

EIGHTEENTH
EDITION



PRINCIPLES OF MARKETING

KOTLER
ARMSTRONG



Principles of
MARKETING

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Preface

New to This Edition

All That's New in Marketing

The eighteenth edition of *Principles of Marketing* reflects the major trends and shifting forces that impact marketing in this digital age of customer value, engagement, and relationships. Here are just some of the major new and continuing changes you'll find in this edition.

- *Customer engagement framework*: This eighteenth edition continues to build on its *customer engagement* framework—creating direct and continuous customer involvement in shaping brands, brand conversations, brand experiences, brand advocacy, and brand community. New coverage and fresh examples throughout the text address the latest customer engagement tools, practices, and developments.
- *Fast-changing marketing trends and topics*: This edition adds fresh coverage of both traditional marketing areas and fast-changing topics such as digital, mobile, and social media marketing; customer engagement marketing; the customer journey; big data, artificial intelligence, and new marketing analytics; the major digital transformation in marketing research; omni-channel marketing and the massive shifts in today's retailing; direct-to-consumer marketing (DTC); real-time customer listening and marketing; marketing content creation and native advertising; B-to-B social media and social selling; online and dynamic pricing; sustainability; global marketing; and much more.
- *Online, mobile, social media, and other digital marketing technologies*: Keeping up with digital concepts, technologies, and practices has become a top priority and major challenge for today's marketers. The eighteenth edition of *Principles of Marketing* provides thoroughly refreshed, up-to-date coverage of these explosive developments in every chapter—from digital, online, mobile, and social media engagement technologies in Chapters 1, 5, 14, 15, and 17; to “big data,” new marketing analytics, the Internet of Things, and artificial intelligence in Chapters 1, 3, and 4; to the massive shift to omni-channel and digital retailing in Chapters 13 and 17; to the increasing use of augmented and virtual reality in Chapters 4 and 13. A Chapter 1 section on *The Digital Age: Online, Mobile, and Social Media Marketing* introduces the exciting new developments in digital and social media marketing. Then a Chapter 17 section on *Direct, Online, Social Media, and Mobile Marketing* digs more deeply into digital marketing tools such as online sites, social media, mobile ads and apps, online video, email, and other digital platforms that engage consumers anywhere, anytime via their computers, smartphones, tablets, and other digital devices.
- *Content marketing and marketing communications*: The eighteenth edition continues to track fast-changing developments in marketing communications and the creation of brand content. Marketers no longer simply create advertising and integrated marketing communications programs; they join with customers and media to curate and share marketing content in paid, owned, earned, and shared media. You won't find fresher coverage of these important topics in any other marketing text.

New Real-World Brand Stories, Highlights, Cases, and In-Text Examples

The eighteenth edition of *Principles of Marketing* is loaded with new brand stories, highlight features, cases, in-text examples, and end-of-chapter exercises and features that illustrate brand strategies and contemporary marketing issues and let students apply what they've learned.

- *Chapter-opening stories, Real Marketing highlights, and in-text examples*: The eighteenth edition brings marketing to life with new or heavily revised chapter-opening vignettes,

Company Case Qualtrics: Managing the Complete Customer Experience

Over the past few decades, the practice of gathering customer feedback data has been changing as new technologies allow marketers to dig deeper. Take customer satisfaction surveys, for example. Today's retail cashiers and hospitality staff commonly promote online surveys to customers, urging their participation with enticing incentives such as gift certificates.

In fact, everywhere customers turn, retailers and brands are emailing, texting, and handing out links to online surveys in hopes that customers will provide them with valuable feedback. What most customers don't know is that few if any of those companies are managing their own surveys. Instead, many marketers turn to a handful of experts to manage their online surveys and how such surveys fit into the bigger picture of their customer intelligence programs.

For companies like Lowe's, Ford, Verizon, 3M, and Disney, that expert is Qualtrics—the leader of the fast-growing online survey business. In fact, more than 8,500 of the world's leading brands trust Qualtrics to power customer data collection, including 75 of the Fortune 100 and 99 of the top 100 business schools. But to characterize Qualtrics' services as "online surveys" is an oversimplification. Ask anyone at Qualtrics what business they're in and they'll say it's all about "experience management."

Pioneering the Online Survey

Today, gathering survey data online seems like no-brainer. But to fully understand what Qualtrics is and does for its clients, you have to go back more than 20 years when online surveys didn't exist. The company's beginnings are a classic example of a tech startup at the turn of the millennium. But instead of a garage in Silicon Valley, Qualtrics started in the basement of a cul-de-sac home in Provo, Utah.

The house belonged to BYU marketing professor Scott Smith. In 1997 he came up with the idea to develop a digital survey engine that would facilitate his own research. Back then, the standard process for collecting survey data was distributing a paper-and-pencil questionnaire in person or through the mail. As such, it was a costly process in terms of both time and money to create a survey, collect responses, and enter the data into a computer. But everything changed when Smith administered his first online survey. "The first survey that we collected online—within 48 hours, our data was in the computer," says Smith, noting that the process would normally have taken months using traditional methods. "All of a sudden, the light clicks on and you're like, this is something wonderful. It's quick, it's easy, it's more accurate."

Smith enlisted his sons, Ryan and Jared, to help develop and launch one of the first online survey services. What started as SurveyPro became Qualtrics in 2002. Initially targeting the academic community, the team soon recognized the potential for online surveys as a marketing research tool. Honing the software over several years, Qualtrics expanded its client base in 2008 to include organizations of all kinds—business and academic, for-profit and non-profit. Before long, the majority of Qualtrics' business was coming from corporations.

From the start, Qualtrics differentiated its offering by making it user-friendly. The goal was to help anyone with a non-tech background quickly and easily create and manage an online survey. With Qualtrics, clients could use simple question-generating tools to draw from various types of questions, including sliding scales with endpoints such as "happy" and "sad" or grades

from "A" to "F." An early Qualtrics innovation was heat maps that let respondents click on a particular location in a retail facility, indicating preferences for certain types of product or service experiences, such as the preferred seating in a theater. Users could also choose from numerous types of graphs to summarize results.

From the beginning, Qualtrics employed a cloud-only model, eliminating the need to install software on individual computers. This innovation allowed customers to develop, tweak, and adapt their own custom surveys without asking Qualtrics to do it for them. Along the way, Qualtrics has added features that not only increase the flexibility of survey creation but make it easier to aggregate and analyze collected data. The online do-it-yourself Qualtrics approach not only saves users a great deal of time compared with more traditional methods, it's also considerably cheaper.

Experience Management—the Pioneering Continues

Today, the original basic Qualtrics survey engine has evolved into what the company dubs the Experience Management (XM) Platform—a suite of products that lets clients use a single interface to manage the four core business experiences: customer experience, brand experience, product experience, and employee experience. According to Mike Maughan, head of global insights at Qualtrics, the four core experiences used to be managed separately by corporations, if at all. But the Qualtrics XM Platform integrates them and manages them simultaneously, helping companies gain a holistic view of customers and develop accurate customer profiles.

The four core experiences are evident in the pitch on the company website: "Software to help turn customers into fanatics, products into obsessions, employees into ambassadors, and brands into religions." Qualtrics' XM Platform focuses on breaking down data silos to provide a holistic picture of customer experience across the four different factors. "We all know that how employees act directly impacts the experience customers have," Maughan says, referring to how one aspect of a customer's experience can affect their entire perspective. "A common saying is that disengaged employees are firing your customers."

The single, integrated Qualtrics data analysis platform allows organizations to "bridge the experience gap." To illustrate, consider a 2005 Bain and Company study that revealed that 80 percent of CEOs believed their company was delivering a superior customer experience. However, "when their customers were asked if they felt they were receiving a superior customer experience, only eight percent agreed," notes Maughan. Qualtrics XM narrows this experience gap by measuring stakeholder experiences to establish a baseline, predicting and prioritizing stakeholder needs, initiating a plan of action, and tracking progress in narrowing the gap between the baseline and the need. If used correctly, the XM platform drives continuous experience improvement.

AI Comes to Experience Management

A few years ago, the company introduced Qualtrics iQ as part of the XM platform. This innovative new product uses artificial intelligence (AI) to automatically identify trends, statistically validate key consumer drivers, and identify the appropriate statistical tests that should be used to deliver results. "Qualtrics iQ hunts down experience gaps automatically, predicting what customers

boxed features that highlight relevant companies and marketing issues, and loads of new in-text examples throughout that illustrate contemporary marketing practice.

- *New company cases and end-of-chapter applications and exercises:* The eighteenth edition provides 20 new company cases by which students can apply what they learn to actual company situations. End-of-chapter discussion questions, critical thinking exercises, and other applications features are also new and revised.

