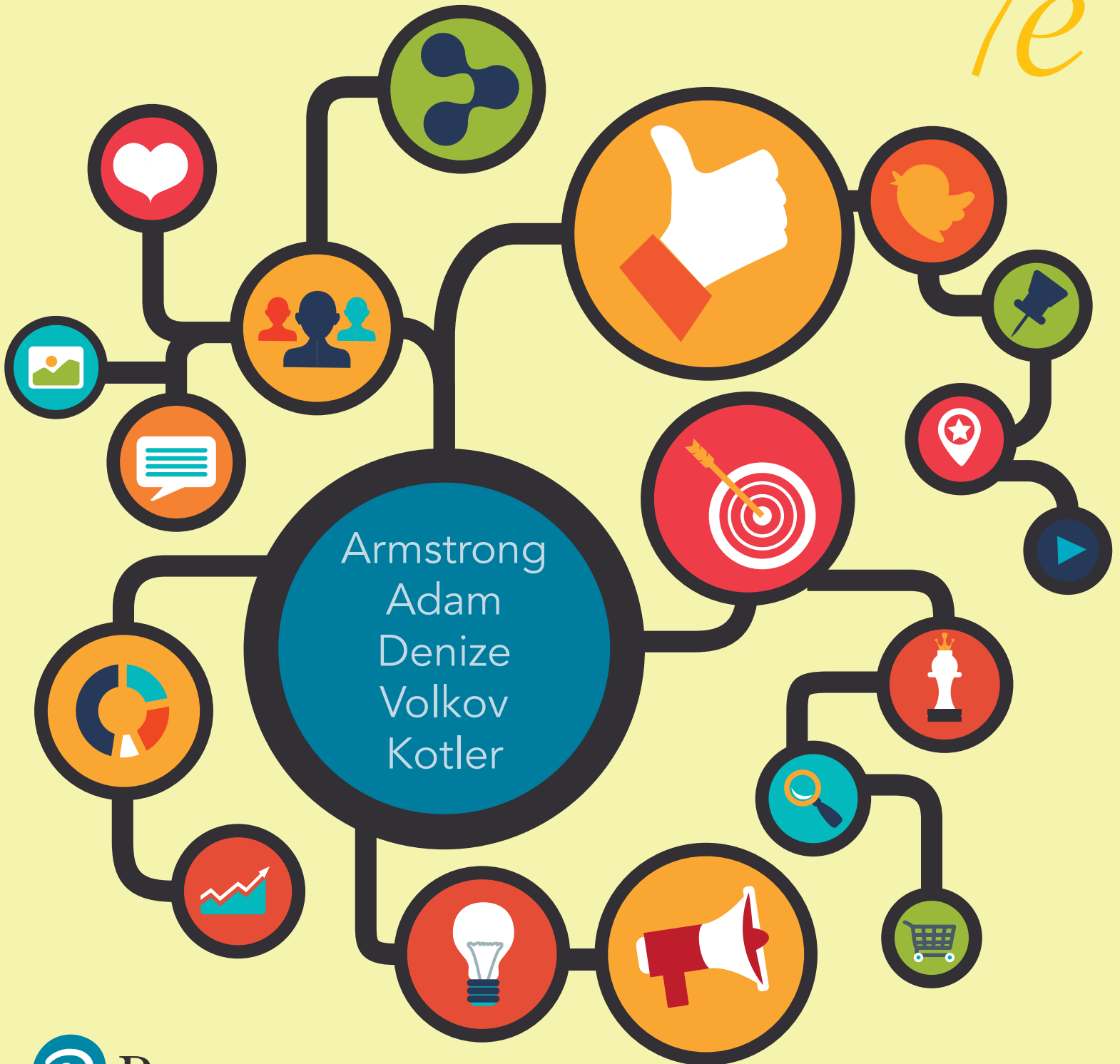


# PRINCIPLES OF MARKETING

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# Dedication

**From Gary Armstrong**

To my family – Kathy, KC, Keri, Mandy and Matt

**From Stewart Adam**

To my family – Maureen, Vanessa, Melissa, Michael, and my daughter-in-law, Yolanda

**From Sara Denize**

To my husband Leo, my children Pieter, Wendy and Julie, and all the wonderful little people in my life, Adele, Remy, James, Alicia, Jaz and Luca – with love

**From Michael Volkov**

To my family who are my inspiration, my guiding lights and loves – my wife Arabella, my girls Emma, Sarah and Cordelia, and my parents Lola and Boris. Thank you all for everything!

**From Philip Kotler**

To my wife Nancy, my daughters Amy, Melissa and Jessica, and my sons-in-law, Joel, Steve and Dan – with love

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# Preface

## Welcome to your *Principles of Marketing* package

The seventh edition of *Principles of Marketing* makes the road to learning and teaching marketing more effective, understandable and enjoyable than ever. Its approach is designed for you the reader, and strikes a careful balance between depth of coverage and ease of learning. The seventh edition's learning design – with revised integrative concept maps at the start of each chapter – enhances student understanding. *Principles of Marketing* ensures you will come to class well prepared and leave with a richer understanding of basic marketing concepts, strategies and practices.

## The marketing journey: Creating and capturing customer value

Top marketers all share a common goal: to put 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, wants and demands, deciding which target markets the organisation can serve best, and developing a compelling value proposition by which the organisation can attract, keep and grow targeted consumers. If the organisation does these things well, it will reap the rewards in terms of market share, profits and customer equity. In this seventh edition of *Principles of Marketing*, you will see how *customer value* – creating it and capturing it – drives every good marketing strategy.

## Updated in the seventh edition

This seventh edition of *Principles of Marketing* has been thoroughly revised to reflect the major trends and forces that marketing must take into account in this era of customer value and relationships. Here are just some of the main changes you will find in this edition:

- The seventh edition builds on our **learning design**. The book's more active and integrative presentation includes in-chapter learning enhancements that guide you along the road to learning marketing. The chapter-opening layout provides a concept map that graphically previews and positions each chapter and its key concepts, providing you with a visual guide to more easily navigate the chapter. End-of-chapter features summarise important concepts and highlight important themes, such as marketing and the economy, technology, ethics and marketing financial analysis. Critical thinking exercises and mini cases provide opportunities for you to practise marketing skills. In all, the new design enhances student understanding and facilitates learning.
- Throughout the seventh edition, you will find important coverage of the rapidly **changing nature of customer relationships** with companies and brands. Today's marketers aim to create deeper consumer involvement and a sense of community surrounding a brand – to make the brand a meaningful part of consumers' conversations and their lives. New relationship-building tools include everything from websites, blogs, in-person events and video sharing, to online communities and social networks such as Facebook, YouTube, Twitter and LinkedIn, or the organisation's own social networking sites.
- Every chapter shows how companies are **marketing in local and international economies** that sometimes are quite turbulent. Starting with sections on adding customer value in each chapter, and

continuing with discussions and examples integrated throughout the text, the seventh edition shows how, now more than ever, marketers must focus on creating customer value and sharpening their value propositions to serve the needs of today's more frugal consumers.

