

# Marketing Management

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SIXTEENTH EDITION

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# Marketing Management

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This book is dedicated to my wife and best friend, Nancy, with love.

**—PK**

This book is dedicated to my wife, Punam, and my two daughters,  
Carolyn and Allison, with much love and thanks.

**—KLK**

This book is dedicated to my parents, Irina and Christo, with love  
and gratitude.

**—AC**

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# Preface

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The 16th edition of *Marketing Management* builds on the classic examples, core concepts, and logical structure that made the first edition a landmark text. Much has changed since the 15th edition was published. Ongoing globalization; the increasing role of corporate social responsibility; advances in technology, e-commerce, and digital communication; the growing impact of social media, and the widespread use of data analytics, marketing automation, and artificial intelligence have disrupted many industries and have opened doors to new business models. Responding to these changes, the 16th edition was redesigned from the ground up to provide managers with the tools necessary to succeed in the new market environment.

*Marketing Management* owes its success to its maximization of three dimensions of marketing coverage: depth, breadth, and relevance. The *depth* includes its solid academic grounding; its examination of important theoretical concepts, models, and frameworks; and its ability to provide conceptual guidance to solve practical problems. The *breadth* reflects the wide range of topics addressed in the book and its emphasis on those topics that are most crucial to marketing management. The *relevance* is embodied by the ability of this book to identify the issues commonly faced by managers and present the material in a way that enables them to develop successful strategies to address these issues.

The 16th edition builds on the fundamental strengths of past editions that distinguish *Marketing Management* from all other marketing management texts:

- **Managerial orientation.** The book focuses on the major decisions that marketing managers and top management face in their efforts to harmonize the organization's objectives, capabilities, and resources with marketplace needs and opportunities.
- **Analytical approach.** The text presents conceptual tools and frameworks for analyzing recurring problems in marketing management. Cases and examples illustrate effective marketing principles, strategies, and practices.
- **Multidisciplinary perspective.** *Marketing Management* draws on the rich findings of various scientific disciplines—such as economics, behavioral science, and management theory—for fundamental concepts and tools that are directly applicable to marketing challenges.
- **Universal applications.** The book applies strategic thinking to the complete spectrum of marketing: products, services, persons, places, information, ideas, and causes; consumer and business markets; profit and nonprofit organizations; domestic and foreign companies; small and large firms; manufacturing and intermediary businesses; and low- and high-tech industries.
- **Comprehensive and balanced coverage.** *Marketing Management* covers the topics a manager must understand in order to design and execute a successful marketing campaign.

## What's New in the 16th Edition

The overriding goal of the revision for the 16th edition of *Marketing Management* was to create a comprehensive, current, and engaging marketing text. We streamlined the organization of the content, added new material, cut or updated older material, and deleted material that was no longer relevant or necessary. The 16th edition allows those instructors who have used previous editions to build on past experience, while at the same time offering a text that is unsurpassed in breadth, depth, and relevance for students experiencing *Marketing Management* for the first time.

To improve the presentation of the material, individual chapters are organized into seven rather than eight major parts, as described next. We retained many of the favorably received within-chapter features that have been introduced through the years, such as topical chapter openers, examples highlighting noteworthy companies or issues, and the Marketing Insight and Marketing Spotlight features that provide in-depth conceptual and company-specific information. Most of the chapter-opening vignettes, in-text examples, and end-of-chapter features are new, reflecting current market developments.

## UPDATED CHAPTER CONTENT

The content of the 16th edition has been reorganized to accommodate the introduction of new material and streamline the presentation of material retained from the previous edition. The chapters and the material in the redesigned book better reflect the ways in which marketing management is

currently being taught in most business schools. The organization of the 16th edition and the ways its individual parts and chapters correspond to those from the previous edition are outlined next.

- Part I, “Fundamentals of Marketing Management,” is a retitled version of Part I in the previous edition.
  - Chapter 1, “Defining Marketing for the New Realities,” has been substantively rewritten to serve as an introductory chapter that defines the scope of marketing management as a business discipline.
  - Chapter 2, “Marketing Planning and Management,” has also been extensively rewritten to provide an actionable framework for marketing management and marketing planning. It includes material from Chapters 2 and 23 of the previous edition, but most of the content—text and figures—is new. For example, the new section entitled “Planning and Managing Marketing Offerings,” covers the G-STIC approach to action planning. New supporting Figure 2.6 illustrates the G-STIC framework and Figure 2.7 illustrates an action-planning flowchart.

will create value for collaborators. Finally, the *company value map* outlines the ways in which the offering will create value for the company’s stakeholders. Note that these three value maps are intricately related as they reflect different aspects of the process of creating market value. Only by creating value for target customers, collaborators, and the company can a manager ensure the market success of an offering.

### Planning and Managing Market Offerings

A company’s future depends on its ability to develop successful market offerings that create superior value for target customers, the company, and its collaborators.<sup>21</sup> Market success typically results from diligent market analysis, planning, and management; rarely is it a lucky accident. Succeeding in the market requires a company to develop a viable business model and an action plan that allows the business model to become a reality. The process of developing such an action plan is encapsulated in the G-STIC framework described in the following sections.

