starts with understanding consumer 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.

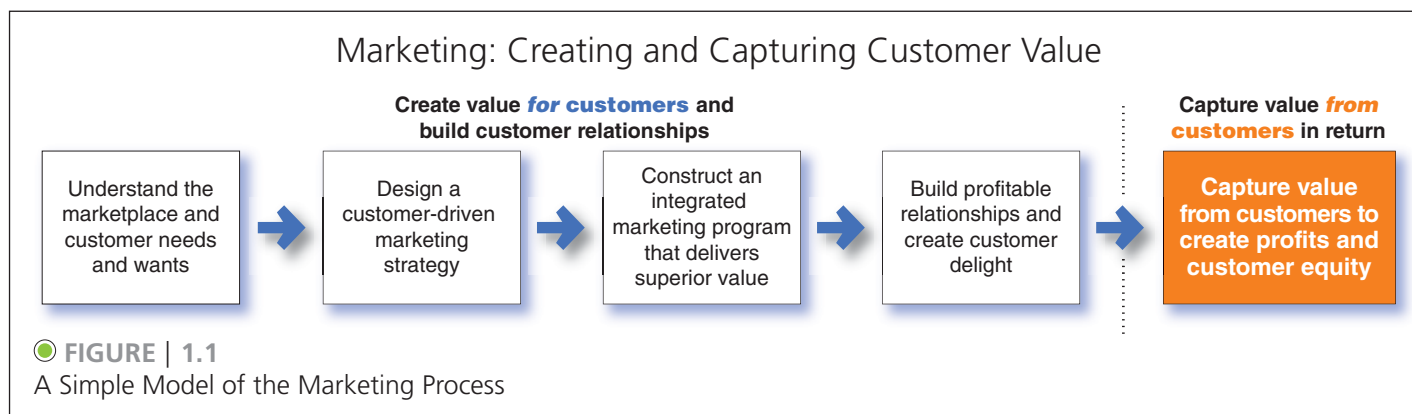
## Five Major Customer Value Themes

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

1. *Creating value for customers in order to capture value from customers in return.* Today's marketers must be good at *creating customer value* and *managing customer relationships*. Outstanding marketing companies 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 developed in the first two chapters and then fully integrated throughout the remainder of the text.

2. *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. Today's marketers must position their brands powerfully and manage them well to create valued brand experiences. The fifteenth edition provides a



deep focus on brands, anchored by the Chapter 30 section “Branding Strategy: Building Strong Brands.”

3. *Harnessing new marketing technologies.* New digital and other high-tech marketing developments are dramatically changing how consumers and marketers relate to one another. No other force is having more impact than technology on marketing strategy and practice. The fifteenth edition thoroughly explores the new technologies impacting marketing, from digital relationship-building tools in Chapter 1 to new digital marketing and online technologies in Chapters 15 and 17 to the exploding use of online social networks and consumer-generated marketing in Chapters 1, 5, 14, 15, 17—and just about everywhere else in the text.
4. *Measuring and managing return on marketing.* Especially in uncertain economic times, marketing managers must 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 returns on their spending. But all that has changed rapidly. “Marketing accountability”—measuring and managing return on marketing investments—has now become an important part of strategic marketing decision making. This emphasis on marketing accountability is addressed throughout the fifteenth edition.
5. *Sustainable marketing around the globe.* As technological developments make the world an increasingly smaller and more fragile place, marketers must be skilled at marketing their brands globally and in sustainable ways. New material throughout the fifteenth edition emphasizes the concepts of global marketing and sustainable marketing—meeting the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs. The fifteenth edition integrates global marketing and sustainability topics throughout the text. It then provides focused coverage of each topic in Chapters 41 and 42, respectively.

## New in the Fifteenth Edition

We’ve thoroughly revised the fifteenth edition of *Principles of Marketing* to reflect the major trends and forces impacting marketing in this high-tech era of customer value and relationships. Here are just some of the major and continuing changes you’ll find in this edition:

- More than any other developments, sweeping new digital and online technologies are now affecting the ways in which marketers and customers learn about and relate to each other. In recent years, nothing has had greater impact than technology on consumers and the marketers who serve them. Every chapter of the fifteenth edition features new, revised, and expanded discussions of the explosive impact of the exciting **new marketing technologies** shaping marketing strategy and practice—from online social networks and brand communities discussed in Chapters 1, 5, 14, 15, and 17; to “online listening” and Webnology research tools in Chapter 4, neuromarketing in Chapter 5,

and location-based marketing in Chapter 7; to the use of social networks in business-to-business marketing and sales in Chapters 6 and 16; to Internet and mobile marketing and other new communications technologies in Chapters 1, 14, 15, 17, and throughout. The fifteenth edition is packed with new stories and examples illustrating how companies employ technology to gain competitive advantage—from traditional marketing all-stars such as P&G, McDonald’s, and Nike to new-age digital competitors such as Apple, Google, Amazon.com, and Facebook.