- Increasingly, marketing is taking the form of two-way conversations between consumers and brands. The seventh edition contains material on the exciting trend towards **content marketing** and **consumer-generated marketing**, by which marketers invite consumers to play a more active role in providing customer insights that shape new products and marketing communication among other developments. This can be seen in Chapters 11 and 13 in particular.
- This edition provides new and expanded discussions of new **marketing technologies**, from the use of social media (Chapter 13) to radio-frequency identification (RFID) (Chapter 10), and the use of various digital tools and technologies discussed throughout the book but particularly in Chapters 1, 5, 11 and 13.
- In line with the book's emphasis on **measuring and managing return on marketing**, discussion on marketing analytics is threaded throughout the book. Appendix 3 'Marketing analytics spotlights' provides in-depth analysis and discussion, supported by relevant case studies, to encourage students to apply analytical thinking to relevant concepts in related chapters. The mini cases at the end of each chapter provide further opportunities to practise using marketing analytics.
- The topic of marketing strategy in Chapter 2 is linked with a sample **marketing plan** presented in Appendix 2. The marketing plan is set in the exciting and continually developing market of the tablet PC – a market that is highly relevant to today's connected consumers.
- The seventh edition provides refreshed and expanded coverage of the explosive developments in **integrated marketing communications** and **direct and digital marketing**. It discusses how marketers are incorporating a host of new digital and direct marketing approaches in order to build and create more targeted, personal and interactive customer relationships. No other marketing textbook provides more current or encompassing coverage of these exciting developments.
- The end-of-chapter discussion questions, critical thinking exercises and mini cases have been updated and are linked to the chapter learning objectives and AACSB General Skill Area requirements.
- Key terms are highlighted in the discussion throughout, presented as margin definitions alongside the in-text references and compiled in an updated, page-referenced list at the end of each chapter and in the comprehensive glossary at the end of the book.
- One of the four mini cases presented at the end of each chapter invites the reader to consider the role of ethics in the marketing context and the question: 'What would I do ...?'

## Five major customer value and engagement themes

The seventh edition of *Principles of Marketing* builds on five major customer value and engagement themes, as described below.

- 1 **Creating value for customers in order to capture value from customers in return.** Today's marketers must be effective at *creating customer value*, *engaging customers* and *managing customer relationships*. Outstanding marketing companies understand the marketplace and customer needs, design value-creating marketing strategies, develop integrated marketing programs that engage customers and deliver value and satisfaction, and build strong customer relationships and brand community. In return, they capture value from customers in the form of sales, profits and customer equity.

This innovative *customer value and engagement 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 book.



- 2 ***Customer engagement and today's digital and social media.*** New digital and social media have taken today's marketing by storm, dramatically changing how companies and brands engage consumers and how consumers connect and influence each other's brand behaviours. The seventh edition thoroughly explores the contemporary concept of *customer engagement marketing* and the exciting new digital and social media technologies that help brands to engage customers more deeply and interactively. Discussion of the topic begins in Chapter 1 (see, in particular, the sections '*Customer engagement and today's digital and social media*' and '*The digital age: Online, mobile and social media marketing*') and carries through to a refreshed Chapter 13 '*Direct and digital marketing: Interactivity and fulfilment*', which summarises the latest developments in digital engagement and relationship-building tools. In all chapters in between, you will find revised and expanded coverage of the exploding use of digital and social media tools to create customer engagement and build brand community.
- 3 ***Building and managing strong, value-creating brands.*** Well-positioned brands with strong brand equity provide the basis upon which to build both customer value and profitable customer relationships. Today's marketers must position their brands powerfully and manage them well to create valued brand experiences. The seventh edition provides a deep focus on brands, anchored by a Chapter 7 section, '*Branding strategy: Building strong brands*'.
- 4 ***Measuring and managing return on marketing.*** Especially in uneven economic times, marketing managers must ensure their marketing dollars are being well spent. In the past, many marketers spent freely on big, expensive marketing programs, often without considering carefully the financial returns on their spending. But all that has changed rapidly. 'Marketing accountability' – measuring and managing marketing return on investment – has now become an important part of strategic marketing decision making. This emphasis on marketing accountability is addressed throughout the seventh edition and particularly in Chapter 2, in Appendix 3 'Marketing analytics spotlights' and in the end-of-chapter 'Marketing analytics in action' mini cases.
- 5 ***Sustainable marketing around the globe.*** As technological developments continue to make the world an increasingly smaller place, marketers must be effective at marketing their brands globally and in sustainable ways. New content throughout the seventh edition emphasises the concepts of global marketing and sustainable marketing – that is, meeting the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs. The seventh edition integrates global marketing and sustainability topics throughout the book.

### **An emphasis on real marketing and bringing marketing to life**

This new edition of *Principles of Marketing* takes a practical approach to marketing management, providing countless in-depth, real-life examples and stories designed to engage you with marketing concepts and bring modern marketing to life. There is a wealth of chapter-opening, within-chapter and end-of-chapter learning devices that are designed to help you to learn, link and apply major concepts:

- ***Chapter-opening concept maps.*** Each chapter is introduced with a graphical concept map. These maps are designed to contextualise the main topics that are introduced in the chapter and discussed in detail, and to help the reader navigate each chapter and more easily interconnect the various elements being discussed.
- ***Figures.*** Throughout each chapter, figures support the text and enhance student learning.
- ***Marketing in action.*** Each chapter contains one Marketing in action feature that delves into the real marketing practices of large and small companies.

- *Reviewing the learning objectives.* A summary at the end of each chapter reviews the main chapter concepts and links them to the chapter's learning objectives.
- *Discussion questions and critical thinking exercises.* At the end of each chapter, issues are raised and scenarios presented to invite discussion and the critical exploration of marketing ideas.
- *Navigating the key terms.* A helpful listing of chapter key terms, in alphabetical order and with page numbers, facilitates easy reference.
- *Mini cases.* Brief sections at the end of each chapter provide four short application cases that facilitate discussion of current issues and company situations. Of the four mini cases for each chapter, one presents 'Marketing analytics in action' and one invites 'Ethical reflection'.
- *Case studies.* Appendix 1 sets out case studies prepared by marketing academics from around Australia and New Zealand, which have multiple applications in the various chapters. A table at the beginning of the appendix outlines how these four case studies link with the content of the chapters.
- *Marketing plan.* Appendix 2 contains a sample marketing plan that demonstrates how to apply important marketing planning concepts.
- *Marketing analytics spotlights.* Appendix 3 sets out marketing analytics spotlights that demonstrate how to apply many of the analytical methods and introduce the financial analysis that helps to guide, assess and support marketing decisions. A 'Marketing analytics at work' mini case at the end of each chapter provides opportunity to apply analytical and financial thinking to relevant chapter concepts.
- *Careers in marketing.* Appendix 4 provides an overview of marketing career paths and lays out a process for landing a marketing job that best matches your special skills and interests.