#### THE G-STIC APPROACH TO ACTION PLANNING

The action plan, which articulates the company’s goal and delineates a course of action to reach this goal, is the backbone of marketing planning. Five key activities guide the development of an action plan: These activities include setting a goal, developing a strategy, designing the tactics, defining an implementation plan, and identifying a set of control metrics to measure the success of the proposed action. The G-STIC (Goal-Strategy-Tactics-Implementation-Control) framework comprises these five activities and acts as the lynchpin of marketing planning and analysis. At the core of the action plan is the business model based on the offering’s strategy and tactics.

The individual components of the G-STIC approach to marketing planning and management are as follows:

- The **goal** describes the company’s ultimate criterion for success; it specifies the end result that the company plans to achieve. The two components of the goal are its *focus*, which defines the metric (such as net income) used to quantify the intended result of the company’s actions, and the performance *benchmarks* that signal movement toward the goal and define the time frame for achieving the goal.
- The **strategy** provides the basis for the company’s business model by delineating the company’s *target market* and describing the offering’s *value proposition* in this market.
- **Tactics** carry out the strategy by defining the key attributes of the company’s offering. These seven tactics—*product, service, brand, price, incentives, communication, and distribution*—are the tools used to create value in the company’s chosen market.
- **Implementation** consists of the processes involved in readying the company’s offering for sale. Implementation includes *developing* the offering and *deploying* the offering in the target market.
- **Control** measures the success of the company’s activities over time by monitoring the company’s *performance* and the changes in the market *environment* in which the company operates.

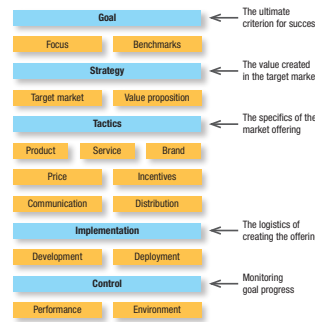
The key components of the marketing plan and the key factors describing each component are outlined in Figure 2.7 and are examined in more detail in the following sections.

#### SETTING A GOAL

Defining the goal that the company aims to achieve sets the marketing plan in motion. The goal can be regarded as the beacon that guides all company activities. Two key decisions are involved in setting a goal: identifying the *focus* of the company’s actions and specifying the performance *benchmarks* to be achieved. These decisions are discussed in more detail next.

**Defining the Goal Focus.** The goal’s focus defines the desired outcome of the company’s activities, an important criterion of a firm’s success. Based on their focus, goals can be monetary or strategic.

- **Monetary goals** are based on such outcomes as net income, profit margins, earnings per share, and return on investment. For-profit firms use monetary goals as their primary performance metric.



**FIGURE 2.7**  
The G-STIC Action-Planning Flowchart  
Source: Alexander Chernov, *Strategic Marketing Management: Theory and Practice* (Chicago, IL: Cengage Learning Press, 2019).

- **Strategic goals** are centered on nonmonetary outcomes that are of strategic importance to the company. Among the most common strategic goals are increasing sales volume, brand awareness, and social welfare, as well as enhancing the corporate culture and facilitating employee recruitment and retention. Nonprofit companies and for-profit companies looking to support items that are bigger revenue producers than the focal offering have strategic goals as their main performance metric. As an example, Amazon might only break even or actually take a loss on some of its Kindle devices and yet view them as a strategically important platform for its retail business.

Companies are increasingly looking beyond sales revenue and profit to consider the legal, ethical, social, and environmental effects of their marketing activities and programs. The concept of a “triple bottom line”—people, planet, and profits—has gained traction among many companies taking stock of the societal impact of their activities.<sup>22</sup> For example, one of Unilever’s key initiatives—its Sustainable Living Plan—has three major goals: to improve people’s health and well-being; to reduce our environmental impact, and to enhance livelihoods. These goals are underpinned by metrics spanning social, environmental, and economic performance in the company’s value chain.<sup>23</sup>

**Defining Performance Benchmarks.** Quantitative and temporal performance benchmarks work in tandem to provide the measurements that track the progress of the company toward reaching its established goal.

- **Quantitative benchmarks** set out the specific milestones to be achieved as the company moves toward its ultimate goal. These benchmarks quantify the company’s focal goal, which might, for example, include increasing market share by 5 percent, or improving retention rates by 15 percent, or growing revenues by 10 percent. Quantitative benchmarks can be stated in relative terms, such as aiming to increase market share by 20 percent, or in absolute terms, such as aspiring to achieve sales of one million units per year.
- **Temporal benchmarks** identify the time frame for achieving a specific quantitative or qualitative benchmark—e.g., revamp the company’s Web site by the end of the first quarter. The timeline set for achieving a goal is a key decision that can affect the type of strategy used to implement the goal, the number of people involved, and even costs. For example, the goal of maximizing next quarter’s profits is likely to require a different strategy and tactics than the goal of ensuring long-term profitability.