- The fifteenth edition continues to build on and extend the innovative **customer-value framework** from previous editions. The customer-value model presented in the first chapter is fully integrated throughout the remainder of the book. No other marketing text presents such a clear and compelling customer-value approach.
- Throughout the fifteenth edition, you will find revised coverage of the rapidly **changing nature of customer relationships** with companies and brands. Today’s marketers are creating deep consumer involvement and a sense of customer community surrounding their brands—making brands a meaningful part of consumers’ conversations and 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, Pinterest, Twitter, or a company’s own social networking sites. For just a few examples, see Chapter 1 (the section “The Changing Nature of Customer Relationships”); Chapter 4 (qualitative approaches to gaining deeper customer insights); Chapter 5 (managing online influence and marketing through social networks); Chapter 9 (customer-driven new-product development and co-creation); Chapters 14 and 15 (the shift toward more personalized, interactive communications); and Chapter 39 (online social networks, customer communities, and direct digital media).
- The fifteenth edition contains substantial new material on the continuing trend toward two-way interactions between customers and brands, including such topics as **customer-managed relationships, consumer empowerment, crowdsourcing, customer co-creation, and consumer-generated marketing**. Today’s more empowered 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 co-creating new products (Chapter 8), consumer-generated marketing content (Chapters 1 and 15), developing or passing along brand messages (Chapters 1, 5, 8, 14, and 15), interacting in customer communities (Chapters 5, 15, and 17), and other developments.
- New coverage in every chapter of the fifteenth edition shows how companies and consumers are dealing with **marketing in an uncertain economy** in the lingering aftermath of the recent Great Recession. Starting with a section and feature in Chapter 1 and continuing with new sections, discussions, and examples integrated throughout the text, the fifteenth edition shows how now, even as the economy recovers, marketers must focus on creating customer value and sharpening their value propositions in this era of more sensible consumption.
- New material throughout the fifteenth edition highlights the increasing importance of **sustainable marketing**. The discussion begins in Chapter 1 and ends in Chapter 20, which pulls marketing concepts 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 fifteenth edition provides new discussions and examples of the growth in **global marketing**. As the world becomes a smaller, more competitive place, markets face new global marketing challenges and opportunities, especially in fast-growing emerging markets such as China, India, Brazil, Africa, and others. You’ll find much new coverage of global marketing throughout the text, starting in Chapter 1 and discussed fully in Chapter 19.
- The fifteenth 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 the new digital and direct technologies—everything from Internet and mobile marketing to blogs, viral videos, and online social networks—with traditional media to create more targeted, personal, and interactive customer relationships. Marketers are no longer simply creating integrated promotion programs, they are practicing *marketing content management* in paid, owned, earned, and shared media. No other text provides more current or encompassing coverage of these exciting developments.

- The fifteenth 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 fifteenth 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, a chapter-opening objective outline, and explanatory author comments on major chapter figures. The chapter-opening layout helps to preview and position the chapter and its key concepts. Figures annotated with author comments help students to simplify and organize chapter material. End-of-chapter features help to summarize important chapter concepts and highlight important themes, such as marketing technology, ethics, and financial marketing analysis. This innovative learning design facilitates student understanding and eases learning.
- The fifteenth edition provides 20 new or revised end-of-chapter company cases by which students can apply what they learn to actual company situations. The fifteenth edition also features many new video cases, with brief end-of-chapter summaries and discussion questions. A **newly revised Appendix 1: Marketing Plan** presents a brand new marketing plan by which students can apply text concepts to a hypothetical brand and situation. Finally, all of the chapter-opening stories and Real Marketing highlights in the fifteenth edition are either new or revised for currency.

