

PRINCIPLES OF MARKETING

SCANDINAVIAN EDITION

2ND EDITION



PHILIP KOTLER GARY ARMSTRONG ANDERS PARMENT



Principles of Marketing

SCANDINAVIAN EDITION



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Principles of Marketing

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PHILIP KOTLER

GARY ARMSTRONG

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PREFACE

The first edition of this textbook received an overwhelming response and has been adopted in numerous Swedish marketing courses. Even in its last year, 2015, a few additional universities decided to start using the book.

Throughout the lifecycle of the book, I had the opportunity to have a dialogue with teachers using the book across Sweden. Numerous guest lectures have been given, a very joyful experience from my perspective since I love lecturing and part of this experience is to learn to know the public in various areas, something I appreciate.

For the second edition, a thorough revision of the text has been made. The chapter structure is kept although a few chapters, in particular Chapter 8 on branding and Chapter 14 on sustainable marketing, have undergone the most obvious revisions. Numerous cases have been added and removed, and those remaining have, in many cases, been revised.


The biggest change in perspective is the substantially stronger focus on sustainability issues. There are many inputs to this change in perspective. First, travelling around the world – a per se environmentally unfriendly undertaking – is bringing new perspectives on how our consumption-oriented society contributes to undermining attempts to save our Earth from environmental disaster. The US, the origin of the subject area of marketing, and of this book, is certainly not a guiding star in this respect. Second, research into generational marketing that I've been involved in contributes to my understanding of sustainability issues as very important for young people – our research shows a similar interest among Baby Boomers, born in the 1940s and 1950s and raised during the 1968 revolution, the Vietnam War and the first oil crisis.

Third, collaboration with colleagues that I've had the pleasure to work with in recent years has given compelling input. Anna Dyhre and I published a book, *Sustainable*

Employer Branding, in 2009, and since then two other books have come out of our creative co-operation. Charles Schewe, Marketing Professor at the University of Massachusetts, and I have co-taught and co-written an article published in the *Journal of International Marketing* on Generation Y/Millennials and their attitudes. Dr Mikael Ottosson, Senior Lecturer at Linköping University, and I have co-written *Sustainable Marketing*, published in Swedish and English, both being published in second editions shortly after they first appeared in 2013 and 2014, respectively. Magnus Söderlund, Professor at Stockholm School of Economics, and I published *Thinking Beyond Classical Marketing*, a book that generated great insights and thoughts. Associate Professors Daniel Kindström and Christian Kowalkowski, both at Linköping University, and I co-wrote a book on industrial marketing, a field that increasingly inspires and at the same time gets integrated with consumer marketing. Associate Professor Per Frankelius and Assistant Professor Charlotte Norman, both at Linköping University, wrote a book, *Marketing as Science and Practice*, with a strong focus on industries and aspects that are underexposed within the field of marketing, in textbooks in particular. Dr Sara Brorström at Gothenburg Research Institute and I are currently working with place branding and are in the process of publishing articles and book chapters on the theme based on extensive data collection in various-sized Swedish areas in comparison with insights from the international scene. All of them have contributed to my life in a larger meaning but also more specifically to this book's second edition through the great insights that have come out of our co-operation.

Anders Parment
Stockholm, January 2016

PREFACE TO THE FIRST EDITION



In early summer 2009, Pearson publisher Morten Fuglevand contacted me and asked whether I would be interested in writing a Swedish or Scandinavian edition of Kotler and Armstrong's *Principles of Marketing*. Obviously, the time is past when a single marketing textbook could cover the entire world's markets, and students and teachers have been increasingly asking for books that are adapted to the circumstances and issues at hand in a particular market or context. In this case the context was Sweden in the narrow sense, and Scandinavia, or perhaps Europe, in a broader sense.

Marketing is a genuinely international subject field and thus the focus of this book is on international marketing rather than on specific Swedish marketing circumstances (which are, at any rate, few). Marketing is not like trade law or accounting, subject areas with a great emphasis on the rules and regulations of a particular country. Most students who opt for a marketing career will end up working for international organisations, and the majority of Swedish large and medium-sized companies are selling goods and services internationally. Moreover, the inspiration and ideas of marketing are truly international. New ideas and practices spread to new countries and regions at a rapid pace.