Implementing the company goal requires that three main objectives be specified: what the company aims to achieve (goal focus), *how much* the company wants to achieve (quantitative benchmark), and when the company wants to achieve it (temporal benchmark). Thus, a company might have the goal

- Part II, “Understanding the Market,” includes most of the material from Parts II and III in the previous edition.
  - Chapters 3 and 4, “Analyzing Consumer Markets” and “Analyzing Business Markets,” are updated versions of namesake Chapters 6 and 7 in the previous edition. Both chapters have been significantly revised to present a systematic view of market analysis.
  - Chapter 5, “Conducting Marketing Research” combines the content outlined in Chapters 3 and 4 in the previous edition to present a streamlined approach for gathering market insights. Chapter 5 includes a new section on “Data Mining” that covers how marketers can gather useful information about consumers, businesses, and markets.

- Part III, “Developing a Winning Marketing Strategy” is a modified version of Part IV of the previous edition.
  - Chapter 6, “Identifying Market Segments and Targets,” is a substantially revised version of Chapter 9 from the previous edition. This chapter offers new content that defines the strategic and tactical aspects of segmenting the market and identifying target customers.
  - Chapter 7, “Crafting a Customer Value Proposition and Positioning,” is a largely revised and updated version of Chapter 10 from the previous edition. This chapter builds on the content presented in Chapter 6 to outline a systematic approach to developing a value proposition of the chosen target market. New content examines how to develop a meaningful value proposition by creating benefits across three domains—functional, psychological, and monetary—and delineates strategies for creating a sustainable competitive advantage.
- Part IV, “Designing Value,” is a modified version of Part V from the previous edition.
  - Chapter 8, “Designing and Managing Products,” Chapter 9, “Designing and Managing Services,” and Chapter 10, “Building Strong Brands,” correspond to Chapters 13, 14, and 11 in the previous edition. All three chapters have been significantly revised to reflect new market realities.

**The New Services Realities**

Service firms once lagged behind manufacturers in their understanding and use of marketing because they were small or faced large demand or little competition. This has certainly changed. Some of the most skilled marketers now are service firms.


Savvy services marketers are recognizing the new services realities, such as the increasing role of technology, the importance of the increasingly empowered customer, customer coproduction, and the need to engage employees as well as customers.

**INCREASING ROLE OF TECHNOLOGY**

Technology is changing the rules of the game for services in a very fundamental way. Banking, for instance, is being transformed by the ability to bank online and via mobile apps; some customers rarely see a bank lobby or interact with an employee anymore. The Covid-19 pandemic accelerated the digital transformation of services by forcing many companies to change course and transform their businesses by integrating digital technology to fundamentally change how they deliver value to their customers.

Technology also has great power to make service workers more productive. However, companies must avoid pushing technological efficiency so hard that they reduce perceived quality.<sup>21</sup> Amazon has some of the most innovative technology in online retailing, but it also keeps customers extremely satisfied when a problem arises, even if they don't actually talk to an Amazon employee. More companies have introduced “live chat” features to blend technology with a human voice. One company that enables enterprises to connect with customers across different touch points—from text messages to emails, phone calls to video, intelligent chatbots and back—is Twilio.

**Twilio** Twilio, the leading cloud communications platform, is used by millions of developers around the world to “virtualize” the telecommunications infrastructure and improve the human interaction experience. Twilio has over 60,000 business customers, including high-profile clients such as Airbnb, Intuit, Salesforce, Uber, Twitter, eBay, Sony, Yelp, Hulu, and Lyft. Twilio offers its clients a comprehensive, customizable, and easy-to-use platform to automate and streamline communications to customers, collaborators, employees, and coworkers. Coca-Cola uses Twilio to rapidly dispatch service technicians, real estate site Trulia uses Twilio for its click-to-call app that enables potential buyers to connect with an agent, EMC uses Twilio to send texts to



<< To keep both its high-profile business customers and their customers happy, leading cloud communication platform Twilio offers a variety of easy-to-use, customizable services that automate, streamline, and enhance interactions between companies and their customers, collaborators, and employees.



- Chapter 11, “Managing Pricing and Sales Promotions,” includes material from Chapters 16 and 20 in the previous edition. The discussion of sales promotions is now a part of the pricing chapter rather than being discussed in the chapter on managing mass communications.
- Part V, “Communicating Value,” corresponds to Part VII of the previous edition. Note that the order of Parts VI and VII from the previous edition has been switched so that the topic of communications is introduced before the topic of distribution. This change is made to better align the content with the view of marketing as a process of designing, communicating, and delivering value.
  - Chapter 12, “Managing Marketing Communications,” corresponds to Chapter 19 in the previous edition and introduces a streamlined approach to developing a communication campaign that spans different media.
  - Chapter 13, “Designing an Integrated Marketing Campaign in the Digital Age,” includes content from Chapters 20 and 21 of the previous edition. This chapter outlines the key decisions involved in managing the media across different communication channels.
  - Chapter 14, “Personal Selling and Direct Marketing,” includes substantively revised content from Chapter 22 in the previous edition. The content on personal selling is now organized into three sections: managing the sales process, designing the sales force, and managing the sales force.
- Part VI, “Delivering Value,” corresponds to Part VI in the previous edition
  - Chapter 15, “Designing and Managing Distribution Channels,” corresponds to Chapter 17 in the previous edition and features new chapter organization and content.
  - Chapter 16, “Managing Retailing,” corresponds to Chapter 18 in the previous edition and also includes new coverage on franchising.
- Part VII, “Managing Growth,” is a new capstone section that groups growth-related topics covered across different parts of the previous edition.
  - Chapter 17, “Driving Growth in Competitive Markets,” offers an updated and streamlined version of the content discussed in Chapter 12 of the previous edition.