## An Emphasis on Real Marketing

*Principles of Marketing*, fifteenth edition, takes a practical marketing-management approach, providing countless in-depth, real-life examples and stories that show concepts in action and reveal the drama of modern marketing. In the fifteenth edition, every chapter-opening vignette and Real Marketing highlight is new or revised, providing fresh insights into real marketing practices. Learn how:

- Amazon.com's deep-down passion for creating customer value and relationships has made it the world's leading online retailer.
- Giant social network Facebook promises to become one of the world's most powerful and profitable online marketers—but it's just getting started.
- Sony's dizzying fall provides a cautionary tale of what can happen when a company—even a dominant marketing leader—fails to adapt to its changing environment.
- Domino's Pizza turned a five-year revenue slide into a fresh, hot turnaround by simply listening to customers and using the insights gained to develop better products and marketing.
- Apple's customer-centered product leadership engenders a love affair with the brand that has produced stunning sales and profit results.
- How "showrooming"—the common consumer shopping practice of coming into store showrooms to scope out merchandise.
- Chipotle's sustainability mission isn't an add-on, created just to position the company as "socially responsible"—doing good is ingrained in everything the company does.
- Walmart, the world's largest retailer, and Amazon.com, the planet's largest online merchant, are fighting it out online on price.
- Athletic shoe maker Converse transformed the classic yesteryear brand into a fresh, expressive lifestyle brand befitting current times.
- For Coca-Cola, marketing in Africa is like "sticking its hand into a bees' nest to get some honey."
- The explosion of the Internet, mobile devices, and other technologies has some marketers asking: "Who needs face-to-face selling anymore?"
- Under its Sustainable Living Plan, Unilever plans to double its size by 2020 while at the same time reducing its impact on the planet.

Beyond these features, each chapter is packed with countless real, relevant, and timely examples that reinforce key concepts. No other text brings marketing to life like the fifteenth edition of *Principles of Marketing*.

## Learning Aids That Create More Value for You

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

- *Integrated chapter-opening preview sections.* The active and integrative chapter-opening spread in each chapter starts with a *Chapter Preview*, which briefly previews chapter concepts, links them with previous chapter concepts, and introduces the chapter-opening story. This leads to a chapter-opening vignette—an engaging, deeply developed, illustrated, and annotated marketing story that introduces the chapter material and sparks your interest. Finally, an *Objective Outline* provides a helpful preview of chapter contents and learning objectives, complete with page numbers.
- *Real Marketing highlights.* Each chapter contains two carefully developed highlight features that provide an in-depth look at real marketing practices of large and small companies.
- *Author figure annotations.* Each figure contains author comments that aid your understanding and help organize major text sections.
- *Reviewing Objectives and Key Terms.* A summary at the end of each chapter reviews major chapter concepts, chapter objectives, and key terms.
- *Discussion and Critical Thinking Questions and Exercises.* Sections at the end of each chapter help you to keep track of and apply what you've learned in the chapter.
- *Applications and Cases.* Brief *Marketing Technology*, *Marketing Ethics*, and *Marketing by the Numbers* sections at the end of each chapter provide short application cases that facilitate discussion of current issues and company situations in areas such as marketing technology, ethics, and financial marketing analysis. A *Video Case* section contains short vignettes with discussion questions to be used with a set of mostly new four- to seven-minute videos that accompany the fifteenth edition. End-of-chapter *Company Case* sections provide all-new or revised company cases that help you to apply major marketing concepts to real company and brand situations.
- *Marketing Plan appendix.* Appendix 1 contains a brand new sample marketing plan that helps you to apply important marketing planning concepts.
- *Marketing by the Numbers appendix.* An innovative Appendix 2 provides you with a comprehensive introduction to the marketing financial analysis that helps to guide, assess, and support marketing decisions. An exercise at the end of each chapter lets you apply analytical and financial thinking to relevant chapter concepts and links the chapter to the Marketing by the Numbers appendix.

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

## Supplements for Instructors

The following supplements are available to adopting instructors at the Pearson Instructor Resource Center, <http://www.pearsonglobaleditions.com/kotler>.

- **Instructor's Manual:** provides the following for every chapter in the book: overview, outline, end-of-chapter solutions, additional projects, and examples and Web resources.
- **Test Bank:** includes 3,000 questions, consisting of multiple-choice, true/false, short-answer, and essay questions.
- **Image Library:** access many of the images, ads, and illustrations from the text.
- **PowerPoint slides:** includes basic chapter outlines, key points from each chapter, advertisements and art from the text, and discussion questions.