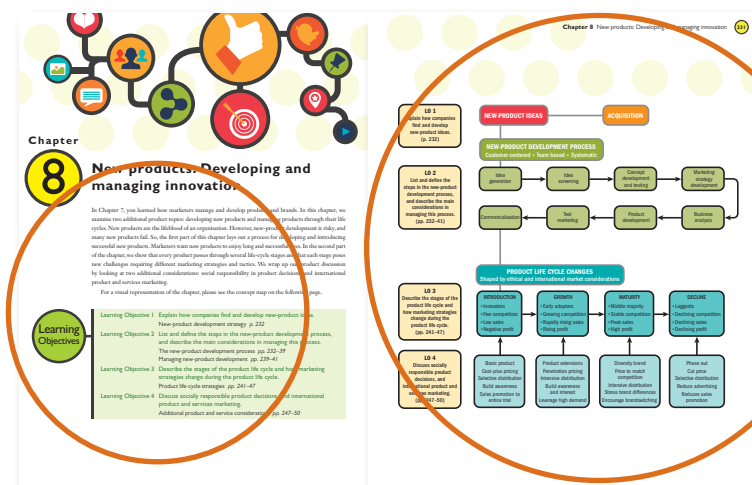
More than ever before, the seventh edition of *Principles of Marketing* provides an effective and enjoyable total package designed to guide you along the road to learning marketing!

## Learning aids that create value and engagement

This book provides a practical, managerial approach to marketing and gives you – the reader – a rich variety of examples and applications to illustrate the main decisions that marketing management face in their efforts to balance the organisation's objectives and resources against needs and opportunities in the global marketplace. These learning aids are illustrated on the following pages.

### Learning objectives

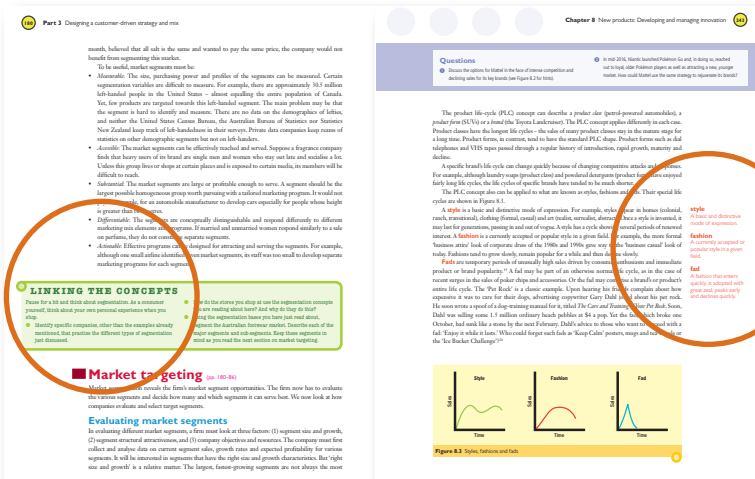
Each chapter begins with learning objectives that prepare the reader for the chapter material and detail the learning goals.



### Concept map

graphically previews and positions each chapter and its key concepts, providing a visual guide to enable easy navigation of the chapter content.

Linking the concepts are included at the end of each chapter's main sections.

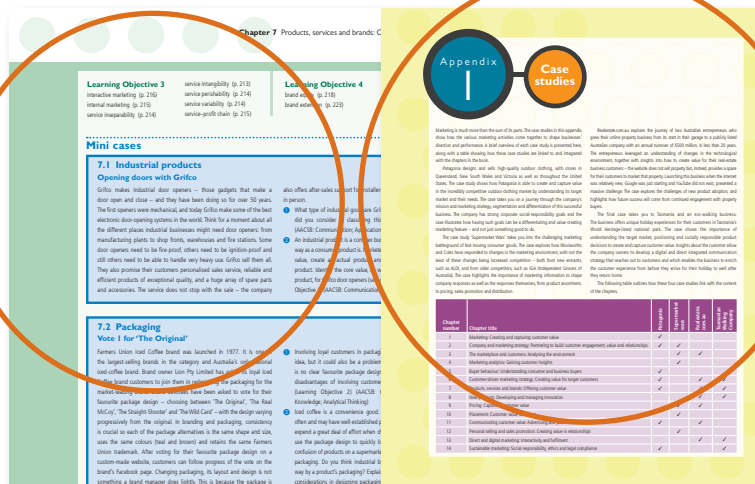


Highlighted definitions and key terms Throughout each chapter, definitions in colour are provided in the margin adjacent to where each key term is discussed in the text.

Marketing in action Additional examples and important information are presented in marketing highlight exhibits throughout the book, together with questions for class and individual use.



Mini cases These short application cases at the end of each chapter address current issues and company situations. Questions are linked to the chapter's learning objectives.



Case studies Appendix 1 sets out case studies that highlight key ideas, stories and marketing strategies. Cases involve small- and medium-sized enterprises, as well as large firms.

# A valuable learning package

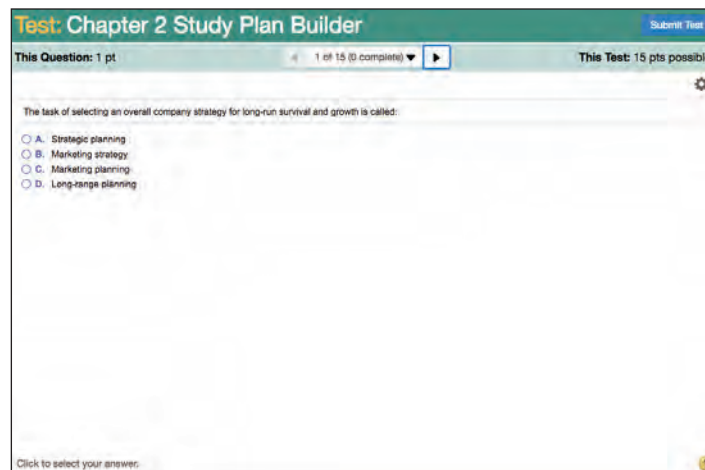
MyLab Marketing for Armstrong/Adam/Denize/  
Volkov/Kotler

*Principles of Marketing, 7th edition*

A guided tour for students and educators

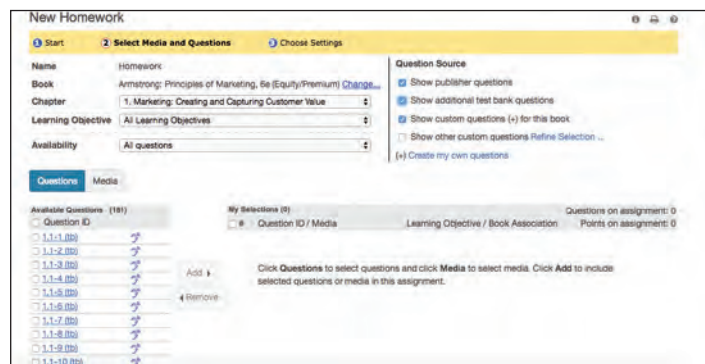
## Auto-generated tests and assignments

Each MyLab™ comes with pre-loaded assignments, all of which are automatically graded.



## Assignable content

Educators can select content from the Study Plan and/or Test Bank and assign to students as homework or quizzes.





# MyLab Marketing [www.pearsonmylabandmastering.com](http://www.pearsonmylabandmastering.com)

1.5 Describe the main trends and forces that are changing the r Close

1 of 3 (0 complete) ▶ 0 correct

**Exercise 1.5.4** Question Help ⚙️

Marketing is getting more complex, both domestically and internationally. Which of the following are major developments in marketing? eText Pages  
 select all that apply. Ask My Instructor  
Print

- A. The digital age
- B. The growth of for-profit marketing
- C. The decrease in concern for the environment
- D. The uncertain world economy
- E. The growth of not-for-profit marketing
- F. Rapid globalisation

Click to select your answer(s) and then click Check Answer. ?