However, using an American marketing textbook, such as that of Kotler and Armstrong, in Sweden presents some problems, and this is likely to hold for any country at a certain cultural distance from America. Concept-wise the American book is excellent, but many of the examples used are from American companies that very few Scandinavian students have heard of. Numerous paragraphs in the American book, e.g. on values that determine consumer behaviour and trade organisations, are US-centred, and not even a global edition could solve this problem. Every single sentence of the original Kotler & Armstrong text has been considered in adapting the original for Scandinavian circumstances.

In addition to rewriting cases and examples, and illustrating best practice among Swedish firms, some recent

research insights were also added. And, of course, content on law, international trade organisations etc. has been rewritten to reflect a Swedish perspective. Last, but not least, the original content has been reduced in extent to reflect students' and teachers' preferences for shorter textbooks. In the past, an introductory textbook was expected to be 700 to 900 pages – sometimes even more – thus constituting a complete guidebook that covered just about everything in the marketing arena. A trend that has been going on for a while is to have a shorter course book and complement it with a number of research articles. This book is certainly not short but the ambition has been to keep it no longer than necessary to reflect existing theories and practice.

One may wonder why the focus on big, international organisations is kept. Small and medium-sized enterprises constitute a substantial portion of economic activity in any country. However, business students, in particular, often work for international organisations and, if not, in most cases deal with customers who operate on an international basis. Even the smallest supplier of assembly parts has, if not a customer operating in international markets, a customer's customer who is.

As the case on Adminicon in Chapter 1 underlines, even small organisations benefit from knowing how big organisations work. And, also important, from a pedagogic point of view, it is probably easier to scale down from a big organisation perspective and apply the thinking applied to small organisations than the other way round.

I'm grateful to all people who contributed their time and material to the numerous case studies presented in the book, and, of course, I'm fully responsible for any mistakes made during the process of writing this book that are still in the text.

Anders Parment
Stockholm, January 2011

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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 at the University of Chicago and his PhD at MIT, both in Economics. Dr Kotler is author of *Marketing*

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Gary Armstrong is Blackwell Distinguished Professor Emeritus of Marketing in the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill. He received his PhD in Marketing from Northwestern University. Dr Armstrong has contributed articles to leading business journals and consulted with many compa-

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Anders Parment is Senior Lecturer and Researcher in Marketing at Stockholm Business School at Stockholm University. He completed his PhD on Automobile Marketing at Linköping University. He also holds an MSc in Economics and Political Science from Lund University and a Bachelor of Laws

from Örebro University. Dr Parment has won several prizes for his books and teaching and is a well-known speaker and consultant on different marketing themes, e.g. employer branding, generational/cohorts marketing, automobile marketing and consumer behaviour, often with an outlook on what will happen in the future. He has published several books and articles on these themes in English, German and Swedish, and has acted as a consultant for various international companies, including Audi, Bilia, BMW, Carnegie, Clas Ohlson, DNB Bank, Ernst & Young, Fraunhofer IAO, Gottlieb Duttweiler Institute, Grontmij, IGDS, IKEA, Peek & Cloppenburg, Porsche, Siemens, Swedbank and the Volkswagen Group, and domestic organisations, including the Museum of Modern Art, the Swedish Competition Authority, the Swedish Prime Minister's Office and major banks and insurance companies.

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Marketing: creating and capturing customer value

CHAPTER

ONE

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Chapter preview

In this chapter, we introduce you to the basic concepts of 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 discuss the five steps in the marketing process. Finally, we discuss the major trends and forces affecting marketing in this age. 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 in the book. First, we'll take a look at Hennes & Mauritz, one of the world's leading fashion brands.

Learning objectives

After reading this chapter, you should be able to:

- 1 Define marketing and outline the steps in the marketing process.
- 2 Explain the importance of understanding customers and the marketplace, and identify the five core marketplace concepts.
- 3 Identify the key elements of a customer-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.
- 4 Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return.
- 5 Describe the major trends and forces that are changing the marketing landscape in this age of relationships.