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*Gary Armstrong  
Philip Kotler*



# Principles of Marketing

**Part 1: Defining Marketing and the Marketing Process (Chapters 1–2)**

Part 2: Understanding the Marketplace and Consumers (Chapters 3–6)

Part 3: Designing a Customer-Driven Strategy and Mix (Chapters 7–17)

Part 4: Extending Marketing (Chapters 18–20)

# 1

# Marketing

## Creating and Capturing **Customer Value**

**Chapter Preview** This chapter introduces you to the basic concepts of marketing. We start with the question: What is marketing? Simply put, marketing is managing profitable customer relationships. The aim of marketing is to create value for customers in order to capture value from customers in return. Next we discuss the five steps in the marketing process—from understanding customer needs, to designing customer-driven marketing strategies and integrated marketing programs, to building customer relationships and capturing value for the firm. Finally, we discuss the major trends and forces affecting marketing in this age of customer relationships.

Understanding these basic concepts and forming your own ideas about what they really mean to you will provide a solid foundation for all that follows.

Let's start with a good story about marketing in action at Amazon.com, by far the world's leading online marketer. The secret to Amazon's success? It's really no secret at all. Amazon is flat-out customer obsessed. It has a deep-down passion for creating customer value and relationships. In return, customers reward Amazon with their buying dollars and loyalty. You'll see this theme of creating customer value in order to capture value in return repeated throughout this chapter and the remainder of the text.

## **Amazon.com:** Obsessed with Creating Customer Value and Relationships

**W**hen you think of shopping online, chances are good that you think first of Amazon. The online pioneer first opened its virtual doors in 1995, selling books out of founder Jeff Bezos's garage in suburban Seattle. Amazon still sells books—lots and lots of books. But it now sells just about everything else as well, from music, electronics, tools, housewares, apparel, and groceries to loose diamonds and Maine lobsters.

From the start, Amazon has grown explosively. Its annual sales have rocketed from a modest \$150 million in 1997 to more than \$48 billion today. During the past two years alone, despite a shaky economy, Amazon's revenues and profits both nearly doubled, growing by 40 percent annually. This past holiday season, at one point, Amazon.com's more than 173 million active customers worldwide were purchasing 110 items per second. Analysts predict that by 2015, Amazon will become the youngest company in history to hit \$100 billion in revenues (it took Walmart 34 years). That would make it the nation's second largest retailer, trailing only Walmart.

What has made Amazon such an amazing success story? Founder and CEO

Bezos puts it in three simple words: "Obsess over customers." To its core, the company is relentlessly customer driven. "The thing that drives everything is creating genuine value for customers," says Bezos. Amazon believes that if it does what's good for customers, profits will follow. So the company starts with the customer and works backward. Rather than asking what it can do with its current capabilities, Amazon first asks Who are our customers? What do they need? Then, it develops whatever capabilities are required to meet those customer needs.

At Amazon, such words are more than just "customer-speak." Every decision is made with an eye toward improving the Amazon.com customer experience. In fact, at many Amazon meetings, the most influential figure in the room is "the empty

*Amazon.com's deep-down passion for creating customer value and relationships has made it the world's leading online retailer. Amazon has become the model for companies that are obsessively and successfully focused on delivering customer value.*

chair”—literally an empty chair at the table that represents the all-important customer. At times, the empty chair isn't empty, but is occupied by a “Customer Experience Bar Raiser,” an employee who is specially trained to represent customers' interests. To give the empty chair a loud, clear voice, Amazon relentlessly tracks performance against nearly 400 measurable customer-related goals.

Amazon's obsession with serving the needs of its customers drives the company to take risks and innovate in ways that other companies don't. For example, when it noted that its book-buying customers needed better access to e-books and other digital content, Amazon developed the Kindle e-reader, its first-ever original product. The Kindle took more than four years and a whole new set of skills to develop. But Amazon's start-with-the-customer thinking paid off handsomely. The Kindle is now the company's number one selling product, and Amazon.com now sells more e-books than hardcovers and paperbacks combined. What's more, the company's new Kindle Fire tablet now leads the market for low-priced tablet computers. Thus, what started as an effort to improve the customer experience now gives Amazon a powerful presence in the burgeoning world of digital media. Not only does the Kindle allow access to e-books, music, videos, and apps sold by Amazon, it makes interacting with the online giant easier than ever.