**Learning resources**  
 To further reinforce understanding, Study Plan problems link to additional learning resources, such as relevant sections of the eText. Videos and simulations are also available for students.

**Study Plan** Legend 👤 ?

You have earned 0 of 141 mastery points (MP). View progress

Practice these sections and then take a Quiz Me to prove mastery and earn more points.

**Sections to practice and master** View all chapters

1.1	Define marketing, and outline the steps in the marketing process.	<a href="#">Practice</a>	<a href="#">Quiz Me</a>	0 of 1 MP
1.2	Explain the importance of understanding customers and the marketplace, and identify the five core marketplace concepts.	<a href="#">Practice</a>	<a href="#">Quiz Me</a>	0 of 1 MP
1.3	Identify the key elements of a customer-driven marketing strategy, and discuss the marketing management orientations.	<a href="#">Practice</a>	<a href="#">Quiz Me</a>	0 of 1 MP
1.4	Discuss customer relationship management, and identify strategies for creating value for customers.	<a href="#">Practice</a>	<a href="#">Quiz Me</a>	0 of 1 MP
1.5	Describe the main trends and forces that are changing the marketing landscape in this age of relationships.	<a href="#">Practice</a>	<a href="#">Quiz Me</a>	0 of 1 MP

**Study Plan**  
 A personalised Study Plan is generated from each student's results on assignments or sample tests. The Study Plan indicates learning objectives where students need more practice, and helps them work towards mastery.

## Resources for educators and students

A full suite of additional supplementary materials is provided with this book to assist teaching and learning. The educator resources contain a variety of useful features including:

A **test bank** of questions. Each chapter has a bank of multiple choice, true/false, short-answer and essay-type questions featuring problems of varying complexity. These are structured by learning objective for the educator's convenience, with questions for every learning objective. The Test Bank has been tagged by topic, AACSB standards and also by difficulty level. It is now also available in Word as well as in Blackboard and Moodle compatible formats.

The **solutions manual** has been fully revised and updated by leading subject-matter experts to include the answers to all the questions contained in the book. For each chapter, the solutions manual provides the learning objectives, solutions to all end-of-chapter discussion questions, critical thinking exercises and mini cases, together with suggested answers for the Marketing in action questions and additional class activities.

The **PowerPoint slides** have been updated to match the new edition. In response to market demand, they now include additional teaching tips, illustrating key concepts to enhance the learning experience and engage students.

**Digital image PowerPoint slides** provide the full set of images, figures and tables from the book, together with the new edition's branded PowerPoint template, enabling the personalisation of the lecturer's presentation.

## About the authors

As a team, the authors Gary Armstrong, Stewart Adam, Sara Denize, Michael Volkov and Philip Kotler provide a blend of skills and experience uniquely suited to writing the seventh edition of this widely acclaimed marketing textbook. Together, they make the complex world of marketing come alive.



**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 in Illinois. 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 permanent endowed professorship for distinguished undergraduate teaching at the University of North Carolina 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 honour bestowed by the 16-campus University of North Carolina system.



**Stewart Adam** is Honorary Associate Professor of Marketing in the Faculty of Business and Law at Deakin University, Melbourne, and managing partner with Melbourne-based marketing consultancy Fontech Pty Ltd, which was formed in Sydney in 1984. He was Australasia's first professorial appointment in electronic marketing in 2001, where his research interests concerned use of digital tools and technologies in marketing, and their impact on non-financial and financial organisational performance. Of particular interest was the social and economic impact of communities of interest/practice.

Dr Adam has co-authored 10 of Australasia's most widely adopted marketing textbooks and has been lead author of two electronic-marketing textbooks in a publishing career spanning more than 25 years. He has been a regular contributor to academic and professional journals, and a keynote speaker at academic conferences and industry events on the subject of digital marketing and organisational performance. He was involved with Google's Online Marketing Challenge, firstly in beta testing the student learning exercise in search engine marketing, and then in engaging his postgraduate Online Marketing students in the challenge. His most recent achievement in learning and teaching involved spearheading the implementation of the flipped classroom model coupled with continuous peer-reviewed assessment in marketing management, with resultant greater student engagement.

Dr Adam has extensive industry experience, having held positions ranging from advertising agency executive to marketing manager of manufacturing and service firms, and on to general manager of an operating division of an unlisted public company, which he led from development of a green-field site to its takeover by a major investor. His industry experience was gained in both Australia and Europe.

**Sara Denize** is Professor and Deputy Dean in the School of Business at the University of Western Sydney. She holds a Bachelor of Commerce (honours) degree in marketing from the University of Otago, New Zealand, and followed up with a Master of Commerce by research a few years later. After moving to Australia, she completed her PhD at the University of Technology, Sydney. With over 30 years of experience as an educator, Professor Denize oversees teaching and learning in business at the University of Western Sydney. Her most recent accomplishments include the complete redesign of undergraduate business programs to include opportunities for students to equip themselves for future work, to practise innovation and to prepare to be the job-makers of the future. This work included the development of flipped classrooms, hours of green-screen and screen-cast lecture pods, interviews with executives and location filming, as well as the development of exciting and active in-class learning opportunities. Professor Denize loves teaching and is keen to make all aspects of marketing and business education accessible and meaningful. Her teaching accomplishments have been recognised in national teaching citations. Also a keen researcher, she continues to develop her interest in collaboration and information exchange in business marketing and innovation contexts.



**Michael Volkov** is the Director of Teaching and Learning in the Department of Marketing, Faculty of Business and Law, Deakin University, Melbourne, and has over 15 years' experience in teaching and learning within the tertiary environment. He loves teaching and is passionate about student learning and developing student-centred learning environments. He is an award-winning and recognised leader in the field of teaching and learning, having been awarded numerous international, national and institutional awards, most recently including the 2015 Australia and New Zealand Marketing Academy ANZMAC Distinguished Educator Award; 2015 Deakin University Award for Teaching Excellence (Highly Commended); 2014 Deakin University, Faculty of Business and Law Award for Effectiveness, Excellence and Exemplar Practice in Teaching and Learning; 2013 Australian Award for University Teaching Office for Learning and Teaching Citation for Outstanding Contribution to Student Learning; 2013 Deakin University Award for Teaching Excellence; 2011 Deakin University, Faculty of Business and Law Award for Individual Teaching Excellence; and the 2010 Deakin University Commendation for Teaching Excellence.



Michael's research focus is in the fields of both consumer behaviour and education. In the areas of teaching and learning, Michael has addressed investigations including best practice in teaching and learning, the ingredients for student engagement, student success, student teamwork, stakeholder perception of graduates, student academic misconduct and student approaches to learning. His research has been published in a number of international journals including *Education + Training*; *International Journal of Pedagogies and Learning*; *Information Technology, Education and Society*; *Australasian Journal of Educational Technology*; *European Journal of Marketing*; *Journal of Marketing Management*; *Journal of Consumer Marketing*; *Journal of Marketing Communication*, *Marketing Intelligence and Planning*; and the *Australasian Marketing Journal*.