## Business-Model Design

Up to this point, the product has existed only in the form of a description, a drawing, or a prototype. The next step represents a jump in investment that dwarfs the costs incurred so far, requiring the company to determine whether the product idea can be translated into a commercially feasible offering. **Business-model design** also takes the offering's *viability*—its value-creating capacity—into consideration, in addition to concept development's focus on the technological *feasibility* and the *desirability* of the offering. If the business model is validated, the concept can move to the development stage. If the business-model analysis suggests that the offering is unlikely to create market value for the company and its customers, the offering concept (and sometimes the underlying idea) must be revised and reevaluated.

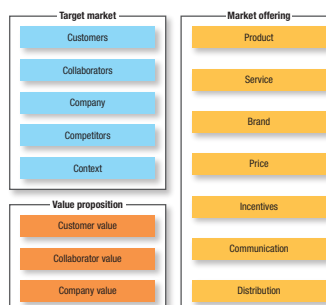
### DESIGNING THE BUSINESS MODEL

Designing the business model involves three key components (discussed in detail in Chapter 2): identifying the target market, articulating the offering's value proposition in that market, and delineating the key attributes of the market offering (Figure 18.3):

- The **target market** is the market in which the company has chosen to create value with its offering. Included in the target market are the target customers that the company has identified as potential purchasers of the offering, competitors that are also vying for the target customers, collaborators that will help the company distribute the offering and serve the target customers, the company itself, and the context of the market in which the company operates.
- The **value proposition** details the type of value that the company plans to create for its target customers and collaborators in the market, as well as the way in which the company plans to capture some of this value for itself.
- The **market offering** describes how the company will create, communicate, and deliver value to its target customers, collaborators, and the company stakeholders. This involves specifying the product, service, brand, price, incentives, communication, and distribution aspects of the company's offering.

The creation of market value is the ultimate goal of the business model. Accordingly, the success of an offering is determined by the degree to which it can create value for its target customers, collaborators, and the company. Thus, the design of a business model for a new offering is guided by three key questions: *Does the offering create value for target customers? Does the offering create value for the company collaborators? and Does the offering create value for the company?*

**FIGURE 18.3**  
The Key Components of a Business Model of a New Offering  
Source: Alexander Chremers, *Strategic Marketing Management: Theory and Practice* (Chicago, IL: Centurium Press, 2019).




- Chapter 18, “Developing New Market Offerings,” which was Chapter 15 in the previous edition, is now organized in a way that reflects the key steps of the new-product development process. Specifically, this chapter includes new coverage of idea generation, business model design, implementation of the offering, and market deployment.
- Chapter 19, “Building Customer Loyalty,” covers content discussed in Chapter 5 of the previous edition and focuses on customer relationship management.
- Chapter 20, “Tapping into Global Markets,” covers content discussed in Chapter 8 of the previous edition.
- Chapter 21, “Socially Responsible Marketing,” is a new chapter that reflects the growing importance of corporate social responsibility in marketing management. As more companies are defining their purpose beyond profits, conducting business in a socially responsible manner becomes a key aspect of creating market value.

**CHAPTER 21**

## Socially Responsible Marketing

United Way



United Way supplements its fund-raising activities by partnering with corporations to deliver meaningful services that address the needs of specific communities.

Source: Courtesy of United Way

**H**ealthy long-term growth for a brand requires marketers to engage in a host of marketing activities and satisfy a broad set of constituents and objectives. In doing so, marketers must also consider the societal impact of their actions. Corporate social responsibility has become a priority for many organizations and is ingrained in their business models. Some organizations, such as United Way, fully embrace this vision of social responsibility.

>>> The nation's largest charity by donations received, United Way is a network of locally governed and funded affiliates operating in nearly 1,800 communities across more than 40 countries and territories. Founded in Denver, Colorado, in 1887 with the primary goal of collecting funds for local charities, United Way has expanded its operations, partnering with other organizations that share its vision to make a lasting difference and achieve a meaningful impact. United Way focuses its efforts on programs delivering measurable outcomes that benefit specific communities, rather than merely raising funds to support various activities. To achieve its mission, United Way brings people, organizations, and communities together around a common cause, a common vision, and a common path forward. For example, United Way joined forces with H&R Block, the Walmart Foundation, Goodwill Industries, and the National Disability Institute to launch a campaign connecting low-income households with free tax preparation services and now helps more people file taxes for free than any other organization. United Way also successfully petitioned the Federal Communications Commission to designate 2-1-1 as a health and human services information hotline to help people find local support and services in times of crisis. Over time, 2-1-1 has become an essential resource, providing emergency assistance for victims and relief for U.S. communities devastated by hurricanes, floods,


## UPDATED CHAPTER FEATURES

In addition to the new core content, all chapters include a number of features—chapter openers, in-text examples, Marketing Insights, and Marketing Spotlights—that aim to illustrate the key concepts and enhance the relevance of the theoretical discussion. Many of these features in the 16th edition are new, and all of those that appeared in the previous edition have been updated to better reflect the current marketing environment. Some of the companies and topics highlighted in features new to the current edition are listed next.