Perhaps more important than *what* Amazon sells is *how* it sells. Amazon wants to deliver a special experience to every customer. Most Amazon.com regulars feel a surprisingly strong relationship with the company, especially given the almost complete lack of actual human interaction. Amazon obsesses over making each customer's experience uniquely personal. For example, the Amazon.com site greets customers with their very own personalized home pages, and its “Recommendations for You” feature offers personalized product recommendations. Amazon was the first company to use “collaborative filtering” technology, which sifts through each customer's past purchases and the purchasing patterns of customers with similar profiles to come up with personalized site content. Amazon wants to personalize the shopping experience for each individual customer. If it has 173 million customers, it reasons, it should have 173 million stores.

Visitors to Amazon.com receive a unique blend of benefits: huge selection, good value, low prices, and convenience. But it's the “discovery” factor that makes the buying experience really special. Once on the Amazon.com site, you're compelled to stay for a while—looking, learning, and discovering. Amazon.com has become a kind of online community in which customers can browse for products, research purchase alternatives, share opinions and reviews with other visitors, and chat online with authors and experts. In this way, Amazon does much more than just sell goods online. It creates direct, personalized customer relationships and satisfying online experiences. Year after year, Amazon places at or near the top of almost every customer satisfaction ranking, regardless of industry.

To create even greater selection and discovery for customers, Amazon long ago began allowing competing retailers—from mom-and-pop operations to Marks & Spencer department stores—to offer their products on Amazon.com, creating a virtual shopping mall of incredible proportions. It even encourages customers to sell used items on the site. And with the recent launch of AmazonSupply.com, the online seller now courts business and industrial customers with products ranging from



office supplies to radiation detectors and industrial cutting tools. The broader selection attracts more customers, and everyone benefits. “We are becoming increasingly important in the lives of our customers,” says an Amazon marketing executive.

Based on its powerful growth, many analysts have speculated that Amazon.com will become the Walmart of the Web. In fact, some argue, it already is. Although Walmart's total sales of \$444 billion dwarf Amazon's \$48 billion in sales, Amazon's Internet sales are 12 times greater than Walmart's. So it's Walmart that's chasing Amazon on the Web. Put another way, Walmart wants to become the Amazon.com of the Web, not the other way around. However, despite its mammoth proportions, to catch Amazon online, Walmart will have to match the superb Amazon customer experience, and that won't be easy.

Whatever the eventual outcome, Amazon has become the poster child for companies that are obsessively and successfully focused on delivering customer value. Jeff Bezos has known from the very start that if Amazon creates superior value for customers, it will earn their business in return, and if it earns their business, success will follow in terms of company profits and returns.<sup>1</sup>

**Amazon.com does much more than just sell goods online. It creates satisfying online customer experiences. “The thing that drives everything is creating genuine value for customers,” says Amazon founder and CEO Bezos, shown above.**

Contour by Getty Images

## Objective Outline

<b>Objective 1</b>	<p>Define marketing and outline the steps in the marketing process.</p> <p><b>What Is Marketing?</b> (pp 26–28)</p>
<b>Objective 2</b>	<p>Explain the importance of understanding the marketplace and customers and identify the fivecore marketplace concepts.</p> <p><b>Understanding the Marketplace and Customer Needs</b> (pp 28–30)</p>
<b>Objective 3</b>	<p>Identify the key elements of a customer-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.</p> <p><b>Designing a Customer-Driven Marketing Strategy</b> (pp 30–33)</p> <p><b>Preparing an Integrated Marketing Plan and Program</b> (p 34)</p>
<b>Objective 4</b>	<p>Discuss customer relationship management and identify strategies for creating value <i>for</i> customers and capturing value <i>from</i> customers in return.</p> <p><b>Building Customer Relationships</b> (pp 34–41)</p> <p><b>Capturing Value from Customers</b> (pp 41–44)</p>
<b>Objective 5</b>	<p>Describe the major trends and forces that are changing the marketing landscape in this age of relationships.</p> <p><b>The Changing Marketing Landscape</b> (pp 44–51)</p>

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**Today's successful** companies have one thing in common: Like Amazon, they are strongly customer focused and heavily committed to marketing. These companies share a passion for understanding and satisfying customer needs in well-defined target markets. They motivate everyone in the organization to help build lasting customer relationships based on creating value.