Solving Teaching and Learning Challenges

Today's marketing is all about creating customer value and engagement in a fast-changing, increasingly digital and social marketplace. Marketing 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. Then, more than just making a sale, today's marketers want to engage customers and build deep customer relationships that make their brands a meaningful part of consumers' conversations and lives.

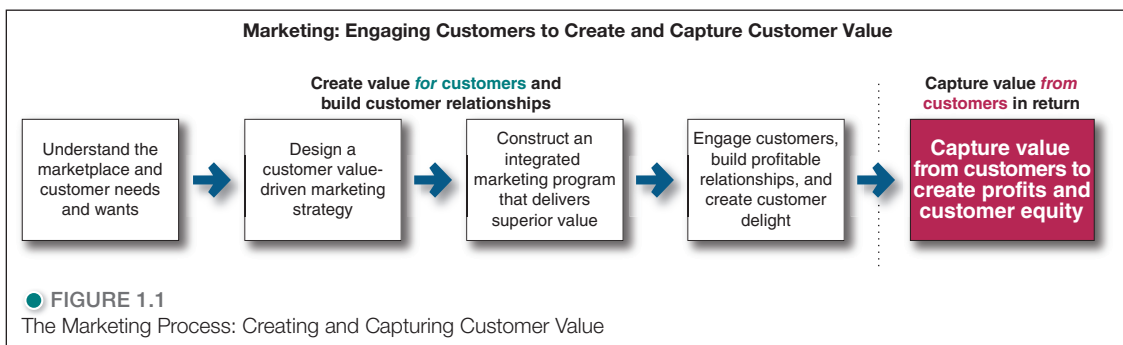
In this digital age, to go along with their tried-and-true traditional marketing methods, marketers have a dazzling set of new online, mobile, and social media tools for engaging customers anytime, anyplace to jointly shape brand conversations, experiences, advocacy, and community. If marketers do these things well, they will reap the rewards in terms of market share, profits,

and customer equity. In the eighteenth edition of *Principles of Marketing*, students learn how customer value and customer engagement drive every good marketing strategy.

Five Major Customer Value and Engagement Themes

The eighteenth edition of *Principles of Marketing* builds on five major customer value and engagement themes:

- *Creating value for customers in order to capture value from customers in return.* Today's marketers must be good at *creating customer value, engaging customers, and managing customer relationships*. 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 unique 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.



- **Customer engagement and today's digital and social media.** 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 behaviors. The eighteenth edition thoroughly explores the exciting new digital, mobile, and social media technologies that help brands to engage customers more deeply and interactively. It starts with two major Chapter 1 sections: *Customer Engagement and Today's Digital and Social Media* and *The Digital Age: Online, Mobile, and Social Media*. A refreshed Chapter 17 on *Direct, Online, Social Media, and Mobile Marketing* summarizes the latest developments in digital engagement and relationship-building tools. Everywhere in between, you'll find revised and expanded coverage of the exploding use of digital and social marketing tools.
- **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 eighteenth edition provides a deep focus on brands, anchored by a Chapter 8 section on *Branding Strategy: Building Strong Brands*.

APPENDIX 2 Marketing by the Numbers

Marketing managers are facing increased accountability for the financial implications of their actions. This appendix provides a basic introduction to measuring marketing financial performance. Such financial analysis guides marketers in making sound marketing decisions and in assessing the outcomes of those decisions.

CHAPTER 17
Direct, Online, Social Media, and Mobile Marketing
501

Marketing by the Numbers Uniqlo's Digital Marketing Campaigns

Uniqlo is a Japanese retail brand that has grown into a global brand in 15 countries thanks to digital marketing campaigns. Founder Tadashi Yamai inherited a chain of men's tailoring retail stores, so he was no stranger to fashion retailing. But he wanted to bring affordable, fashionable, casual clothing to all people, so he created Uniqlo in 1984 to offer casual clothing for all. The philosophy of the brand is "UNIQLO clothes are MADE FOR ALL." The company focuses on its signature innovative clothing lines that have names like HeatTech, UV Cut, LifeWear, and AIRism. In 2007, its pioneering "UniqloLock" viral marketing campaign won dozens of advertising awards, including the coveted Grand Prix award at Cannes. The company continues to run digital marketing campaigns, and while awards are nice, results are better. Marketers measure all sorts of metrics related to digital campaigns, from impressions and click-throughs to purchases.

Consider one of its most recent digital campaigns running in the United States to increase brand awareness and sales of its LifeWear line of clothing:

Measures	Value
Impressions	4,000,000
Click-through to site	150,000
Cost of campaign	\$45,000
Number of orders	10,250
Revenue generated	\$750,000
Abandoned shopping cart	650
Average cost of goods sold (%)	45%
Shipping and handling costs (per order)	\$8.50

Performance Metric	Equation
Click-through rate (CTR)	$(\text{Click-throughs} \div \text{Impressions}) \times 100$
Cost-per-click (CPC)	$\text{Cost of campaign} \div \text{Click-throughs}$
Conversion ratio	$(\text{Number of orders} \div \text{Click-throughs}) \times 100$
Cost per conversion	$\text{Cost of campaign} \div \text{Number of orders}$
Average-order-value (AOV)	$\text{Revenue generated} \div \text{Number of orders}$
Shopping cart abandonment rate	$(\text{Abandoned shopping cart} \div \text{Click-throughs}) \times 100$

17-14 Calculate the performance metrics listed in the preceding table. Based on these metrics, evaluate the campaign. (AACSB: Communication; Analytic Reasoning; Reflective Thinking)

17-15 Calculate the net marketing contribution (NMC), marketing return on sales (marketing ROS), and marketing return on investment (marketing ROI). Was the campaign successful? Refer to Marketing Profitability Metrics in Appendix 2: Marketing by the Numbers to learn how to do this analysis. (AACSB: Communication; Reflective Thinking; Analytic Reasoning)

Company Case OfferUp: A Mobile Solution for the Mobile Era

When people think of buying and selling things online locally, most think automatically of Craigslist, the classified ad marketplace that has dominated that business for the past two decades. But as the rest of the world has gone mobile, Craigslist has not. In fact, the familiar but cluttered collection of blue hyperlinks has changed very little over the years. Some critics suggest that Craigslist has taken its monopoly for granted. One industry observer refers to Craigslist as "the cockroach of the internet age—an ugly but effective e-commerce platform that...emerged unscathed from technology shifts that crippled mightier contemporaries like Netscape and Yahoo."

In the new landscape of digital disruption, one thing seems certain: What dominates today could be under threat tomorrow. That tomorrow may already be here for Craigslist as numerous, more user-friendly competitors have emerged to challenge the classified ad champ. Enter OfferUp—a relatively new mobile app for buying and selling items that is taking the digital marketplace by storm. OfferUp is not only challenging Craigslist as the go-to platform by which individuals and businesses sell goods and services in local markets, it's also starting to challenge the likes of eBay and even Amazon by flexing its muscles beyond local market boundaries. Unexpectedly, OfferUp now rivals the most popular social media apps in terms of time spent by users.

About a decade ago, as the mobile device revolution began to explode, Seattle resident Nick Huzar was frustrated as he tried to unload unwanted household items in preparation for his soon-to-be-born daughter's nursery. He didn't have time to post all these items on Craigslist, which required multiple steps that pretty much required a desktop or laptop to complete. Instead, he went to Goodwill, where he always found a line to drop donations. With a smartphone in his hand, he recognized the potential for an online marketplace that made posting, monitoring, and browsing items for sale in a local market as simple as social media interactions. That led to a partnership with friend Areean van Veenen and the ultimate launch of OfferUp in 2011.

A Different Kind of Marketplace
The main thing that differentiates OfferUp from Craigslist and other traditional online marketplace platforms is that it's

Fixed costs
Costs that do not vary with production level.

Variable costs
Costs that vary directly with the production.

Total costs
The sum of the fixed and variable costs for any given level of production.

- **Measuring and managing return on marketing.** Especially in uneven economic times, marketing managers must ensure that their marketing dollars are being well spent. "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 in Chapter 2, in *Appendix 2: Marketing by the Numbers*, and throughout the eighteenth edition.
- **Sustainable marketing around the globe.** As technological developments make the world an increasingly smaller and more fragile place, marketers must be good at marketing their brands globally and in sustainable ways. New material throughout the eighteenth 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 eighteenth edition integrates global marketing and sustainability topics throughout the text. It then provides focused coverage on each topic in Chapters 19 and 20, respectively.

In-Text Teaching and Learning Features

Principles of Marketing provides a wealth of chapter-opening, within-chapter, and end-of-chapter learning features that help students to learn, link, and apply major concepts.

- **Integrated chapter-opening preview sections.** The active and integrative chapter-opening spread in each chapter starts with an *Objectives Outline* that provides a helpful preview of chapter contents and learning objectives, complete with page numbers. Next, a *Chapter Preview* section briefly previews chapter concepts, links them with previous chapter concepts, and introduces the chapter-opening story. Finally, a *chapter-opening vignette*—an engaging, deeply developed, illustrated, and annotated marketing story—introduces the chapter material and sparks student interest.