- New chapter openers: Bird (Chapter 1), Slack (Chapter 2), Pantanjali (Chapter 3), Qualtrics (Chapter 5), T-Mobile (Chapter 7), Tesla (Chapter 8), Publix (Chapter 9), Netflix (Chapter 11), Dove (Chapter 12), Net-a-Porter (Chapter 16), Dyson (Chapter 18), SoulCycle (Chapter 19), and United Way (Chapter 20).

CHAPTER **8**
PART 4 | DESIGNING VALUE

## Designing and Managing Products



Tesla's Model 3 set out to prove that mass-produced, environmentally sound electric cars can successfully and profitably pillar market share from producers of traditional gasoline-powered vehicles. Source: iangethompson/Getty Stock Photo

**A**t the heart of a great brand is a great product. To achieve market leadership, firms must offer products and services of superior quality that provide unsurpassed customer value. Tesla has conquered the electric car market in the United States, thanks in part to a relentless focus on product innovation and performance.

>>> In March 2016, Tesla revealed the long-awaited Model 3, the vehicle that the company hopes will ultimately take the electric car to the mass consumer. Priced starting at \$35,000 (after \$8,000 credits and fuel savings were factored in), Model 3 aimed to disrupt the auto industry by proving that mass producing an environmentally friendly vehicle is both feasible and profitable. Tesla's new mass market car created a lot of excitement, generating over half a million pre-orders. 100,000 of which were placed before the Model 3 was revealed. The customer appeal of Model 3 stemmed from several factors. Perhaps the most important was the lack of direct competition. The combination of Tesla's image as a luxury brand and the (relatively) low price point made it the only option for customers who were looking for an all-electric sedan priced around \$40,000. To achieve its goal of building 5,000 vehicles a week, Tesla invested close to \$1 billion to build its first Gigafactory—a lithium-ion battery and vehicle assembly factory near Reno, Nevada. Tesla's efforts to scale up

production of Model 3 paid off: In 2018, it became the best-selling luxury vehicle in the United States, despite the fact that electric cars made up only 1.12% of total vehicle sales. Despite its success, Tesla faces growing competition from other car manufacturers that are revamping their product lines to include an increasing number of all-electric vehicles. Yet Tesla's focus is on gaining share from the traditional car market. "Our true competition is not the small trickle of non-Tesla electric cars being produced," argued Tesla's CEO Elon Musk, "but rather the enormous flood of gasoline cars pouring out of the world's factories every day." In the fall of 2020, Elon Musk laid out a plan for Tesla to build a \$25,000 electric car using drastically lower-cost batteries to potentially turn the company into the world's largest car manufacturer.<sup>1</sup>

Marketing planning begins with formulating an offering to meet target customers' needs or wants. The customer will judge the offering's benefits on three basic elements: product, service, and brand. In this chapter we examine product; in Chapter 9, services; and in Chapter 10, brand. All three elements—product, service, and brand—must be fused into a competitively attractive market offering.

### Product Differentiation

To successfully compete in the market, products must be differentiated. At one extreme are products that allow little variation: chicken, aspirin, and steel. Yet even here some differentiation is possible: Perdue chickens, Bayer aspirin, and India's Tata Steel have carved out distinct identities in their categories. Procter & Gamble makes Tide, Cheer, and Gain laundry detergents, each with a separate brand identity. At the other extreme are products that lend themselves to high differentiation, such as automobiles, commercial buildings, and furniture. Here the seller faces an abundance of differentiation possibilities.

Well-differentiated products can create significant competitive advantages. Crafting a distinctive aura for a product that helps distance it from competitors can involve moves that range from impressive technological advances like Intuitive Surgical's da Vinci robotic system for minimally invasive surgery to simple tweaks like putting a Chiquita sticker on a banana. Some brands, such as DeBeers, differentiate their products by tying them to special occasions. Others, including Tropicana and Tiffany, use packaging to ensure that they stand out from their respective competitors.

Attributes on the basis of which to differentiate include: core functionality, features, performance quality, conformance quality, durability, reliability, form, style, and customization.<sup>2</sup> Design has become an increasingly important differentiator, and we discuss it separately later in the chapter.

- **Core functionality.** To create customer value, products must deliver on their core benefit. Products that fail to deliver on their core value proposition will inevitably fail in the market. Consider the plight of one-time highflier Nokia.