Company case

Hennes & Mauritz: challenging the marketing orthodoxy

Let's start with a good story about marketing in action. The Swedish firm Hennes & Mauritz (H&M), the world's second largest fashion retailer after Inditex Group with Zara, has developed many of the great marketing insights you will learn about in this book. It all started in Vasteras, where, a few years after the Second World War, Erling Persson, inspired by a trip to the US, established the first store. Selling women's clothing, it was called Hennes, Swedish for 'hers'. The business idea at the time was to sell fashionable pieces of high-quality clothing at attractive prices – and H&M, like many other successful companies, has largely stayed with this idea since its inception. In 1968, Persson acquired a hunting equipment store in Stockholm called Mauritz Widforss. Included in the inventory was a supply of men's clothing, prompting Persson to expand into menswear. Accordingly, he renamed the store Hennes & Mauritz, later often abbreviated to H&M. The Persson family has remained at the heart of H&M during its phenomenal expansion. Erling's son Stefan became CEO in 1990 and then chairman of the board in 1998. Rolf Eriksen became CEO in 2000 and Stefan's son, Karl-Johan, took over the CEO role in 2009 with father Stefan still chairman of the board. H&M started its international expansion early on, and ever since has grown consistently. Its internationalisation strategy was to start with countries culturally similar to Sweden – in accordance with the Uppsala internationalisation model you will learn about in Chapter 12 – and then gradually expanded to new countries and continents. Beginning in the mid-1960s, H&M's expansion accelerated in intensity over time – though it never became too rapid. It was not until the 1990s that the first stores opened in Finland, France, Belgium, Austria, Spain and the Netherlands. By the end of the decade H&M's stores could be found all over Europe. The first US stores opened in New York, on 5th Avenue and 51st Street, in March 2000.

The chosen US locations reflect perfectly H&M's very successful marketing channel strategy, which focuses on city centres with lots of fashion-interested passers-by. Fashion retailing, like many other industries, has traditionally been associated with expensive, upmarket clothing being sold in city centres while cheap clothing is sold at shopping malls and outlets far from the city centre. If H&M had decided to establish their stores in areas with low rental costs, as traditional wisdom might suggest would be the right strategy for a budget retailer, it would have an entirely different customer profile and probably a weaker brand perception. H&M frequently appears in fashion magazines like *Cosmopolitan*, *Vogue*, *Elle* and *Marie Claire* – and this is ultimately because the very attractive locations provide a direct route to city-centre customers. And fashion trends are largely created in city centres.

Fifteen years after the first US store opened, H&M had almost 4,000 stores worldwide and more than 300 stores in the USA. The growth has continued and H&M has created a franchising model to secure expansion in countries where direct store ownership is difficult or impossible – however, the ambition to own the stores remains. In the last decade, H&M has thus succeeded in expanding to Australia, Dubai, Kuwait, Israel, Hong Kong, China, Russia, Indonesia, Singapore, Jordan, and many other countries.

Soon after H&M was created, it started selling cosmetics, and now offers a mixture of H&M-labelled products and products from well-known brands, e.g. Nivea, L'Oréal and Elnett. Perhaps inspired by its competitor Zara, H&M started selling home furnishings in 2009, but this represents a very small part of its sales.

H&M operates six brands – H&M, Monki, COS, & Other Stories, Weekday and Cheap Monday. Through offering a variety of stores, more customer segments could be reached and the price level could be adjusted to maximize profit opportunities.

The image of Sweden as a country is an asset in H&M's expansion. There are lots of tensions between countries and, at times, US firms suffer an image disadvantage, the country of origin being a symbol for commercialism, quarter-by-quarter capitalism, lack of sustainability, and making use of every opportunity to source materials and products at the lowest price, regardless of location, environmental impact and co-worker rights. These, at any rate, are the criticisms of the anti-consumerism movement. Popular culture can also have an impact on the success of establishing a company in a new market area, and during their peak in the mid- to late 1970s, Swedish pop group ABBA was nowhere as popular as in Australia, something that could well help H&M to win over the hearts and minds – and wallets – of consumers in this vast but sparsely populated country. H&M opened its first store in Australia in 2014.