- **Author comments and figure annotations.** Throughout each chapter, author comments ease and enhance student learning by introducing and explaining major chapter sections and figures.
- **Reviewing and extending the concepts.** Sections at the end of each chapter summarize key chapter concepts and provide questions and exercises by which students can review and apply what they've learned. The *Objectives Review* section reviews major chapter concepts and links them to chapter objectives. The *Key Terms* section provides a helpful listing of chapter key terms by order of appearance with page numbers that facilitate easy reference. *Discussion Questions* and *Critical Thinking Exercises* sections help students to keep track of and apply what they've learned in the chapter.
- **Applications and Cases.** Completely revised sections at the end of each chapter provide brief *Online, Mobile, and Social Media Marketing*; *Marketing Ethics*; and *Marketing by the Numbers* applications cases that facilitate discussion of current issues and company situations in areas such as mobile and social marketing, ethics, and financial marketing analysis. All-new end-of-chapter *company cases* in each chapter help students apply major marketing concepts and critical thinking to real company and brand situations.

Developing Employability Skills

Real Marketing features. Each chapter contains two deeply developed Real Marketing highlight features that provide in-depth looks at real brand marketing strategies and contemporary marketing issues. For example, students learn how retail titans Walmart and Amazon are battling it out for supremacy in the new omni-channel retailing world; how Netflix uses big data and advanced marketing analytics to personalize each customer's experience; why Apple's products fly off the shelves despite their premium prices; how basketball's Chicago Bulls bond with superfans in real time; how Instagram has made itself a win-win-win for the company, advertisers, and Instagrammers alike; what makes LinkedIn the place to be for B-to-B marketers; why store retailer Best Buy is thriving in the age of Amazon; how Coca-Cola, long a master of mass market advertising, has now also mastered digital, mobile, and social media marketing; and how outdoor apparel and gear maker Patagonia urges "conscious consumption," telling customers to buy *less* of its products. They learn that artificial intelligence in marketing is now "a bigger deal than fire and electricity," how companies are increasingly using augmented and virtual reality to enhance consumer shopping experiences, and how mobile marketing engages consumers in the moments that matter. No other text brings marketing to life like the eighteenth edition of *Principles of Marketing*.

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Marketing Plan appendix. Appendix 1 contains a detailed sample marketing plan that helps students to apply important marketing planning concepts.

Marketing by the Numbers appendix. An innovative and freshly revised Appendix 2 provides students with a comprehensive introduction to the marketing financial analysis that helps guide, assess, and support marketing decisions. A new or revised exercise at the end of each text chapter lets students apply analytical and financial thinking to that chapter's concepts and links the chapter to the *Marketing by the Numbers* appendix.

Careers in Marketing. Appendix 3 helps students to explore marketing career paths and lays out a process for landing a marketing job that best matches their special skills and interests.

For more information and resources, visit www.pearson.com

Real Marketing 13.2 | AR and VR in Retailing: Extending and Enhancing the Shopping Experience

Remodeling a dated kitchen or bathroom can be a Herculean task, and many customers simply throw up their hands and say, "Forget it!" To help solve this customer pain point, home-improvement retailer Lowes has introduced a virtual reality program called iLet that lets customers in some stores to see how tools or redo rooms to see how they look without ever knocking down a wall.

Dubbed "Microsoft for Millennials," iLet customers use an in-store tablet to design their dream room, select colors, materials, and patterns from the options on a tablet interface, and their selections are projected onto the store's ground and say, "You know what? This is too tight," then swipe your hand to try another "tent." Whereas Walmart doesn't have room to

Real Marketing 4.2 | Artificial Intelligence in Marketing: "A Bigger Deal Than Fire or Electricity"

It's early morning, you're headed out to start your day, and you feel the urge for that first jolt of caffeine. As you get in your car, you tap the Starbucks app on your phone and ask for "the usual." Your Starbucks virtual barista replies in her familiar, cheerful voice: "One tall caramel latte!" She then politely suggests a breakfast snack—a Vermont maple nut muffin—not your usual, but it sure sounds good. You agree. "Thanks! Your order will be ready for pickup in five to seven minutes at University and 28th," she confirms. "Would you like to pay for that with your credit card on file?" You step inside the store, bypass the long lines, and grab your order—no fuss, no muss. Welcome to the world of artificial intelligence (AI).

This is just one example of how AI has exploded onto the marketing scene. Starbucks has long been into cutting-edge technology—a full 25 percent of its transactions are already placed through its smartphone apps. But My Starbucks Barista is more than just an ordering app. It uses artificial intelligence to create personalized customer experiences and manage real-time customer interactions, based on everything from customers' past transactions and preferences to demographics, store trends and inventories, and local traffic and weather conditions.

Artificial intelligence is sweeping the world. It involves machines that think and learn in a way that looks and feels human but with a lot more analytical capacity. The engine behind the AI's explosive growth is big data. Raw data is flowing in from everywhere: customer transaction and interaction data, web and social media data, news and environmental data, and data from more than 50 billion connected devices—everything from consumer wearables and GPS technology to household thermostats, washing machines, and cars. Companies need to make sense of all that data for their brands and consumers.

The human mind simply can't grapple with today's glut of big data. But machines can. However, more than just collecting and tabulating mountains of data, AI analyzes it at lightning speed to gain deep insights and apply them to accomplish designated tasks. AI learns as it goes along—the more data it ingests, the smarter and more accurate it gets. "AI is the planet we're headed to," says one AI expert. "Machine learning is the rocket that's going to get us there. And big data is the fuel."

Marketers use AI to assess, address, service, and sell to customers. In turn, AI can help customers manage their lives and their buying. It might be requesting a ride from Lyft via chat (Facebook Messenger or Slack) or voice (Amazon Echo's Alexa virtual assistant). Lyft's chatbot lets you know the current location of your driver along with a picture of the license plate and car model. Or it might be IBM's Watson supercomputer combing through vast amounts of data to unearth customer and market insights that help marketers sharpen their targeting, personalize customer engagements, design new products, and even craft better ads in real time.

Today's machines are smart and eerily human. IBM's Watson "is loquacious; it can tell jokes, answer questions, and write songs," notes one observer. "Google's AI can now read lips better than a professional and can master video games within hours. MIT's AI can predict action on video two seconds before it begins. Tesla's AI powers [its] innovative self-driving car."

Companies like Amazon have mastered AI, harnessing insights and interactions that let it understand and serve customers. Amazon's Echo brings Alexa's AI magic to nearly 50 million U.S. homes. Beyond serving as a valet for duties such as adjusting household appliances, controlling music, keeping shopping lists, sending text messages, and answering questions on about any subject, Echo and other similar AI devices,

such as Google Home, have become voice-activated personal shopping assistants. Companies ranging from P&G and Clorox to 1-800-Flowers are hard at work perfecting ways to tap into Echo users who voice-shop from the comfort of their own kitchens. At Amazon's shopping and video sites, AI powers recommendations that help consumers decide what to buy and what to watch. "Increasingly, Amazon will be selling you things you didn't even know you needed because it has learned what you like and are most inclined to buy," says an analyst. Amazon is so good at this that it's even considering what it calls "predictive delivery," sending consumers stuff they haven't even ordered yet. If customers don't want it, they would just keep it for free. Although such deliveries may still be a while off, Amazon uses such AI predictions to keep the right stock in warehouses or even on trucks to support its ever-more-popular one-day or even one-hour delivery promise.

Hosts of retailers are employing AI to improve how they service and sell to their customers. For example, home improvement retailer Lowe's is experimenting with LoweBots—five-foot something, fully mobile, AI-powered robots that roam stores helping customers. The LoweBots detect customers who might need assistance and engage them through voice and touchscreens. The AI robots tap store and external data to answer customer questions, offer solutions,



Artificial intelligence: The My Starbucks Barista uses artificial intelligence to create personalized customer experiences and manage real-time customer interactions, based on everything from customers' past transactions and preferences to local traffic and weather conditions.

Elisa Stein Illustration

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Philip Kotler
Gary Armstrong

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 at the University of Chicago and his Ph.D. at M.I.T., both in economics. Dr. Kotler is the co-author of *Marketing Management* (Pearson), now in its fifteenth edition and the most widely used marketing textbook in graduate schools of business worldwide. He has authored more than 60 other successful books and has published more than 150 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 four major awards: the Distinguished Marketing Educator of the Year Award and the William L. Wilkie "Marketing for a Better World" Award, both given by the American Marketing Association; the Philip Kotler Award for Excellence in Health Care Marketing presented by the Academy for Health Care Services Marketing; and the Sheth Foundation Medal for Exceptional Contribution to Marketing Scholarship and Practice. He is a charter member of the Marketing Hall of Fame, was voted the first Leader in Marketing Thought by the American Marketing Association, and was named the Founder of Modern Marketing Management in the *Handbook of Management Thinking*. 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. And 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.