**Philip Kotler** is the SC Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management, Northwestern University, in the United States. He received his master's degree at the University of Chicago and his PhD at MIT, both in economics. Dr Kotler is author of *Marketing Management* (Pearson Prentice Hall), now in its 14th 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 honours 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 honour 'outstanding contributions to science in marketing'. In a recent *Financial Times* poll of 1000 senior executives across the world, Professor Kotler was ranked as the fourth 'most influential business writer/guru' of the 21st century.

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 US and international companies in the areas of marketing strategy and planning, marketing organisation and international marketing. He has travelled and lectured extensively throughout Europe, Asia and South America, advising companies and governments about global marketing practices and opportunities.

# The development story

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.

Since the sixth edition of *Principles of Marketing* was published, a rigorous review and revision has taken place. The content was developed and reviewed by members of the Australian marketing field.

Pearson Australia and the authors are indebted to the many known, as well as anonymous, academics who were surveyed or interviewed, and provided feedback in the planning, development and production stages of this new edition.

Dr David Bednall, managing partner, Heatherdale Consulting Group, Melbourne, and Honorary Associate Professor of Marketing, Deakin University  
 Alexandria Cantali, Australian Catholic University  
 Alvin Chan, Western Sydney University  
 Ms Yolanda de Groot, co-founder and co-CEO, de Groots Media  
 Rohan De Pallant, The University of Queensland  
 David Fleishman, University of the Sunshine Coast  
 Maureen Griffiths, Monash University  
 Ellen McArthur, Griffith University  
 Zlatko Muhvic, RMIT  
 Raju Mulye, RMIT  
 Owen Seamons, The University of Queensland  
 Tania Von der Heidt, Southern Cross University  
 Jeaney Yip, The University of Sydney

We would also like to thank the contributors who wrote the following case studies set out in Appendix 1:

- Case 1: 'Patagonia: Hiking a value trail of marketing responsibility' – Dr David Fleischman, University of the Sunshine Coast
- Case 2: 'Supermarket wars: The battle continues!' – Jan Charbonneau, University of Tasmania
- Case 3: 'Realestate.com.au: From garage start-up to market leader' – Geoff Fripp, The University of Sydney
- Case 4: 'Tasmanian Walking Company: Balancing luxury and adventure in a sustainable experience' – Dr Gemma Lewis, University of Tasmania.

We also owe a great deal to the people at Pearson Australia who helped develop this book: Anna Carter, for her guidance in bringing the book to completion; Lisa Woodland, who sourced and compiled a diverse range of illustrative and photographic material; and Bernadette Chang for skilfully managing the book

through the detailed editorial process such a complex educational publication demands. We would also like to thank lead editor Helen Eastwood for her wonderful editorial skills and for the contribution she made to the overall finish of the book. We are proud to be members of a fraternity of authors who work with such a group of professionals at Pearson Australia.

*Gary Armstrong*

*Stewart Adam*

*Sara Denize*

*Michael Volkov*

*Philip Kotler*



## Defining marketing and the marketing process

- 1 Marketing: Creating and capturing customer value 2
- 2 Company and marketing strategy: Partnering to build customer engagement, value and relationships 36



## Chapter



# Marketing: Creating and capturing customer value

You are beginning a journey into the science and practice of marketing – a journey that is both exciting and vital in the preparation for the career that awaits you. In this chapter, 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 and to capture value *from* customers in return. We start with a definition of marketing before proceeding to 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, as shown in Figure 1.1. 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 give you a solid foundation for all that follows.

As you start this chapter, we suggest you pay close attention to the visual representation on the next page, which is designed to give you a ‘helicopter’ view of the main concepts covered. You will find such a visual representation, or concept map, at the start of each chapter.



### Learning Objectives

- Learning Objective 1** Define marketing, and outline the steps in the marketing process.  
What is marketing? pp. 4–5
- Learning Objective 2** Explain the importance of understanding the marketplace and customers, and identify the five core marketplace concepts.  
Understanding the marketplace and customer needs pp. 5–9
- Learning 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 pp. 9–13  
Preparing an integrated marketing plan and program pp. 13–15
- Learning Objective 4** Discuss customer relationship management, and identify strategies for creating value *for* customers and capturing value *from* customers in return.  
Engaging customers and managing customer relationships pp. 15–18  
Capturing value from customers pp. 18–21
- Learning Objective 5** Describe the major trends and forces that are changing the marketing landscape in this age of relationships.  
The changing marketing landscape pp. 21–28  
So, what is marketing? Pulling it all together pp. 28–30

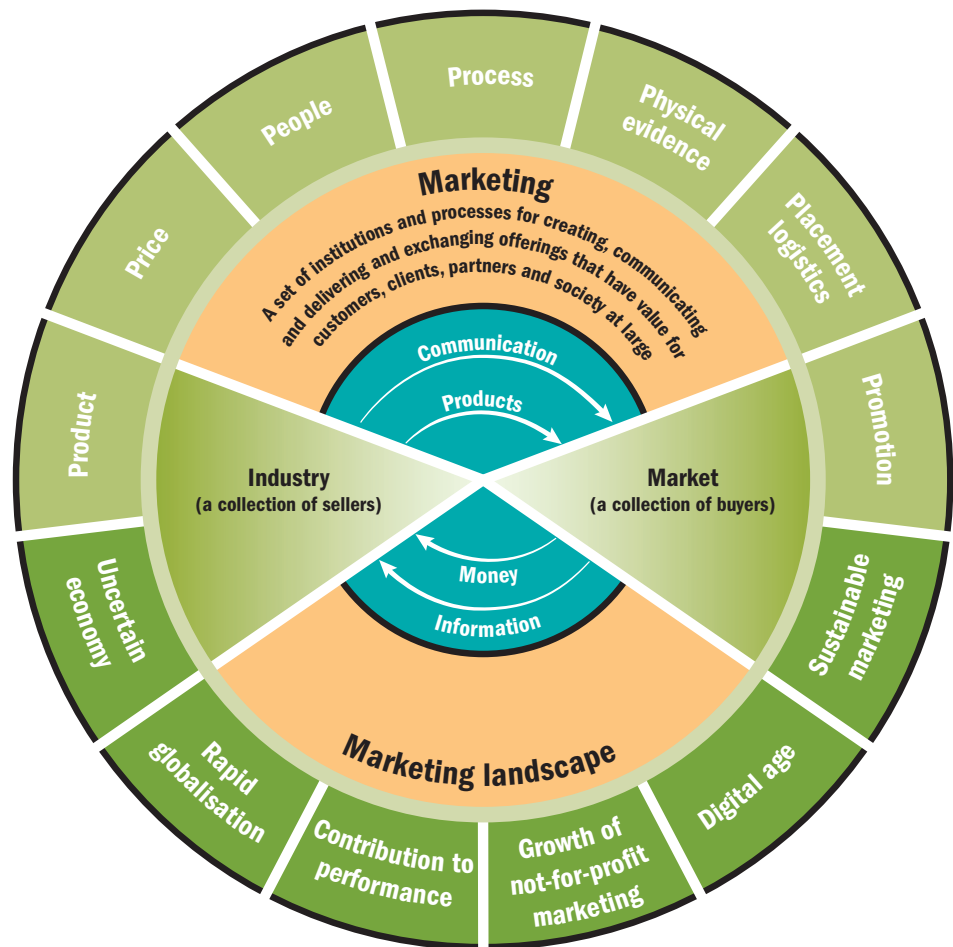
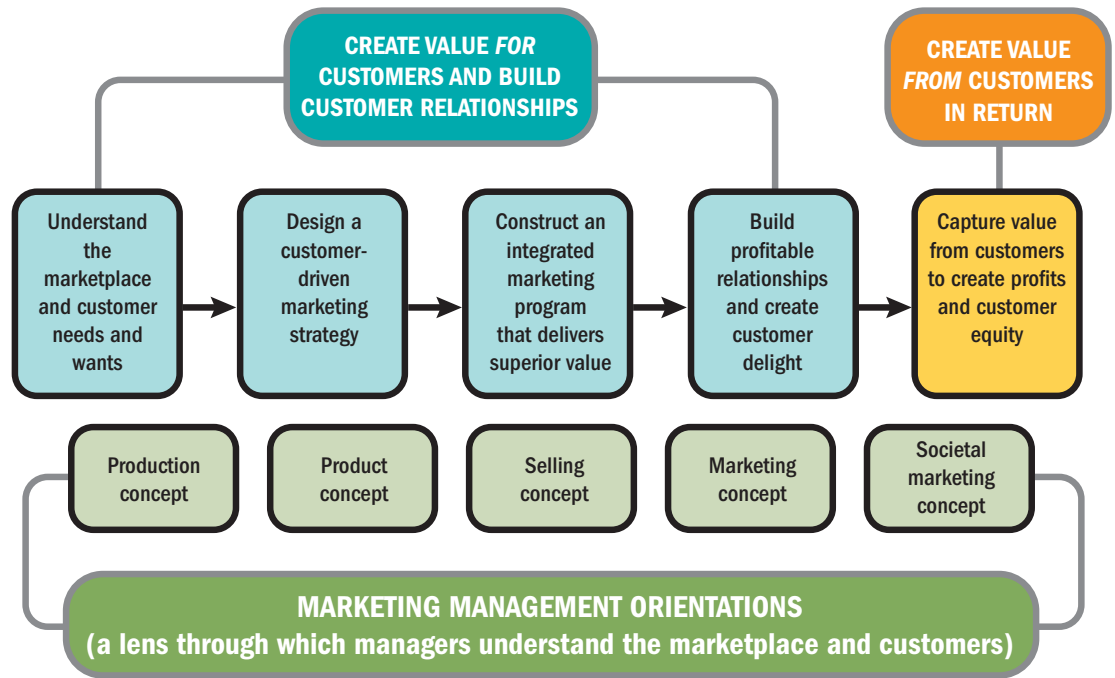
**LO 1**  
Define marketing, and outline the steps in the marketing process. (pp. 4–5)