**Learning Objectives** After studying this chapter you should be able to:

<b>8.1</b> Explain how companies use product differentiation to create market value.	<b>8.4</b> Describe the key decisions involved in managing product packaging.
<b>8.2</b> Explain the role of product design in differentiating market offerings.	<b>8.5</b> Explain how companies design and manage product guarantees and warranties.
<b>8.3</b> Discuss the key aspects of designing product portfolios and product lines.	

- New in-text examples integrated into various chapters: Geico (Chapter 7), Haagen-Dazs (Chapter 8), Twilio (Chapter 11), Tupperware (Chapter 14), Ambit Energy (Chapter 14), Wegmans (Chapter 19), Starbucks (Chapter 20), Uniqlo (Chapter 20), and Faguo (Chapter 21).
- New Marketing Insights: Behavioral Decision Theory (Chapter 3), Chasing the Long Tail (Chapter 6), Ethical Issues in Prescription Drug Pricing (Chapter 11), Managing the Price Image of a Retailer (Chapter 16), and Understanding the Adoption of Innovations (Chapter 18).
- New Marketing Spotlights: Alibaba (Chapter 4), LEGO (Chapter 5), Chase Sapphire (Chapter 6), Warby Parker (Chapter 7), Priceline (Chapter 11), Uber (Chapter 11), Avon (Chapter 14), Airbnb (Chapter 17), Honest Tea (Chapter 18), WeChat (Chapter 18), Stitch Fix (Chapter 19), Caesars Entertainment (Chapter 19), Mandarin Oriental (Chapter 20), Ben & Jerry's (Chapter 21), and Tiffany & Co. (Chapter 21).

## Solving Learning and Teaching Challenges

Many students who take a marketing management course are creative and have strong communication skills. However, students often have difficulty developing marketing plans that blend time-tested marketing approaches with modern marketing tools to both generate new customers and maintain existing customers. The 16th edition of *Marketing Management* addresses these challenges by reflecting changes in marketing theory and practice and providing relevant examples from a variety of industries.

This edition prepares students to work in today's environment as companies increasingly (1) shift gears from managing product and service portfolios to managing *customer* portfolios; (2) move from

stand-alone mass products to integrated and customized service solutions; (3) use data analytics and artificial intelligence to better create and capture customer value; (4) rely on social media rather than traditional advertising to promote their offerings; (5) improve their methods of measuring customer profitability and customer lifetime value; (6) focus on measuring the return on their marketing investment and its impact on shareholder value; and (7) concern themselves with the ethical and social implications of their marketing decisions.

To address all these different shifts, the 16th edition is organized to specifically describe and interpret the following eight functions that constitute modern marketing management in the 21st century.

1. Developing a strategic marketing plan
2. Understanding the market and capturing market insights
3. Crafting winning marketing strategies
4. Designing market value
5. Communicating market value
6. Delivering market value
7. Managing growth in a socially responsible way

As companies change, so does their marketing organization. Marketing is no longer a company department charged with a limited number of tasks; it is a company-wide undertaking. It drives the company's vision, mission, and strategic planning. Marketing includes decisions like deciding whom the company wants as its customers, which customer needs to satisfy, what products and services to offer, what prices to set, what communications to send and receive, what channels of distribution to use, and what partnerships to develop.

## PEDAGOGY THAT EMPHASIZES REAL-WORLD, RELEVANT MARKETING EXAMPLES

Effective learning occurs when sound theory is complemented by relevant practical examples. To this end, the 16th edition includes a variety of features—chapter-opening vignettes, in-text examples, Marketing Insights, and Marketing Spotlights—designed to engage students by highlighting the practical application of the concepts covered in each chapter.

- Each chapter opens with a relevant real-world marketing example that engages students and sets the context of the chapter.
- Each chapter includes several in-text features with additional real-world and engaging marketing examples to illustrate key concepts within sections.
- Each chapter includes at least one Marketing Insight feature that addresses a specific marketing topic in greater detail to provide in-depth coverage and foster better understanding of this topic.

### marketing INSIGHT

#### Managing the Price Image of a Retailer

**Price image** reflects the general perception that consumers have about the level of prices at a given retailer. For example, Walmart is often regarded as being rather inexpensive, whereas Target is usually considered to be moderately priced. Price image differs from price, which is quantitatively expressed; price image is qualitative in nature. This means that consumers regard a retailer's pricing in categorical terms such as "expensive" or "inexpensive." Price image resides in the minds of the buyers; thus, it is based on consumers' perception of prices at a particular retailer compared to other retailers and may not be an accurate reflection of the actual level of a retailer's prices.

Many managers mistakenly believe that price image is based solely on the prices within a specific store and that managing price image is as simple as adjusting the prices of items the store carries. This results in the theory that a retailer can lower its price image by lowering the prices of items in its assortment.

However, this method of resetting price image has not proved effective. Low or high prices are an important factor in the formation of a retailer's price image, but prices are not the only things that consumers consider when forming a judgment about price image. Figure 16.1

depicts the key drivers of price image and their related impact on consumer behavior.