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 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 Ph.D. 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 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 campuswide 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.

1

Marketing Creating Customer Value and Engagement

OBJECTIVES OUTLINE

OBJECTIVE 1-1 Define marketing and outline the steps in the marketing process. **See: What Is Marketing?** (pp 4–6)

OBJECTIVE 1-2 Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts. **See: Understanding the Marketplace and Customer Needs** (pp 6–10)

OBJECTIVE 1-3 Identify the key elements of a customer value–driven marketing strategy and discuss the marketing management orientations that guide marketing strategy. **See: Designing a Customer Value–Driven Marketing Strategy and Plan** (pp 10–14)

OBJECTIVE 1-4 Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return. **See: Managing Customer Relationships and Capturing Customer Value** (pp 14–22)

OBJECTIVE 1-5 Describe the major trends and forces that are changing the marketing landscape in this age of relationships. **See: The Changing Marketing Landscape** (pp 22–29)

CHAPTER PREVIEW This first chapter introduces you to the basic concepts of marketing. We start with the question: What is marketing? Simply put, marketing is engaging customers and 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 value–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 new age of digital, mobile, and social media.

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, by far the nation's leading digital 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, engagement, 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: Obsessed with Creating Customer Value, Engagement, and Relationships

When you think of shopping online—or of shopping anywhere, for that matter—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 electronics, tools, housewares, apparel, and groceries to fashions, loose diamonds, musical instruments, and Maine lobsters. And Amazon has rapidly moved beyond online selling, not just into physical stores but

also into video and music streaming, cloud services, and the Internet of Things. If one company represents where the world is now headed, it's probably Amazon.

From the start, Amazon has grown explosively. Its annual sales have rocketed from a modest \$150 million in 1997 to \$233 billion today. During just the past three years, Amazon's revenues have more than doubled. Last year, the company sold 5 billion items to its more than 100 million Amazon Prime members alone—that's an average of 159 items every second. Currently, Amazon is the nation's second-largest retailer, trailing only Walmart. And as unthinkable as it might have seemed only a few years ago, at its current growth rate, Amazon could overtake even mighty Walmart in as little as four years.

What has made Amazon such an amazing success story? Jeff 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.

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 home pages, complete with personalized site content and recommendations based on their past purchase and browsing histories and the purchasing patterns of customers with similar profiles. If it has 300 million Prime and non-Prime customers, Amazon reasons, it should have 300 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 Amazon.com, you're compelled to stay for a while—looking, learning, and discovering. More than just a place to buy things, Amazon.com has become a kind of online community in which customers can browse for products, research purchase alternatives, and share opinions and reviews with other visitors. In this way, Amazon does much more than just sell goods online. It engages customers and creates direct, personalized customer relationships and satisfying experiences.

From the very start, selection, convenience, and value have been the foundation stones of the Amazon experience. Amazon's primary goal is to help customers get whatever they want in the shortest possible time at the right price. To create even greater selection and discovery for customers,

Amazon's deep-down passion for creating customer value, engagement, and relationships has made it the nation's leading digital retailer and one of the world's most dynamic companies. Amazon has become the model for companies that are obsessively and successfully focused on delivering customer value.



Amazon does much more than just sell goods online. It engages customers and creates satisfying customer experiences. "The thing that drives everything is creating genuine value for customers," says Amazon founder Jeff Bezos.

Jonathan Weiss/Alamy Stock Photo

Amazon allows competing retailers—from mom-and-pop operations to Marks & Spencer—to sell their products on Amazon.com through the Amazon Marketplace, creating a virtual shopping mall of incredible proportions.

Amazon's innovations have made the order and delivery process a breeze. First it was 1-Click ordering that let customers purchase and ship to preset options with just one click. Then Amazon added Dash Buttons—shortcut buttons that let customers quickly reorder favorite products. If there's no smartphone or app handy, customers equipped with an Amazon Echo smart speaker can now voice-shop with a simple command, "Alexa, reorder laundry detergent"—Amazon's artificial intelligence-driven digital assistant will place and ship the order for them. Or easier yet, Amazon's Subscribe & Save system gives customers discounts for setting up automatic repurchase of consumable products. And Amazon Dash Replenishment can even check product levels in cloud-connected devices (think printer cartridges) and place reorders before customers even know they are running low.

As for delivery, no other seller—online or offline—has been more effective than Amazon in getting the goods to its customers fast. As much as it sells products and convenience, Amazon also sells "speed." When the online giant first introduced Amazon Prime more than a decade ago, free 48-hour shipping was unheard of; now it's standard across the industry. So Amazon introduced Amazon Prime Now, delivery within two hours or less. "It's cheap, easy, and insanely fast," says one awe-struck customer.

According to the vice president of Amazon Prime Now, her business boils down to two simple questions: “Do you have what I want, and can you get it to me when I need it?” Amazon continues to invest heavily in making the answers to both questions a resounding “yes.” To build an even faster and more reliable customer delivery experience, Amazon is rapidly amassing its own fleets of delivery vans, trucks, and Boeing 767 cargo planes that will make it less dependent on third-party shippers such as FedEx, UPS, and the U.S. postal service. It’s also actively exploring more futuristic options, such as delivery drones, robots, and driverless vehicles.

In its quest to create the perfect customer experience, Amazon pursues endless innovation. For example, take Amazon Key. For as little as \$199, the Amazon Key kit comes with Amazon’s new Cloud Cam and a compatible smart door lock. Once installed, it lets Amazon’s delivery people unlock customers’ doors and leave packages inside, safely out of the reach of porch pirates or inclement weather. Once a delivery is made, the customer receives a notification along with a short video showing the drop-off.

As Walmart and other store retailers are increasingly invading Amazon’s digital domain, the online retailer is now invading their brick-and-mortar worlds. It knows that a complete customer relationship will require merging online and offline selling into the seamless cross-channel shopping experience that today’s consumers expect. For example, Amazon’s purchase of upscale grocery chain Whole Foods

Market has given it a leap forward in grocery retailing and also provides a physical store platform for the selling and more speedy delivery of other kinds of goods. And recently, Amazon announced that it will expand its Amazon Books bookstores and Amazon Go convenience stores, which provide a new twist on convenience by using cameras and sensors to detect what customers take from shelves and let them “just walk out,” automatically charging purchases to their accounts.

So what sweeping new customer-pleasing changes can you expect from Amazon in the next 10 years? According to Bezos, that’s not the most important question. The more important question is what’s not going to change? And at Amazon, that’s creating real customer value. “We know that customers want low prices,” says Bezos, “and I know that’s going to be true 10 years from now. They want fast delivery; they want vast selection. And so...we know the energy we put into [those things] today will still be paying off dividends for our customers 10 years from now.”

Thus, Amazon has become the poster child for companies that are obsessively and successfully focused on delivering customer value. “Our customers are loyal to us right up until the second somebody offers them a better service,” says Bezos. “And I love that. It’s super-motivating for us.” He concludes, “When things get complicated, we simplify them by asking, ‘What’s best for the customer?’ We believe that if we do that, things will work out in the long term.”¹



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 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 advances and deep economic, social, and environmental challenges, today’s customers are reassessing how they engage with brands. New digital, mobile, and social media developments have revolutionized how consumers shop and interact, in turn calling for new marketing strategies and tactics. It’s now more important than ever to build strong customer engagement, relationships, and advocacy based on real and enduring customer value.

We’ll discuss the exciting new challenges facing both customers and marketers later in the chapter. But first, let’s introduce the basics of marketing.

Author Comment | Pause here and think about how you’d answer this question before studying marketing. Then see how your answer changes as you read the chapter.

What Is Marketing?

OBJECTIVE 1-1 Define marketing and outline the steps in the marketing process.

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 value and satisfaction.

For example, Amazon dominates the online marketplace by creating a world-class online buying experience that helps customers to “find and discover anything they might want to buy online.” Facebook has attracted more than 2 billion monthly active web and mobile users worldwide by helping them to “connect and share with the people in their lives.” And Starbucks dominates the U.S. out-of-home coffee market by “creating a culture of warmth and belonging, where everyone is welcome.”²

Sound marketing is critical to the success of every organization. Large for-profit firms such as Apple, Target, Coca-Cola, Procter & Gamble, and Microsoft use marketing. But so do not-for-profit organizations, such as colleges, hospitals, museums, symphony orchestras, and even churches.