**LO 2**  
Explain the importance of understanding the marketplace and customers, and identify the five core marketplace concepts. (pp. 5–9)

**LO 3**  
Identify the key elements of a customer-driven marketing strategy, and discuss the marketing management orientations that guide marketing strategy. (pp. 9–15)

**LO 4**  
Discuss customer relationship management, and identify strategies for creating value for customers and capturing value from customers in return. (pp. 15–21)

**LO 5**  
Describe the major trends and forces that are changing the marketing landscape in this age of relationships. (pp. 21–30)



## ■ What is marketing? (pp. 4–5)

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 engaging customers and 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.

Marketing comes to you in traditional forms, such as the products you see on supermarket shelves and in the windows of shopping-centre boutiques, as well as in the advertising you see and hear in newspapers and magazines, and on television and radio. However, in recent years, marketers have adopted a host of new marketing approaches, using everything from imaginative websites and social networks to smartphone apps. 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 *engage with* their brands.

When we examine successful marketing organisations, we see that many factors contribute to making a business or other organisational type successful. These factors include great strategy, dedicated employees, good information systems and excellent implementation, among others. However, today's successful organisations have one thing in common – they have a strong market orientation, which means they are focused on their customers, their competitors and their profits (or surpluses in the case of those not operating for profit), and they have a commitment to sharing this marketing information with all parts of the organisation.<sup>1</sup> These organisations share an absolute dedication to understanding and satisfying the needs of customers in well-defined target markets. They motivate everyone in the organisation to produce superior value for their customers, leading to high levels of customer satisfaction.

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, technologies 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 television commercials, catalogues, spiels from salespeople and online pitches. However, selling and advertising are but 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 engages consumers effectively, understands their needs, develops products that provide superior customer value, and prices, distributes and promotes them well, these products will sell easily. In fact, according to management guru Peter Drucker, 'The aim of marketing is to make selling unnecessary.'<sup>2</sup>

Selling and advertising are only a part of a larger *marketing mix* – a set of marketing tools that work together to engage customers, satisfy customer needs and build customer relationships.

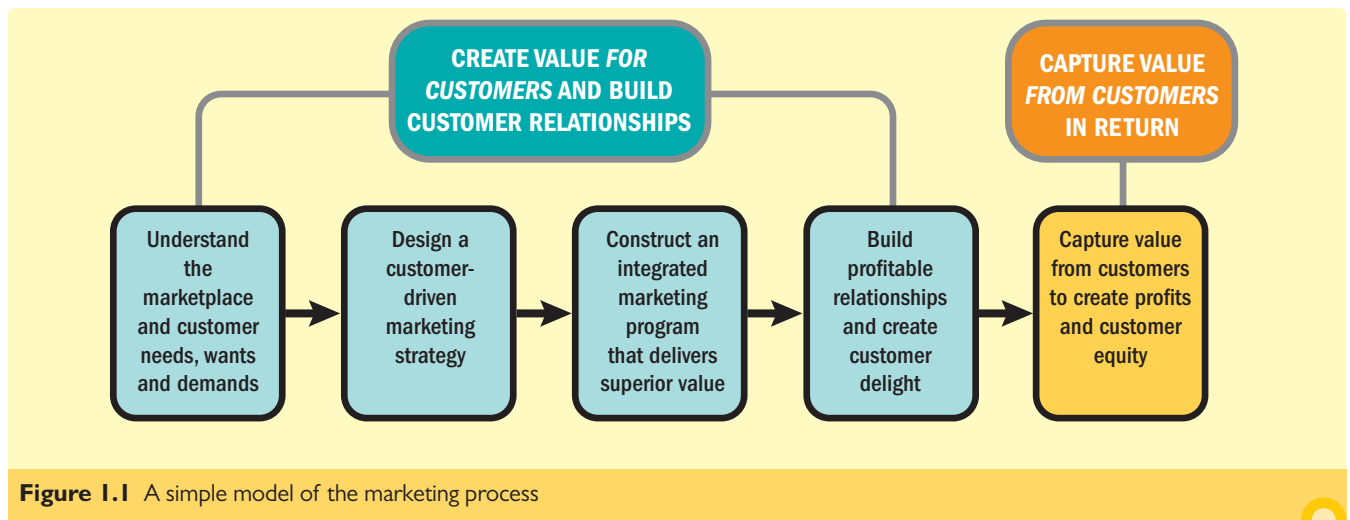
Broadly defined, marketing is a social and managerial process by which individuals and organisations obtain what they need and want through creating and exchanging value with others. In a narrower business context, marketing involves building profitable, value-laden exchange relationships with customers. Hence, we define **marketing** as the process by which marketing organisations engage customers, build strong customer relationships and create customer value in order to capture value from customers in return.<sup>3</sup>

### The marketing process

Figure 1.1 presents a simple five-step model of the marketing process. In the first four steps, marketing organisations uncover knowledge about consumers, create customer value and build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value. By creating

#### marketing

The process by which marketing organisations engage customers, build strong customer relationships and create customer value in order to capture value from customers in return.