Although a certain degree of diversification in terms of brands and products has taken place, in future the major proportion of H&M's turnover is still likely to come from the physical fashion stores. The H&M stores with their great locations, generous opening hours, appealing fashion products, attractive pricing and high turnover of goods sold are the essence of the firm's success story. And this last point is of particular importance: H&M stores get new goods several times a week (frequency depends on the store size and turnover).

Fast fashion is quite a new phenomenon. H&M, like an increasing number of its competitors (with Zara as one of the most significant examples), applies the fast fashion principle, meaning that lead times are as low as two to three weeks. To accomplish such short lead times, it is necessary to adopt a number of lean retailing practices and to develop strong supply chain partnerships between retailers and manufacturers. This flexibility is sometimes called *quick response*. For quick response to work, two principles are crucial. First, it demands that products move forward, along the supply chain from manufacturer to retailer, as quickly as possible. When an order is placed, the ordered items must be manufactured and distributed to the stores within a short timeframe. Second, the fast movement of information back along the supply chain is crucial, to make sure that information on consumer preferences is properly transmitted, in order to identify and appropriately respond to trends within the market.

Computer-aided design and batch or modular manufacturing, where small batches of a diverse range of garments are manufactured rather than the traditional long production runs of one garment type, have contributed to replacing the economies of scale with the economics of scope. Thus, the combination of speed and flexibility has created a new situation in the fashion market: that of economies of scale in retailing, often labelled *fast fashion*, rather than in manufacturing. H&M has the client relations, it has an H&M store card and it has rapid access to all the customers who visit the store regularly to see whether there are any new fashion items available. And this happens one or more times a week, not along the traditional industry lines of a spring and an autumn collection. This is a retailer's dream, and the quick response principle makes sure this advantage is sustainable. H&M will continue to provide new products on a regular basis; it is an integrated part of the business model. Since H&M owns almost all of its stores, price reductions and campaigns are under its control and can be run without giving an impression of desperate discounting. Fashion styles change quickly in the contemporary consumption culture – therefore, having the ability to respond quickly to changes in consumer preferences, and going beyond that by providing new products that consumers haven't even thought of, is likely also to be an advantage in the future.

Despite its huge success – with remarkably high growth, particularly since the early 1990s – H&M is facing challenges. More recently, sustainability issues have been addressed by various stakeholders and the fast fashion concept applied by, among others, H&M and Inditex Group, has been questioned. Glaring media headlines about how workers making mobile phones are committing suicide, about how horse

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meat is being sold as beef, or about how those making clothes for H&M in factories in Cambodia are earning the equivalent of SEK 3 per hour reach today's critical consumers promptly. When well-known and profitable companies like Apple and H&M show themselves to be acting in a manner that does not promote sustainability and human rights, this becomes a rewarding subject to write about. This adds to a general criticism towards companies which, to a certain degree, exploit cheap labour opportunities in the third world. A long-term problem for H&M and many other companies is that their business model is based on continuously squeezing costs, in due course creating unsustainable conditions for suppliers. This criticism could be applied to Wal-Mart, ICA, IKEA, Indiska and many other companies that we regularly buy from. On the other hand, companies like H&M create jobs and development in low-wage countries so the picture of constant cost-cutting efforts creating a breeding ground for unsustainable conditions at subcontractors' premises is a bit one-sided.

The emergence and growth of grassroots-driven information, whereby critical consumers create and manage the information flow, not least via social media and alternative not-for-profit media channels, is pushing companies into strengthening their sustainability efforts. In the case of H&M, for instance, cotton increasingly comes from more sustainable sources and it is clear that H&M seems to be genuinely interested in sustainability, although it could be questioned whether the efforts so far are substantial or incremental. H&M has taken this criticism seriously, something that does not eliminate the fact that the consumption of fast fashion might be harmful for society in the long run. Since 2002, H&M issues a yearly sustainability report and in recent years, the sustainability efforts have been intensified.