● **Marketing is all around you, in good old traditional forms and in a host of new forms, from websites and mobile apps to online videos and social media.**

Leung Cho Pan/123RF

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 websites and smartphone apps to online videos and social media. These new approaches do more than just blast out messages to the masses. They reach you directly, personally, and interactively. Today’s marketers want to become a part of your life and enrich your experiences with their brands. They want 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, 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 TV commercials, online pitches, catalogs, and spiels from salespeople. However, selling and advertising are only the tip of the marketing iceberg.

Today, marketing must be understood not in the sense of making a sale—“telling and selling”—but in the 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.”³ Selling and advertising are only 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 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 engage customers, build strong customer relationships, and create customer value in order to capture value from customers in return.⁴

Marketing

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

The Marketing Process

● **Figure 1.1** presents a simple, five-step model of the marketing process for creating and capturing customer value. In the first four steps, companies work to understand consumers, create customer value, and build strong customer relationships. In the final step,

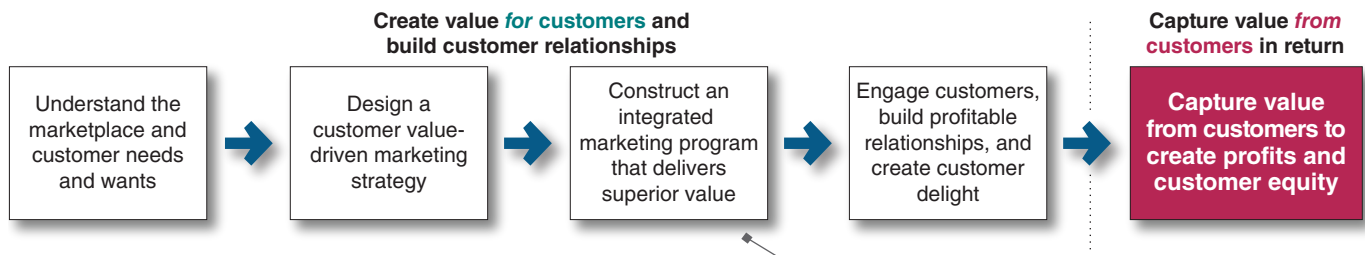


FIGURE 1.1
The Marketing Process:
Creating and Capturing
Customer Value

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.

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 examine the steps of this simple model of marketing. In this chapter, we review each step but focus more on the customer relationship steps—understanding customers, engaging and building relationships with customers, and capturing value from customers. In Chapter 2, we look more deeply into the second and third steps—designing value-creating marketing strategies and constructing marketing programs.

Author Comment | Marketing is all about creating value for customers. So, as the first step in the marketing process, the company must fully understand customers and the marketplace.

Understanding the Marketplace and Customer Needs

OBJECTIVE 1-2 Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.

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, 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 and services with benefits that add up to the most value and satisfaction.

Companies go to great lengths to learn about and understand customer needs, wants, and demands. They conduct consumer research, analyze mountains of customer data, and observe customers as they shop and interact, offline and online. People at all levels of the company—including top management—stay close to customers. For example, Amazon founder and CEO Jeff Bezos still has a customer-facing email address that helps him to identify customer concerns. "I see most of those emails," says Bezos, "and I forward them, some of them—the ones that catch my eye." Similarly, to see up close what their customers experience, Airbnb's CEO Brian Chesky and his co-founder Joe Gebbia regularly stay at the company's host locations. When Airbnb first listed rentals back in 2009, Chesky and Gebbia personally visited all of their New York hosts, staying with them, writing

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.



● **Staying close to customers:** Airbnb's CEO Brian Chesky (left) and co-founder Joe Gebbia (center) regularly stay at the company's host locations, helping them shape new customer solutions based on real user experiences.

Jim Wilson/The New York Times/Redux

Market offerings

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

Marketing myopia

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

worked with the National Suicide Prevention Lifeline (NSPL) to create a seven-minute online public service video embedded with his song "1-800-273-8255," the NSPL phone number. The results of this lone song and video were staggering. On the day the song and video were released, calls to the Lifeline shot up more than 25 percent, and Google searches for the number doubled. In the following months, visits to the NSPL website increased more than 30 percent.⁶

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.⁷ 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.



● **Creating customer experiences:** More than just selling products, Apple's highly successful retail stores create engaging life-feels-good brand experiences.

Maen Zayyad/Shutterstock

reviews, and making sure they lived up to the company's lofty vision. Such personal visits help the pair to shape new customer solutions based on real user experience.⁵

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, ideas, and causes. For example, to market the cause of suicide prevention, rapper Logic

Smart marketers look beyond the attributes of the products and services they sell. By orchestrating several services and products, they create brand experiences for consumers. For example, Walt Disney World Resort doesn't offer just amusement park rides, it uses its famed Disney magic to create carefully orchestrated guest experiences that make dreams come true (see Real Marketing 1.1). ● And Apple's highly successful retail stores don't just sell the company's products. They create an engaging Apple brand experience:⁸

Apple's retail stores are very seductive places, where "life-feels-good" experiences abound. The store design is clean, simple, and just oozing with style—much like an Apple iPad or a featherweight MacBook Air. The bustling stores feel more like community centers than retail outlets, with crowds of customers sampling the goods and buzzing excitedly about all things Apple. The stores encourage a lot of purchasing, to be sure. But they also encourage lingering, with tables full of fully functioning Macs, iPads, iPhones, and Apple Watches

Real Marketing 1.1

The Walt Disney World Resort: Making Magical Moments

Each year, more than 50 million people flock to The Walt Disney World Resort, making it the world's number one tourist attraction. On a single busy day, more than 300,000 eager guests might drop by to visit with Mickey and his friends at one of the resort's four major theme parks—the Magic Kingdom, Epcot, Disney's Hollywood Studios, and Disney's Animal Kingdom.

What brings so many people to The Walt Disney World Resort? Part of the answer lies in the resort's many attractions. Disney World is a true fantasyland—more than 40 square miles (as big as San Francisco) brimming with thrill-a-minute attractions such as Expedition Everest, Twilight Zone Tower of Terror, Space Mountain, Soarin', Toy Story Mania, Pirates of the Caribbean, Kilimanjaro Safaris, and Millennium Falcon: Smugglers Run. But Disney World doesn't offer just amusement park rides. The real "Disney Magic" lies in how the resort turns park visits into carefully orchestrated experiences that make dreams come true.

The Walt Disney World Resort is obsessed with making all aspects of every customer's visit memorable. In an increasingly rude, mismanaged, and mundane world, Disney World offers warmth, order, and magical moments. From the moment visitors purchase tickets to the moment they leave the resort, Disney goes to extremes to create experiences that make Disney World "the most magical place on earth."

Each park, attraction, restaurant, and hotel forms part of an enchanted world, with every nuance carefully dreamed up by Disney "Imagineers." On Epcot Center's Test Track, for example, visitors don't just zoom around a track. They become GM test engineers taking a concept vehicle through rigorous testing procedures. At the Be Our Guest dining room in the Magic Kingdom, patrons don't just eat a meal. They experience French-inspired food inside Beast's castle, a place where it's always snowing gently outside, the suits of armor talk, and the magic rose glitters in a corner of the forbidden west wing.

Employees at all levels of Disney World—from executives in the corner office to the person scooping ice cream on Main Street in the Magic Kingdom—are carefully trained in how to do the hard work of helping people have fun. They learn that they are in the entertainment business and that they are "cast

members" whose job is to be enthusiastic, knowledgeable, and professional in serving Disney's "guests." Each cast member, they learn, plays a vital role in the Disney World "show," whether it's as a "security host" (police), "transportation host" (driver), "custodial host" (street cleaner), or "food and beverage host" (restaurant worker).

Before they can receive their "theme costumes" and go "on stage," cast members learn how to deal effectively with guests. In a course called "Traditions," they learn the Disney language, history, and culture. They are taught to be enthusiastic, helpful, and *always* friendly. They learn to do good deeds, such as offering to take pictures of guests so that the whole family can be in the picture. They are taught never to say "I don't know" or "it's not my job." When a guest asks a question—whether it's "Where the nearest restroom?" or "What are the names of Snow White's seven dwarves?"—they need to know the answer. If they see a piece of trash on the ground, they must pick it up.

Disney trains cast members to connect with guests on a personal level to make them feel special. Cast members proactively seek out opportunities to turn the mundane into magical. For example, a cast member who notices a child's disappointment might hand out a FastPass ride voucher, confer a coveted special-edition Disney pin, or connect the family to just the right Disney character at just the right moment. One Disney loyalist recalls just such a special personal experience: "I was three and I swear Cinderella was waving [to me] from the castle and my brother yelled, 'Cinderella, my sister wants to meet you!' Minutes later, I was whisked away to meet Cinderella in a private meet and greet."