**Figure 1.1** A simple model of the marketing process

value *for* consumers, companies, in turn, capture value *from* consumers in the form of sales, profits and long-term customer equity.

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

## Understanding the marketplace and customer needs (pp. 5–9)

As a first step, marketers need to understand customer needs, wants and demands, and the marketplace within which they operate. We now examine five core customer and marketplace concepts: (1) *customer needs, wants and demands*; (2) *market offerings – goods, services and experiences*; (3) *customer value and satisfaction*; (4) *exchanges and relationships*; and (5) *markets*.

Figure 1.2 shows how these core marketing concepts are linked, with each concept building on the one before. Market offerings are the various product forms we examine in detail in Chapters 7 and 8. We discuss value, satisfaction and quality throughout the book. We begin our discussion of customer needs, wants and demands in this chapter, and examine them further in Chapters 4 and 5. The nature of exchange, transactions, relationships and markets is examined in this chapter and throughout the book.

### Customer needs, wants and demands

The most basic concept underlying marketing is that of human needs. Human **needs** are states of felt deprivation. Humans have many complex needs. These include basic *physical* needs for food, clothing, warmth and safety; *social* needs for belonging and affection; and *individual* needs for knowledge and self-expression. While marketers may stimulate these needs, they do not create them for they are a basic part of human makeup.

**Wants** are the form taken by human needs as they are shaped by culture and individual personality. A hungry person in Australia, Singapore or Hong Kong might want a rice or noodle dish for a quick lunch, accompanied by green tea. A hungry person in the South Pacific might want mangoes, suckling pig and beans. Wants are described in terms of objects that will satisfy needs. As a society evolves, the wants of its members expand. As people are exposed to more objects that arouse their interest and desire, producers try to provide more want-satisfying goods and services.

**needs**  
States of felt deprivation.

**wants**  
The form human needs take, as shaped by culture and individual personality.



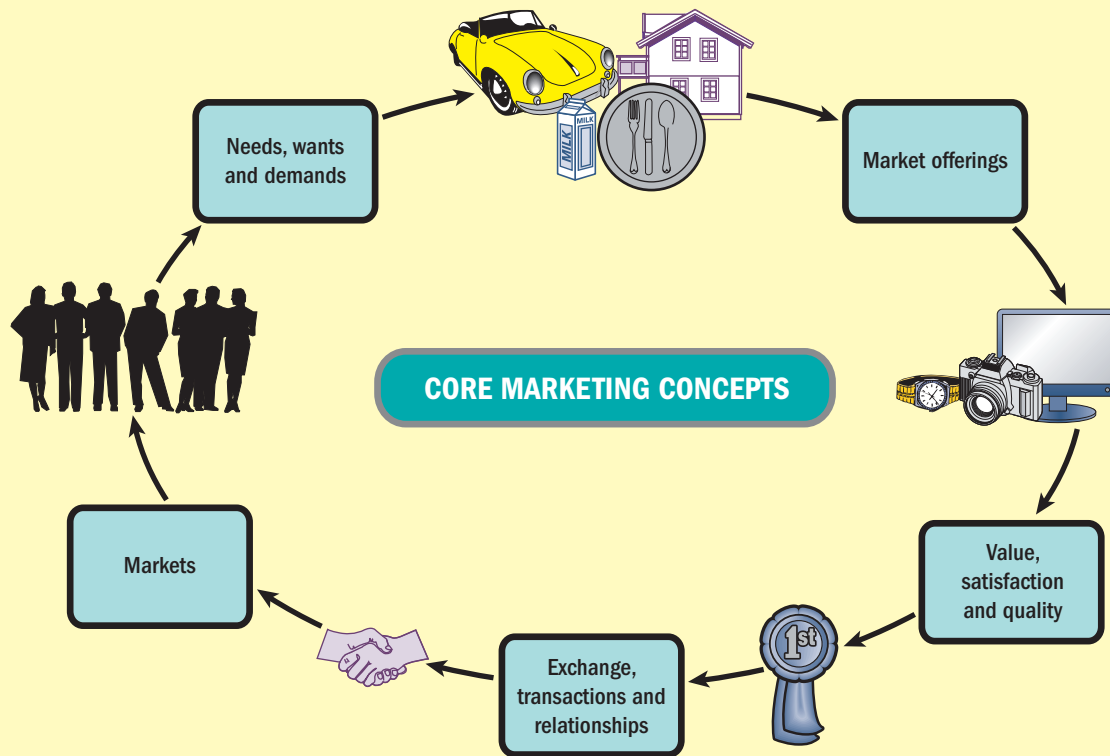


Figure 1.2 Five core customer and marketplace concepts

### demands

Human wants that are backed by buying power.

People have almost unlimited wants but limited resources. Thus, they want to choose products that provide the most value and satisfaction for their money. When backed by buying power, wants become **demands**. A simple way to look at needs, wants and demands is that a person needs water to survive (thirst). The person may want a carbonated beverage to satisfy his or her thirst. If the person has the resources, he or she may demand a particular brand of carbonated beverage, such as Coca-Cola, Pepsi or another local brand.

Outstanding marketers, whether profit-oriented companies, citizen-focused government or not-for-profit organisations, go to great lengths to learn about and understand their customers' needs, wants and demands. They conduct qualitative research, such as small focus groups and customer clinics, to ascertain if there are unmet needs, wants and demands. They conduct quantitative research on a larger scale to ascertain the magnitude of the unmet needs, wants and demands. They seek customer insights when they examine their databases for patterns hidden in purchase data, customer complaints, inquiries, warranty claims and service performance data. They train salespeople and other frontline personnel to be on the lookout for unfulfilled customer needs. They observe customers using their own and competing products, and interview them in depth about their likes and dislikes. They conduct consumer research, analyse mountains of customer data and observe customers as they shop and interact, offline and online. Understanding customer needs, wants and demands in detail provides important input for designing marketing strategies. People at all levels of the company – including top management – stay close to customers.<sup>4</sup>

### market offering

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

## Market offerings: Goods, services and experiences

Consumers' needs and wants are fulfilled through **market offerings** – some combination of goods, services, information or experiences offered to a market to satisfy a need or a want. Usually, the word *product* suggests a physical object such as a car, an iPad or a bar of soap. However, the concept of product is not

limited to physical objects; anything capable of satisfying a need can be called a product. The importance of products that are physical objects lies not so much in owning them as in the benefits they provide. We buy food not to look at, but because it satisfies our hunger. We buy a microwave not to admire its utility, but because it defrosts or cooks our food.