Customer relationships and value are especially important today. Facing dramatic technological changes and deep economic, social, and environmental challenges, today's customers are spending more carefully and reassessing their relationships with brands. In turn, it's more important than ever to build strong customer relationships based on real and enduring value.

### Objective 1 →

Define marketing and outline the steps in the marketing process.

## What Is Marketing?

Marketing, more than any other business function, deals with customers. Although we will soon explore more-detailed definitions of marketing, perhaps the simplest definition is this one: *Marketing is managing profitable customer relationships.* The twofold goal of marketing is to attract new customers by promising superior value and to keep and grow current customers by delivering satisfaction.

For example, McDonald’s fulfills its “i’m lovin’ it” motto by being “our customers’ favorite place and way to eat” the world over, giving it nearly as much market share as its nearest four competitors combined. Walmart has become the world’s largest retailer—and the world’s largest company—by delivering on its promise, “Save Money. Live Better.”<sup>2</sup>

Sound marketing is critical to the success of every organization. Large for-profit firms, such as Google, Target, Procter & Gamble, Toyota, and Microsoft, 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. Marketing comes to you in the good old traditional forms: You see it in the abundance of 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 smartphone apps to online social networks and blogs. 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 casual eye. Behind it all is a massive network of people and activities competing for your attention and purchases. This book will give you a complete 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? Many people think of marketing as only selling and advertising. We are bombarded every day with TV commercials, catalogs, sales calls, and e-mail pitches. However, selling and advertising are only the tip of the marketing iceberg.

Today, marketing must be understood not in the old sense of making a sale—“telling and selling”—but in the new sense of *satisfying customer needs*. If the marketer understands consumer needs; develops products that provide superior customer value; and prices, distributes, and promotes them effectively, these products will sell easily. In fact, according to management guru Peter Drucker, “The aim of marketing is to make selling unnecessary.”<sup>3</sup> Selling and advertising are only part of a larger *marketing mix*—a set of marketing tools that work together to satisfy customer needs and build customer relationships.

Broadly defined, marketing is a social and managerial process by which individuals and organizations obtain what they need and want through creating and exchanging value with others. In a narrower business context, marketing involves building profitable, value-laden exchange relationships with customers. Hence, we define **marketing** as the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.<sup>4</sup>

## The Marketing Process

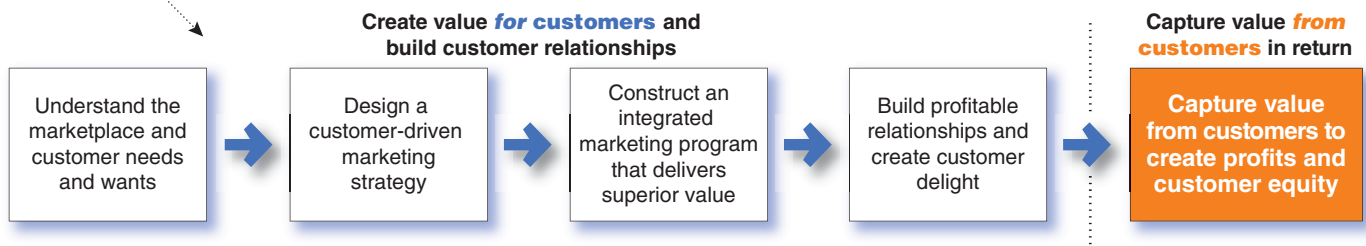
● **Figure 1.1** presents a simple, five-step model of the marketing process. In the first four steps, companies work to understand consumers, create customer value, and build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value. By creating value *for* consumers, they in turn capture value *from* consumers in the form of sales, profits, and long-term customer equity.

In this chapter and the next, we will examine the steps of this simple model of marketing. In this chapter, we review each step but focus more on the customer relationship

### Marketing

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

This important figure shows marketing in a nutshell. By creating value for customers, marketers capture value from customers in return. This five-step process forms the marketing framework for the rest of the chapter and the remainder of the text.



● **FIGURE | 1.1**

A Simple Model of the Marketing Process

steps—understanding customers, building customer relationships, and capturing value from customers. In Chapter 2, we look more deeply into the second and third steps—designing marketing strategies and constructing marketing programs.

### Objective 2

Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.