Cast members now get a lot of help from technology in making personal connections. For example, Disney World guests wear RFID-embedded wristbands called MagicBands that serve as everything from room keys and park passes to payment methods. Combined with the cloud-based MyMagic+ system, these MagicBands also let cast members identify guests individually,

greeting them by name and even recognizing celebratory occasions such as birthdays, anniversaries, or reunions. The MagicBands let Disney customize guest experiences in other ways as well. For instance, as guests stroll around the resort, they might see their names appear on a nearby screen with a message like "Samantha! It's a small world after all." Photos on park rides might suddenly pop up on their My Disney Experience apps. The MagicBands even let guests engage with ride experiences while waiting in line, creating details that later become part of displays on the ride itself.

Thus, you don't visit The Walt Disney World Resort just to ride some rides. Instead, you visit to be part of a carefully choreographed



Marketing experiences: You don't just visit Walt Disney World Resort; you immerse yourself in a carefully choreographed experience—a world where dreams come true and things still work the way they should.

Sunshine/Alamy Stock Photo

experience—a magical world of wonder where dreams come true. Disney has become so highly regarded for its ability to deliver customer experiences that many leading corporations have sent managers to Disney

Institute to “discover the method behind the magic.” As one avid Disney World fan puts it, “Walking down Main Street and seeing Cinderella’s castle for the first time always makes my heart jump....No matter what I’m

going through...suddenly the world is filled with magic and wonder and possibilities all over again and I feel a wave of happiness flow over me and a smile creep back onto my face easily, not forced or painted on. A real, true smile.”⁹

sitting out for visitors to try and dozens of laid-back Apple employees close at hand to answer questions and cater to every whim. The stores offer expert technical assistance at the Genius Bar and a full schedule of workshops where customers at all experience levels can learn about their Apple devices and explore their creative sides. You don’t just visit an Apple store—you experience it in a way that no other consumer electronics company can match. As one Apple retail executive explains, “I don’t want to be sold to when I walk into a store. Don’t sell! No! Because that’s a turn-off. Build an amazing brand experience, and then [sales] will just naturally happen.” And sales certainly do happen at Apple stores. Apples 506 retail stores in 24 countries attract more than 1 million customers daily and generate the highest sales per square foot of any U.S. retailer.

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 and participation; 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.

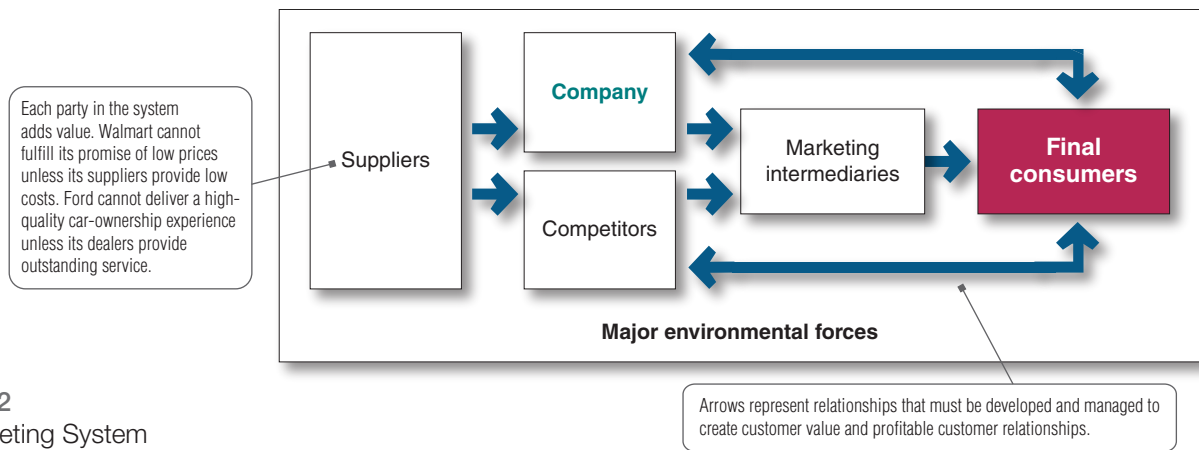
Marketing means managing markets to bring about profitable customer relationships. However, creating these relationships takes work. Sellers must search for and engage buyers, identify their needs, design good market offerings, set prices for them, promote them, and store and deliver them. Activities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

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

Although we normally think of marketing as being carried out by sellers, buyers also carry out marketing. Consumers do marketing when they search for products, interact with companies to obtain information, and make their purchases. In fact, today's digital technologies, from websites and smartphone apps to the explosion of social media, have empowered consumers and made marketing a truly two-way 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 influence our customers?" but also "How can our customers influence us?" and even "How can our customers influence 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 exchange market offerings, messages, and other marketing content with 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 engaging customers and 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.

Author Comment | Once a company fully understands its consumers and the marketplace, it must decide which customers it will serve and how it will bring them value.

Designing a Customer Value–Driven Marketing Strategy and Plan

OBJECTIVE 1-3 Identify the key elements of a customer value–driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.

Customer Value–Driven Marketing Strategy

Once it fully understands consumers and the marketplace, marketing management can design a customer value–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 engage, keep, and grow target customers by creating, delivering, and communicating superior customer value.

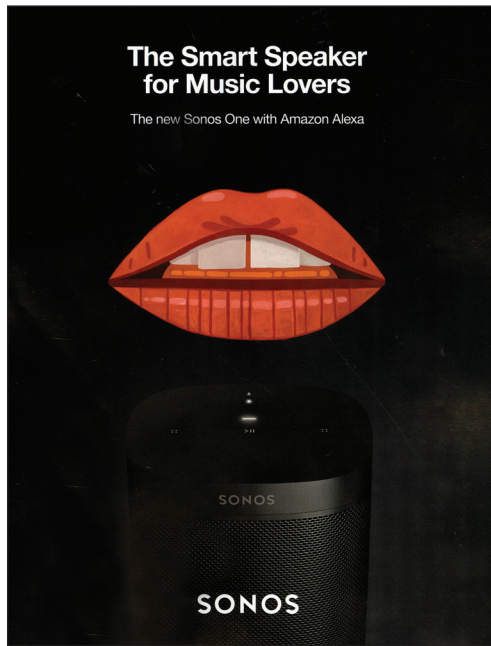
To design a winning marketing strategy, the marketing manager must answer two important questions: What customers will we serve (what's our target market)? and How can we serve these customers best (what's our value proposition)? We will discuss these marketing strategy concepts briefly here and then look at them in more detail in Chapters 2 and 7.

Selecting Customers to Serve

The company must first decide whom it will serve. It does this by dividing the market into segments of customers (market segmentation) and selecting which segments it will go after (target marketing). Some people think of marketing management as finding as

Marketing management

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



● **Value propositions:** Sonos positions its Sonos One with Amazon Alexa as “The smart speaker for music lovers.” It gives you all the advantages of Alexa but with high-quality Sonos sound.

The Advertising Archives/Alamy Stock Photo

Production concept

The idea that consumers will favor products that are available and highly affordable; therefore, the organization should focus on improving production and distribution efficiency.

Product concept

The idea that consumers will favor products that offer the most quality, performance, and features; therefore, the organization should devote its energy to making continuous product improvements.

Selling concept

The idea that consumers will not buy enough of the firm’s products unless the firm undertakes a large-scale selling and promotion effort.

many customers as possible and increasing demand. But marketing managers know that they cannot serve all customers in every way. By trying to serve all customers, they may not serve any customers well. Instead, the company wants to select only customers that it can serve well and profitably. For example, Nordstrom profitably targets affluent professionals; Dollar General profitably targets families with more modest means.

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

Choosing a Value Proposition

The company must also decide how it will serve targeted customers—how it will differentiate and position itself in the marketplace. A brand’s value proposition is the set of benefits or values it promises to deliver to consumers to satisfy their needs. JetBlue promises to put “You Above All” by bringing “humanity back to travel.” By contrast, Spirit Airlines gives you “Bare Fare” pricing: “Less Money. More Go.” Amazon’s Echo smart speaker is “Always ready, connected, and fast. Just ask.”

● By contrast, the Sonos One with Amazon Alexa is “The smart speaker for music lovers.” It gives you all the advantages of Alexa but with high-quality Sonos sound.

Such value propositions differentiate one brand from another. They answer the customer’s question: “Why should I buy your brand rather than a competitor’s?” Companies must design strong value propositions that give them the greatest advantage in their target markets.

Marketing Management Orientations

Marketing management wants to design strategies that will engage target customers and build profitable relationships with them. But what philosophy should guide these marketing strategies? What weight should be given to the interests of customers, the organization, and society? Very often, these interests conflict.

There are five alternative concepts under which organizations design and carry out their marketing strategies: the production, product, selling, marketing, and societal marketing concepts.

The Production Concept. The **production concept** holds that consumers will favor products that are available and highly affordable. Therefore, management should focus on improving production and distribution efficiency. This concept is one of the oldest orientations that guide sellers.