Marketers often use the expressions *goods* and *services/experiences* to distinguish between products that have physical form and those that do not – that is, those that are intangible. However, in Chapter 9 we show that there is a continuum involved and not a clear-cut dichotomy. Consumers also obtain benefits through experiences, people, places, organisations, activities and ideas, and so we call these products, too. Consumers decide which entertainers to watch at the movies and on television, which places to visit on holiday, which organisations to support through contributions and which ideas to adopt. Thus, the term *product* covers physical goods, services, experiences and a variety of other offerings that satisfy consumers' needs and wants. If at times the term seems not to fit, we could substitute words such as *satisfier*, *resource* or *offer*. In the broadest sense, market offerings also include other entities, such as *persons*, *places*, *organisations*, *information* and *ideas*.

Many sellers make the mistake of paying more attention to the attributes of the products they offer than to the benefits produced by these products. They see themselves as selling a product, rather than providing a solution to a need. A manufacturer of drill bits may think that the customer wants a 6 mm drill bit, but what the customer *really* wants is a 6 mm hole. These sellers suffer from **marketing myopia**.<sup>5</sup> They are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs. They forget that a product is only a tool to solve a consumer's problem and they will have trouble if a new product comes along that serves the need better or less expensively. The customer with the same need will, all things being equal, 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 do not just watch a V8 Supercar or MotoGP motorcycle race; you immerse yourself in the exhilarating, high-octane experience that the many on-board mini-cameras now provide.

## 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 original 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 may 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 revisit these core concepts later in the chapter.

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THEN POPPED IN YOUR MOUTH.**

**ECSTASY. FACE FACTS.**



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or visit [australia.gov.au/drugs](http://australia.gov.au/drugs)

NATIONAL DRUGS CAMPAIGN



Product offerings: Social causes are products ... Often demarketing is involved.

Department of Health

### 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.

**transaction**

A trade between two parties that involves at least two things of value, agreed-upon conditions, and a time and place of agreement.

**market**

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

## Exchanges, transactions and relationships

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 simply buying or trading products and services. A political candidate, for instance, wants votes; a golf club wants members; an orchestra wants an audience; an online community of practice, such as BimmerPost (BMW owners), wants subscribers who help each other; and a social action group, such as Amnesty Australia, wants idea acceptance.

Whereas exchange is the core concept of marketing, a **transaction** is marketing's unit of measurement. A transaction consists of a trade of values between two parties. In a transaction, we must be able to say that one party gives X to another party and gets Y in return. For example, if you pay \$1650 for a television set to Harvey Norman in Sydney or Singapore, you are engaged in a classic monetary transaction.

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 company wants to retain customers and grow their business. Marketers want to build strong relationships by consistently delivering superior customer value. We expand on the important concept of managing customer relationships later in this chapter.

## Markets

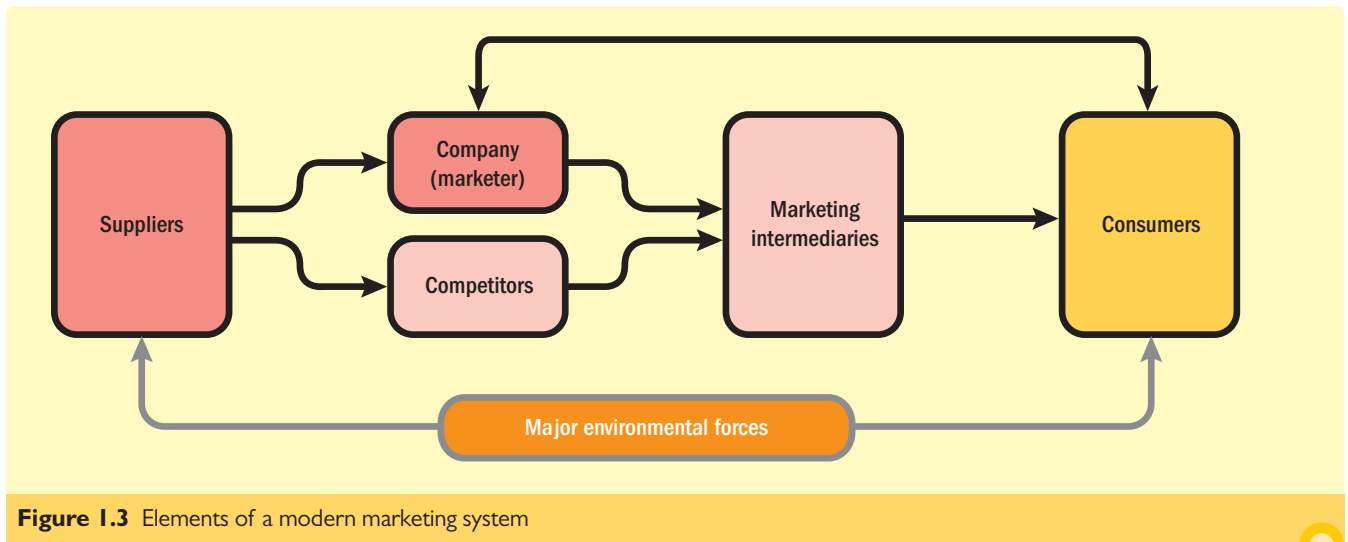
The concepts of exchange and relationships lead to the concept of a market. A **market** is the set of actual and potential buyers of a product. These buyers share a particular need or want that can be satisfied through exchange relationships.

Marketing means managing markets to bring about profitable customer relationships. However, creating these relationships takes work. Sellers must search for buyers, identify their needs, design good market offerings, set prices for those offerings, 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, obtain information and make their purchases. In fact, today's digital technologies, from websites and online social networks to tablets and 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 can our customers reach us?' and even, 'How can our customers reach each other?'

Figure 1.3 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. They then create and send their market offerings and messages to consumers, either directly or through marketing intermediaries. All of the parties in the system are affected by major environmental forces (demographic, economic, physical, technological, political/legal and social/cultural).

Each party in the system adds value for the next level. In the figure, 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. Coles Supermarkets cannot fulfil its promise of everyday low prices unless its suppliers provide



**Figure 1.3** Elements of a modern marketing system

merchandise at low costs. And Toyota cannot deliver a high-quality car-ownership experience unless its dealers provide outstanding sales and service.

## ■ Designing a customer-driven marketing strategy (pp. 9–13)

Once marketing management fully understands consumers and the marketplace, it 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 attract, engage, 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: (1) *What customers will we serve? (Who is our target market?)* and (2) *How can we serve these customers best? (What is our value proposition?)*. We introduce these aspects of marketing strategy here, and discuss them further in Chapters 2 and 6.

### Selecting customers to serve

Marketing management first decides *who* the organisation will serve. This is done by examining the various segments into which the market naturally falls, based on the appropriate factors that can be used to analyse a market. We discuss this aspect in depth in Chapter 6. Marketers know they cannot serve all customers in every way with a single market offering. They know it is necessary to select customers they can serve well and profitably. This may not involve continuously seeking increasing market demand; at times, it may be necessary to seek fewer customers and reduce demand.

Most people think of marketing management as finding enough customers for the company's current output, but this is too limited a view. The organisation has a desired level of demand for its products. At any point in time there may be no demand, adequate demand, irregular demand or too much demand, and marketing management must find ways to deal with these different demand states. (See Table 1.1 for a demand management ready-reckoner.) Marketing management is concerned not only with finding and increasing demand but also with changing or even reducing it. For example, Uluru (Ayers Rock) might have too many tourists wanting to climb it, and Daintree National Park in North Queensland can become

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