- **Average price level.** Price image does indeed hinge on the actual prices of the items carried by a particular retailer, although not entirely. A store in which prices are substantially above those of its competitors will find it difficult to convince customers that it is not high priced, regardless of other measures it may take to change its price image.
- **Known-value items.** Consumers typically do not examine all prices at a store; instead, they tend to focus on items whose prices they are familiar with, which are referred to as known-value or signpost items. Because shoppers are aware of the prices for these items at other stores, they use them to determine whether or not a particular price is competitive. Known-value items usually fall into the category of frequently purchased items like milk, soda, and snacks, allowing consumers to readily compare prices across different stores.
- **Price range.** Consumers form an assessment of price image not just from the average level of prices at a retailer, but also from the range of prices within

- Each chapter includes two Marketing Spotlight (formerly Marketing Excellence) features that use a relevant real-world company to illustrate the marketing concepts covered in the chapter. Questions give students an opportunity to confirm their understanding and apply critical thinking. Professors can assign the questions as homework or use them for class discussion.

## marketing SPOTLIGHT

### Warby Parker

Warby Parker was founded by four Wharton MBA students who wanted to offer consumers designer glasses online at an affordable price. At the time, the eyewear industry was dominated by two companies—Luxottica and Essilor. Luxottica designed, manufactured, and retailed most eyewear frames sold. The company held licenses for many of the most popular brands, such as Ralph Lauren, Ray-Ban, and Oakley, and owned optical retail chains like LensCrafters and Sunglass Hut. Whereas Luxottica specialized in frames, Essilor, the largest optical lens wholesaler in the United States, dominated the lenses portion of the eyewear industry.



Source: Robert K. Chin - Shutterstock/Getty Stock Photo

The preceding features capture many of the significant changes and trends in the marketplace and can greatly enhance comprehension of the material by illustrating the key marketing concepts. In addition, these real-world examples can help to stimulate student interest and engagement with the material.

## INSTRUCTOR TEACHING RESOURCES

Detailed information and resources are available at [www.pearson.com](http://www.pearson.com).

## Acknowledgments

The 16th edition of *Marketing Management* bears the imprint of many people.

*From Philip Kotler and Kevin Lane Keller:* We are thrilled to introduce Professor Alexander Chernev as coauthor of the 16th edition of *Marketing Management*. Alex has contributed to the field of marketing in many ways—as an accomplished researcher, a widely acclaimed teacher, a prolific writer, and a trusted source of expert insight to many firms and organizations. He is that rare marketing scholar who skillfully blends rigor and relevance in all he does. Alex has made a name for himself through his unique ability to develop and disseminate relevant marketing knowledge, and we couldn't be more pleased to have had the opportunity to work with him on this new edition. At the top of this game, he has brought new ideas, new thinking, and new energy that have significantly transformed and improved the book. We thank Alex for his contribution and look forward to working with him on many more editions to come.

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In addition, he has published over 150 articles in leading journals, including *Harvard Business Review, Sloan Management Review, Business Horizons, California Management Review, Journal of Marketing, Journal of Marketing Research, Management Science, Journal of Business Strategy, and Futurist*. He is the only three-time winner of the Alpha Kappa Psi award for the best annual article published in the *Journal of Marketing*.

Professor Kotler was the first recipient of the American Marketing Association's (AMA) Distinguished Marketing Educator Award (1985); he was chosen as the Leader in Marketing Thought by academic members of the AMA (1975) and received the Paul Converse Award (1978). Other honors include the Prize for Marketing Excellence from the European Association of Marketing Consultants and Sales Trainers; Sales and Marketing Executives International's (SMEI) Marketer of the Year (1995); the Distinguished Educator Award from the Academy of Marketing Science (2002); the William L. Wilkie "Marketing for a Better World" Award (2013); the Sheth Foundation Medal for Exceptional Contribution to Marketing Scholarship and Practice (2013); and induction into the Marketing Hall of Fame (2014).

He has received 22 honorary doctoral degrees, among them from Stockholm University, the University of Zurich, Athens University of Economics and Business, DePaul University, the Cracow School of Business and Economics, Groupe H.E.C. in Paris, the Budapest School of Economic Science and Public Administration, the University of Economics and Business Administration in Vienna, and Plekhanov Russian Academy of Economics.

Professor Kotler has been a consultant to many major U.S. and foreign companies, including IBM, General Electric, AT&T, Honeywell, Bank of America, Merck, SAS Airlines, and Michelin. In addition, he has served as chairman of the College of Marketing of the Institute of Management Sciences, a director of the American Marketing Association, a trustee of the Marketing Science Institute, a director of the MAC Group, a member of the Yankelovich Advisory Board, and a member of the Copernicus Advisory Board. He was a member of the Board of Governors of the School of the Art Institute of Chicago and a member of the Advisory Board of the Drucker Foundation. He has traveled extensively throughout Europe, Asia, and South America, advising many companies about global marketing opportunities.