The production concept is still a useful philosophy in some situations. For example, both personal computer maker Lenovo and home appliance maker Haier dominate the highly competitive, price-sensitive Chinese market through low labor costs, high production efficiency, and mass distribution. However, although useful in some situations, the production concept can lead to marketing myopia. Companies adopting this orientation run a major risk of focusing too narrowly on their own operations and losing sight of the real objective—satisfying customer needs and building customer relationships.

The Product Concept. The **product concept** holds that consumers will favor products that offer the most in quality, performance, and innovative features. Under this concept, marketing strategy focuses on making continuous product improvements.

Product quality and improvement are important parts of most marketing strategies. However, focusing only on the company’s products can also lead to marketing myopia. For example, some manufacturers believe that if they can “build a better mousetrap, the world will beat a path to their doors.” But they are often rudely shocked. Buyers may be looking for a better solution to a mouse problem but not necessarily for a better mousetrap. The better solution might be a chemical spray, an exterminating service, a house cat, or something else that suits their needs even better than a mousetrap. Furthermore, a better mousetrap will not sell unless the manufacturer designs, packages, and prices it attractively; places it in convenient distribution channels; brings it to the attention of people who need it; and convinces buyers that it is a better product.

The Selling Concept. Many companies follow the **selling concept**, which holds that consumers will not buy enough of the firm’s products unless it undertakes a large-scale selling

and promotion effort. The selling concept is typically practiced with unsought goods—those that buyers do not normally think of buying, such as life insurance or blood donations. These industries must be good at tracking down prospects and selling them on a product’s benefits.

Such aggressive selling, however, carries high risks. It focuses on creating sales transactions rather than on building long-term, profitable customer relationships. The aim often is to sell what the company makes rather than to make what the market wants. It assumes that customers who are coaxed into buying the product will like it. Or, if they don’t like it, they will possibly forget their disappointment and buy it again later. These are usually poor assumptions.

The Marketing Concept. The **marketing concept** holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do. Under the marketing concept, customer focus and value are the paths to sales and profits. Instead of a product-centered make-and-sell philosophy, the marketing concept is a customer-centered sense-and-respond philosophy. The job is not to find the right customers for your product but to find the right products for your customers.

● **Figure 1.3** contrasts the selling concept and the marketing concept. The selling concept takes an inside-out perspective. It starts with the factory, focuses on the company’s existing products, and calls for heavy selling and promotion to obtain profitable sales. It focuses primarily on customer conquest—getting short-term sales with little concern about who buys or why.

In contrast, the marketing concept takes an outside-in perspective. As Herb Kelleher, the colorful founder of Southwest Airlines, once put it, “We don’t have a marketing department; we have a customer department.” The marketing concept starts with a well-defined market, focuses on customer needs, and integrates all the marketing activities that affect customers. In turn, it yields profits by creating relationships with the right customers based on customer value and satisfaction.

Implementing the marketing concept often means more than simply responding to customers’ stated desires and obvious needs. Customer-driven companies research customers deeply to learn about their desires, gather new product ideas, and test product improvements. Such customer-driven marketing usually works well when a clear need exists and when customers know what they want.

In many cases, however, customers don’t know what they want or even what is possible. As Henry Ford supposedly remarked, “If I’d asked people what they wanted, they would have said faster horses.” For example, even 20 years ago, how many consumers would have thought to ask for now-commonplace products such as tablet computers, smartphones, digital cameras, 24-hour online buying, digital video and music streaming, and all-electric vehicles? Such situations call for *customer-driving* marketing—understanding customer needs even better than customers themselves do and creating products and services that meet both existing and latent needs, now and in the future. As legendary Apple cofounder Steve Jobs once said, “Our job is to figure out what [consumers are] going to want before they do Our task is to read things that are not yet on the page.”¹⁰

The Societal Marketing Concept. The **societal marketing concept** questions whether the pure marketing concept overlooks possible conflicts between consumer short-run wants and consumer long-run welfare. Is a firm that satisfies the immediate needs and wants of target markets always doing what’s best for its consumers in the long run? The

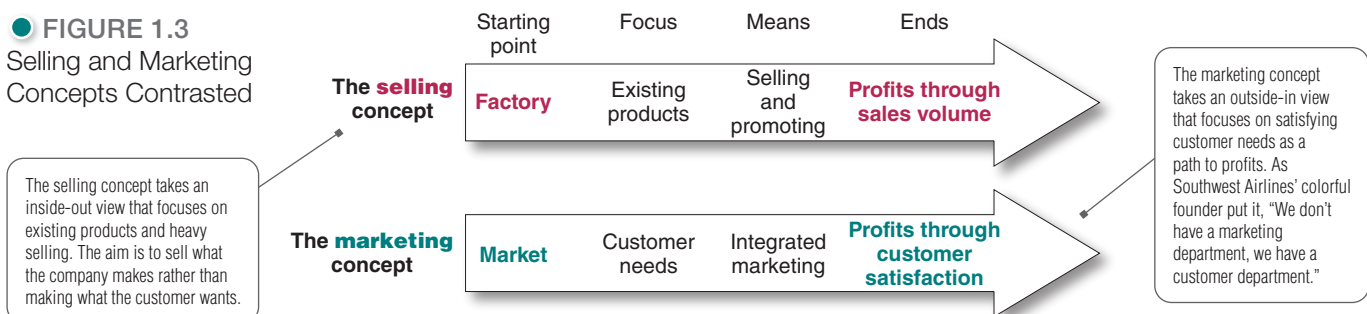
Marketing concept

A philosophy in which achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do.

Societal marketing concept

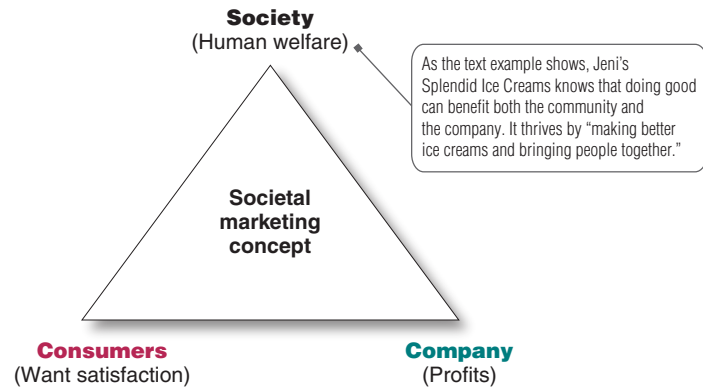
The idea that a company’s marketing decisions should consider consumers’ wants, the company’s requirements, consumers’ long-run interests, and society’s long-run interests.

● **FIGURE 1.3**
Selling and Marketing Concepts Contrasted



The selling concept takes an inside-out view that focuses on existing products and heavy selling. The aim is to sell what the company makes rather than making what the customer wants.

● FIGURE 1.4
Three Considerations Underlying the Societal Marketing Concept



societal marketing concept holds that marketing strategy should deliver value to customers in a way that maintains or improves both the consumer’s and society’s well-being. It calls for sustainable marketing, socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.

Even more broadly, many leading business and marketing thinkers are now preaching the concept of *shared value*, which recognizes that societal needs, not just economic needs, define markets.¹¹ The concept of shared value focuses on creating economic value in a way that also creates value for society. A growing number of companies known for their hard-nosed approaches to business—such as Google, IBM, Johnson & Johnson, Unilever, and Walmart—are rethinking the interactions between society and corporate performance. They are concerned not just with short-term economic gains but with the well-being of their customers, the depletion of natural resources needed by their businesses, the welfare of key suppliers, and the economic well-being of the communities in which they operate.

As ● Figure 1.4 shows, companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, and society’s interests. Small but fast-growing Jeni’s Splendid Ice Creams operates this way.¹²

Jeni’s Splendid Ice Creams makes and sells really good artisan ice cream in its own scoop shops, with exotic flavors such as Goat Cheese with Red Cherries, Wildberry Lavender, and Riesling Poached Pear sorbet. But Jeni’s does more than just make and sell ice cream. It also dedicates itself to a deeply felt mission of “making better ice creams and bringing people together. That’s what gets us out of bed in the morning and keeps us up late at night.” Jeni’s follows what it calls a “fellowship model”—making great ice creams for communities, by communities. ● Signs in Jeni’s shops proudly proclaim: “Ice creams created in fellowship with growers, makers, and producers from around the world all for the love of you.”



● The societal marketing concept: Jeni’s Splendid Ice Cream does more than just make good ice cream. It makes “ice creams created in fellowship with growers, makers, and producers from around the world all for the love of you.”