#### 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.

#### Market offerings

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

## Understanding the Marketplace and Customer Needs

As a first step, marketers need to understand customer needs and wants and the marketplace in which they operate. We examine five core customer and marketplace concepts: (1) *needs, wants, and demands*; (2) *market offerings (products, services, and experiences)*; (3) *value and satisfaction*; (4) *exchanges and relationships*; and (5) *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. Marketers did not create these needs; they are a basic part of the human makeup.

**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 Papua, New Guinea, *needs* food but *wants* taro, rice, yams, and pork. Wants are shaped by one's society and are described in terms of objects that will satisfy those 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.

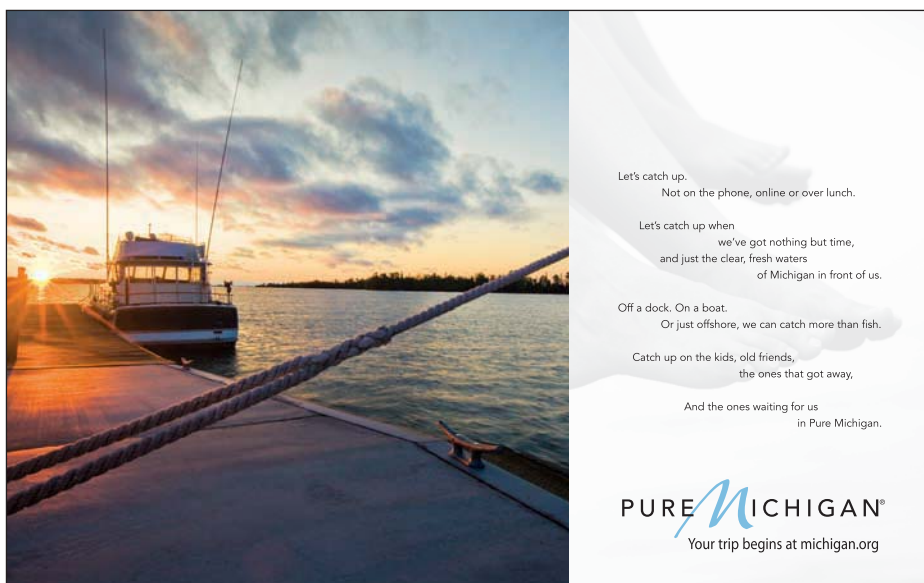
Outstanding marketing companies go to great lengths to learn about and understand their customers' needs, wants, and demands. They conduct consumer research and analyze mountains of customer data. Their people at all levels—including top management—stay close to customers. For example, Kroger chairman and CEO David Dillon regularly dons blue jeans and roams the aisles of local Kroger supermarkets, blending in with and talking to other shoppers. He wants to see his stores through customers' eyes and understand why they make the choices they do. Similarly, to stay closer to customers, successful Ford CEO Alan Mulally has been known to spend time selling cars at Ford dealerships.<sup>5</sup>

### Market Offerings—Products, Services, and Experiences

Consumers' needs and wants are fulfilled through **market offerings**—some combination of products, services, information, or experiences offered to a market to satisfy a need or a 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, retailing, and home repair services.

More broadly, market offerings also include other entities, such as *persons, places, organizations, information, and ideas*.

For example, the “Pure Michigan” campaign markets the state of Michigan as a tourism destination that “lets unspoiled nature and authentic character revive your spirits.” And the “Let’s Move” public service campaign, jointly sponsored by



Marketing offerings are not limited to physical products. The Pure Michigan campaign markets the idea of Michigan as a tourism destination that “lets unspoiled nature and authentic character revive your spirits.”

The Michigan Economic Development Corporation

the U.S. Department of Agriculture and the U.S. Department of Health & Human Services, markets the idea of reducing childhood obesity by urging kids and their families to make healthier food choices and increase their physical activity. One ad promotes “Family Fun Friday: Dance. Play. Go for a walk in the park. Make every Friday the day you and your family get moving.”<sup>6</sup>

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.<sup>7</sup> They forget that a product is only a tool to solve a consumer problem. A manufacturer of quarter-inch drill bits may think that the customer needs a drill bit. But what the customer *really* needs is a quarter-inch 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.

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, you don’t just visit Walt Disney World Resort; you immerse yourself and your family in a world of wonder, a world where dreams come true and things still work the way they should. You’re “in the heart of the magic!” says Disney.