Source: H&M Sweden

Questions

- 1 What are the main elements of the H&M success story? Don't hesitate to add elements that are not treated in the text.
- 2 Is there anything you would have done differently, had you had the opportunity to design H&M's strategies?
- 3 Do you think H&M will have the opportunity to grow in the future? Explain your reasoning.
- 4 What are the main threats and opportunities to H&M's future success?
- 5 What do you think about the potential of value-for-money fashion clothing in the future?
- 6 Where do you think the discussion on sustainability will end up?

Sources: www.hm.com; Trevor Hopper, Robert Scapens and Deryl Northcott, *Issues in Management Accounting*, Ch. 2 (Pearson, 2007); Mikael Ottosson and Anders Parment, *Sustainable Marketing* (Lund: Studentlitteratur, 2015).



Source: H&M Sweden

Today's successful companies have one thing in common: like Hennes & Mauritz (H&M), they are strongly customer focused and heavily committed to marketing. These companies share a passion for understanding and satisfying the needs of their customers. They motivate everyone in their organisations to help build lasting customer relationships based on creating value. They understand the importance of marketing intelligence and taking social responsibility, including being an ideal employer.¹ After all, great customer service is a defining characteristic of most companies that enjoy sustainable profitability and growth.²

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. These two goals cannot be separated, and it's not easy to divide customers into 'current' and 'new' categories. For instance, customers may stay with a product brand but change retailer, or vice versa; companies undergo mergers and acquisitions, meaning customers may not know the owner behind a brand; and customers may change brand and then later change back again. A frequent business traveller may be on maternity or paternity leave for 12 months but still remain a key customer, even though no or few flights are undertaken in a year. Stopping their frequent flyer plan would be a bad move and might undermine the customer relationship. All in all, making the distinction between existing and new customers is becoming increasingly difficult. However, one thing is certain: consumers remember bad experiences and they also remember extraordinary service.

H&M has become one of the world's leading clothing retailers by focusing on customer value – good design for a decent price. IKEA did the same thing with home furniture and accessories. Uber has challenged the dominating taxi business and in early 2015, the number of Uber contracted cars in New York City surpassed the number of Yellow Cabs. These companies apply genuinely customer-oriented approaches, operate profitable business models and do not hesitate to break with industry norms. H&M challenged the accepted industry wisdom, which had traditionally suggested that premium brand clothing should be sold in city centres and cheap clothing should be sold in shopping malls and outlets. H&M instead offered nicely designed clothing in appealing locations at attractive, or even low, prices. IKEA made home furnishing a DIY (do-it-yourself) activity – prices came down and consumers realised that outfitting your home doesn't have to cost a fortune. IKEA has made a major contribution to the current low price of home furniture. Although its innovativeness has been questioned recently, Apple made a great achievement by defining itself beyond the traditional consumer electronics industry. The well-designed and emotionally appealing iPhone and iPad products will be remembered as masterpieces of great customer orientation.

Accomplishments in marketing relate not only to products, but to services too. Scandinavian architecture is well known around the globe and successful examples are numerous, including work by Alvar Aalto (a Finn), Jorn Utzon (a Dane, the main architect of the Sydney Opera House), Arne Jacobsen (a Dane) and Ralph Erskine (British-Swedish, architect of the Greenwich Millennium Village). Skype and Spotify are other great marketing examples with their origin in Sweden and Scandinavia.

Good marketing is critical to the success of every organisation. No matter where they're based, large for-profit firms such as H&M, IKEA, Volkswagen, Toyota, Radisson, Google, Toyota, Lidl, and L'Oréal use marketing. Not-for-profit organisations such as colleges, hospitals, museums, symphony orchestras, political parties and even churches and unions are increasingly engaging in marketing and many museums are very active in the social media channels.

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 in the advertisements that fill your TV screen, spice up your magazines, or pile through your letterbox. But in recent years, marketers have assembled a host of new marketing approaches that include imaginative websites, internet forums, social networks, and increasingly interactive mobile phones. These new approaches aim to do more than just blast out messages to the masses. They aim to reach you directly and personally. Look at how Google combines a strategy of finding new ways of using the internet to facilitate the everyday life of consumers with being very commercial and profitable. In some countries, Google is ranked as the number one ideal employer among students, thus reflecting an image as well as a message