Jeni’s Splendid Ice Creams, LLC

To achieve this ambitious mission, Jeni’s sources its ingredients carefully, using whole fruits and vegetables, milk from local grass-grazed cows, and wildflower honey from nearby farms, along with fair-trade vanilla and bean-to-bar direct trade chocolate. Jeni’s believes in “buying directly and paying fairly for the ingredients, in having minimal impact on the environment, and in building and shaping community.” It also works to involve its local communities. “Each time we open a store...we spend time in the neighborhoods; we want residents and visitors to be our partners. We think of our company as a community.” Thanks to its societal mission, Jeni’s is thriving. In 15 years, the business has grown from a pint-sized local operation to 34 scoop shops in 10 cities, all with devoted followings. You’ll also find Jeni’s in more 3,000 grocery stores, suggesting that doing good can benefit both the community and the company.

Preparing an Integrated Marketing Plan and Program

The company's marketing strategy outlines which customers it will serve and how it will create value for these customers. Next, the marketer develops an integrated marketing program that will actually deliver the intended value to target customers. The marketing program builds customer relationships by transforming the marketing strategy into action. It consists of the firm's marketing mix, the set of marketing tools the firm uses to implement its marketing strategy.

The major marketing mix tools are classified into four broad groups, called the four Ps of marketing: product, price, place, and promotion. To deliver on its value proposition, the firm must first create a need-satisfying market offering (product). It must then decide how much it will charge for the offering (price) and how it will make the offering available to target consumers (place). Finally, it must engage target consumers, communicate about the offering, and persuade consumers of the offer's merits (promotion). The firm must blend each marketing mix tool into a comprehensive integrated marketing program that communicates and delivers the intended value to chosen customers. We will explore marketing programs and the marketing mix in much more detail in later chapters.

Author Comment | Doing a good job with the first three steps in the marketing process sets the stage for step four, building and managing customer relationships.

Managing Customer Relationships and Capturing Customer Value

OBJECTIVE 1-4 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

The first three steps in the marketing process—understanding the marketplace and customer needs, designing a customer value-driven marketing strategy, and constructing a marketing program—all lead up to the fourth and most important step: engaging customers and managing profitable customer relationships. We first discuss the basics of customer relationship management. Then we examine how companies go about engaging customers on a deeper level in this age of digital and social marketing.

Customer Relationship Management

Customer relationship management is perhaps the most important concept of modern marketing. In the broadest sense, **customer relationship management** is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. It deals with all aspects of acquiring, engaging, and growing customers.

Relationship Building Blocks: Customer Value and Satisfaction. The key to building lasting customer relationships is to create superior customer value and satisfaction. Satisfied customers are more likely to be loyal customers and give the company a larger share of their business.

Attracting and retaining customers can be a difficult task. Customers often face a bewildering array of products and services from which to choose. A customer buys from the firm that offers the highest **customer-perceived value**—the customer's evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers. Importantly, customers often do not judge values and costs "accurately" or "objectively." They act on *perceived* value.

To some consumers, value might mean sensible products at affordable prices. To other consumers, however, value might mean paying more to get more. ● For example, a luxurious Patek Philippe costs a small fortune, ranging in price from \$20,000 to \$500,000. But to those who own one, a Patek is a great value.¹³

PATEK PHILIPPE
GENEVE
Begin your own tradition.

You never actually own a Patek Philippe.
You merely look after it for the next generation.

World Time Ref. 5230G
patek.com

● **Perceived value:** Some owners consider a Patek Philippe watch a real bargain, even at prices ranging from \$20,000 to \$500,000. "You never actually own a Patek Philippe. You merely look after it for the next generation."

Customer relationship management

The overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction.

Customer-perceived value

The customer's evaluation of the difference between all the benefits and all the costs of a marketing offer relative to those of competing offers.

Customer satisfaction

The extent to which a product's perceived performance matches a buyer's expectations.

Listen up here, because I'm about to tell you why a certain watch costing \$20,000, or even \$500,000, isn't actually expensive but is in fact a tremendous value. Every Patek Philippe watch is handmade by Swiss watchmakers from the finest materials and can take more than a year to make. Still not convinced? Beyond keeping precise time, Patek Philippe watches are also good investments. They carry high prices but retain or even increase their value over time. Many models achieve a kind of cult status that makes them the most coveted timepieces on the planet.

But more important than just a means of telling time or a good investment is the sentimental and emotional value of possessing a Patek Philippe. Says the company's president: "This is about passion. I mean—it really is a dream. Nobody needs a Patek." These watches are unique possessions steeped in precious memories, making them treasured family assets. According to the company, "The purchase of a Patek Philippe is often related to a personal event—a professional success, a marriage, or the birth of a child—and offering it as a gift is the most eloquent expression of love or affection." A Patek Philippe watch is made not to last just one lifetime but many. Says one ad: "You never actually own a Patek Philippe. You merely look after it for the next generation." That makes it a real bargain, even at twice the price.

Customer satisfaction depends on the product's perceived performance relative to a buyer's expectations. If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted.

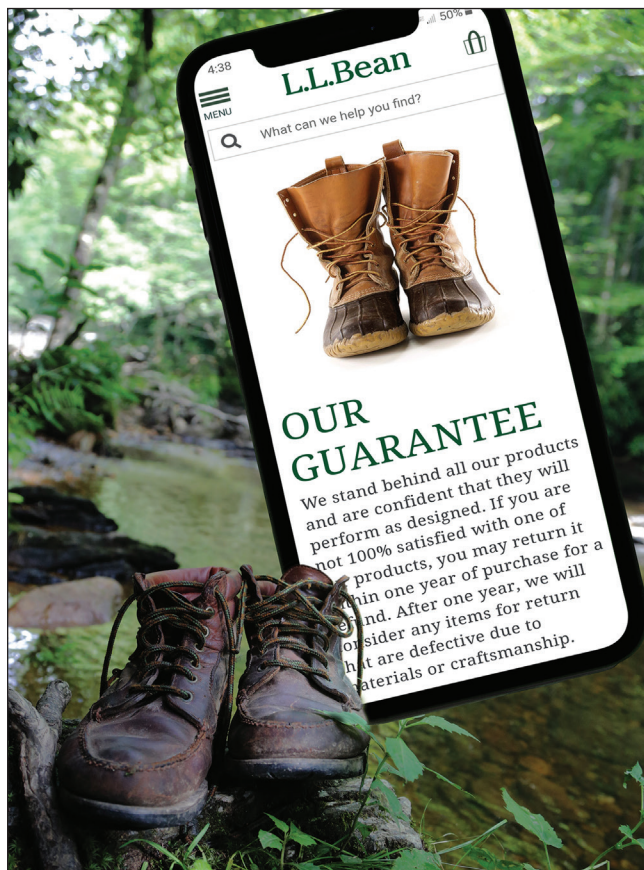
Outstanding marketing companies go out of their way to keep important customers satisfied. Most studies show that higher levels of customer satisfaction lead to greater customer loyalty, which in turn results in better company performance. Companies aim to delight customers by promising only what they can deliver and then delivering more than they promise. Delighted customers not only make repeat purchases but also become willing brand advocates and "customer evangelists" who spread the word about their good experiences to others.

For companies interested in delighting customers, exceptional value and service become part of the overall company culture. For example, L.L.Bean—the iconic American outdoor apparel and equipment retailer—was founded on the principle that keeping customers satisfied is the key to building lasting relationships.¹⁴

Year after year, L.L.Bean lands in the top 10 of virtually every list of top service companies, including J.D. Power's most recent list of "customer service champions." The customer-service culture runs deep at L.L.Bean. More than 100 years ago, Leon Leonwood Bean founded the company on a philosophy of complete customer satisfaction, expressed in the following guarantee: "I do not consider a sale complete until [the] goods are worn out and the customer [is] still satisfied." ● To this day, customers can return any item, no questions asked, up to a year after purchase.

The company's customer-service philosophy is perhaps best summed up in founder L.L.'s answer to the question "What is a customer?" His answer still forms the backbone of the company's values: "A customer is the most important person ever in this company—in person or by mail. A customer is not dependent on us, we are dependent on him. A customer is not an interruption of our work, he is the purpose of it. We are not doing a favor by serving him, he is doing us a favor by giving us the opportunity to do so. A customer is not someone to argue or match wits with. Nobody ever won an argument with a customer. A customer is a person who brings us his wants. It is our job to handle them profitably to him and to ourselves." Adds former L.L.Bean CEO Leon Gorman: "A lot of people have fancy things to say about customer service, but it's just a day-in, day-out, ongoing, never-ending, persevering, compassionate kind of activity."

Other companies that have become legendary for customer delight and their service heroics include Amazon.com, Chick-fil-A, Nordstrom department stores, and JetBlue Airways. However, a company does not necessarily need to have over-the-top service to create customer delight. For example, no-frills grocery chain ALDI has highly satisfied customers, even though



● **Customer satisfaction: Customer service champion**
L.L.Bean was founded on a philosophy of complete customer satisfaction. "If you are not 100% satisfied with one of our products, you may return it within one year of purchase for a refund."

Eyal Dayan Photography