Even a seemingly functional product becomes an experience. HP recognizes that a personal computer is much more than just a cold collection of wires and electrical components. It’s an intensely personal user experience. As noted in one HP ad, “There is hardly anything that you own that is *more* personal. Your personal computer is your backup brain. It’s your life. . . . It’s your astonishing strategy, staggering proposal, dazzling calculation.” It’s your connection to the world around you. HP’s ads don’t talk much about technical specifications. Instead, they celebrate how HP’s technologies help create seamless connections in today’s “instant-on world.”<sup>8</sup>

## Customer Value and Satisfaction

Consumers usually face a broad array of products and services that might satisfy a given need. How do they choose among these many 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. Dissatisfied customers often switch to competitors and disparage the product to others.

Marketers must be careful to set the right level of expectations. If they set expectations too low, they may satisfy those who buy but fail to attract enough buyers. If they set expectations too high, buyers will be disappointed. Customer value and customer satisfaction are key building blocks for developing and managing customer relationships. We will revisit these core concepts later in the chapter.

## Exchanges and Relationships

Marketing occurs when people decide to satisfy their 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 simply buying or trading products and services. A political candidate, for instance, wants votes; a church wants membership; an orchestra wants an audience; and a social action group wants idea acceptance.

Marketing consists of actions taken to create, maintain, and grow desirable exchange *relationships* with target audiences involving a product, service, idea, or other object. Companies want to build strong relationships by consistently delivering superior customer value. We will expand on the important concept of managing customer relationships later in the chapter.

## 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 or service. These buyers share a particular need or want that can be satisfied through exchange relationships.

### Marketing myopia

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

### Exchange

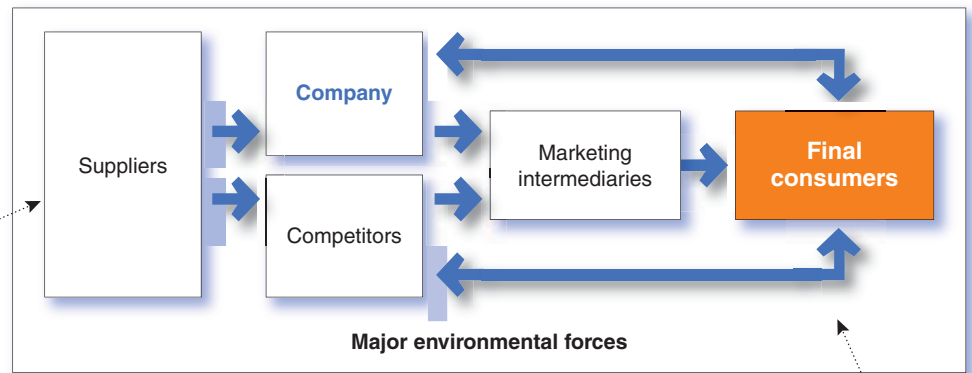
The act of obtaining a desired object from someone by offering something in return.

### Market

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

**FIGURE | 1.2**  
A Modern Marketing System

Each party in the system adds value. Walmart cannot fulfil its promise of low prices unless its suppliers provide low costs. Ford cannot deliver a high-quality car-ownership experience unless its dealers provide outstanding service.



Arrows represent relationships that must be developed and managed to create customer value and profitable customer relationships.

Marketing means managing markets to bring about profitable customer relationships. However, creating these relationships takes work. 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 consumer research, product development, 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 smartphones, 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 1.2** shows the main elements in a marketing system. Marketing involves serving a market of final consumers in the face of competitors. The company and competitors research the market and interact with consumers to understand their needs. Then they create and send their market offerings and messages to consumers, either directly or through marketing intermediaries. Each party in the system is affected by major environmental forces (demographic, economic, natural, technological, political, and social/cultural).

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. Walmart cannot fulfill its promise of low prices unless its suppliers provide merchandise at low costs. And Ford cannot deliver a high-quality car-ownership experience unless its dealers provide outstanding sales and service.

**Objective 3** →  
Identify the key elements of a customer-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.

### Marketing management

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

## Designing a Customer-Driven Marketing Strategy

Once it fully understands consumers and the marketplace, marketing management can design a customer-driven marketing strategy. We define **marketing management** as 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)?* and *How can we serve these customers best (what's our value proposition)?* We will discuss these marketing strategy concepts briefly here and then look at them in more detail in Chapters 2 and 7.