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Professor Keller's general area of expertise is in understanding how theories and concepts related to consumer psychology can improve branding and marketing strategies. His research has been published numerous times in each of the four of the major marketing journals: the *Journal of Marketing*, *Journal of Marketing Research*, *Journal of Consumer Research*, and *Marketing Science*. With over 120 published papers, he is also one of the most heavily cited of all marketing academics, and he has received numerous awards for his research accomplishments.

Actively involved with industry, Professor Keller has worked on a host of different types of marketing projects. He has served as a consultant and advisor to marketers for some of the world's most successful brands, including Accenture, American Express, Disney, Ford, Intel, Levi Strauss, L.L. Bean, Nike, Procter & Gamble, and Samsung. He is a popular and highly sought-after speaker and has given keynote speeches and conducted workshops with top executives in a wide variety of forums. He has lectured all over the world, from Seoul to Johannesburg, from Sydney to Stockholm, and from Sao Paulo to Mumbai.

Professor Keller is currently conducting a variety of research studies that address strategies to build, measure, and manage brand equity. His text on those subjects, *Strategic Brand Management*, added coauthor Vanitha Swaminathan for its 5th edition. It has been adopted at top business schools and leading firms around the world and has been heralded as the "bible of branding." He has also served as an academic trustee, executive director, and executive committee member for the Marketing Science Institute.

An avid sports, music, and film enthusiast in his so-called spare time, Professor Keller has helped to manage, market, and serve as executive producer for one of Australia's great rock and roll treasures, The Church, as well as American power-pop legends Tommy Keene and Dwight Twilley. He currently serves on the Board of Directors for the Lebanon Opera House and the Doug Flutie, Jr. Foundation for Autism. He lives in Etna, New Hampshire, with his wife Punam (also a Tuck marketing professor) and two daughters, Carolyn and Allison.



**Alexander Chernev** is a professor of marketing at the Kellogg School of Management, Northwestern University. He holds an MA and a PhD in psychology from Sofia University and a PhD in business administration from Duke University. He is an academic thought leader, speaker, and advisor in the area of marketing strategy, brand management, consumer decision making, and behavioral economics.

Professor Chernev has written numerous articles focused on business strategy, brand management, consumer behavior, and market planning. His research has been published in the leading marketing journals and has been frequently quoted in the business and popular press, including the *Wall Street Journal*, the *Financial Times*, the *New York Times*, the *Washington Post*, *Harvard Business Review*, *Scientific American*, the *Associated Press*, *Forbes*, and *Bloomberg Businessweek*. He was ranked among the top ten most prolific scholars in the leading marketing journals by the *Journal of Marketing* and among the top five marketing faculty in the area of consumer behavior by a global survey of marketing faculty published by the *Journal of Marketing Education*.

In addition to academic and managerial articles, Professor Chernev has published a number of impactful books—*Strategic Marketing Management: Theory and Practice*, *Strategic Marketing Management: The Framework*, *Strategic Brand Management*, *The Marketing Plan Handbook*, and *The Business Model: How to Develop New Products, Create Market Value, and Make the Competition Irrelevant*—that have been translated into multiple languages and are used in top business schools around the world.

Professor Chernev has served as an area editor for the *Journal of Marketing* and the *Journal of Consumer Psychology* and on the editorial boards of leading research journals, including the *Journal of Marketing Research*, *Journal of Consumer Research*, *International Journal of Research in Marketing*, *Journal of the Academy of Marketing Science*, and *Journal of Marketing Behavior*.

At the Kellogg School of Management, Professor Chernev teaches marketing strategy, brand management, and behavioral decision theory in MBA, PhD, and executive education programs. He has also taught in executive programs at INSEAD in France and Singapore, at the Institute for Management Development (IMD) in Switzerland, and at Hong Kong University of Science and Technology. He has received numerous teaching awards, including the Core Course Teaching Award, the Kellogg Faculty Impact Award, and the Kellogg Executive MBA Program's Top Professor Award, which he has received 13 times.

In addition to research and teaching, Professor Chernev has served as an academic trustee, and is currently a fellow, of the *Marketing Science Institute*. He has served as an expert on numerous legal cases dealing with issues pertaining to intellectual property, consumer behavior, and marketing strategy. A consummate educator and presenter, Professor Chernev has keynoted presentations at conferences and corporate events around the globe. He advises companies worldwide—from Fortune 500 firms to start-ups—on issues of marketing strategy, brand management, strategic planning, and new-product development, as well as on ways to craft their business models, build strong brands, uncover market opportunities, develop new products and services, and gain competitive advantage.

# Marketing Management

# Defining Marketing for the New Realities



Riders in global markets can access an affordable, non-polluting Bird e-scooter via smart phone (or have it brought to their home or business), whisk across town, and drop it off at a public space.

Source: Alexander Chernev

**F**ormally and informally, people and organizations engage in a vast number of activities that we call marketing. In the face of the digital revolution and other major changes in the business environment, effective marketing today is both increasingly vital and radically new. Consider the rapid market success of the start-up Bird.

>>> Bird is an electric-scooter-sharing company dedicated to offering affordable, environmentally friendly commuter transportation. It aims to give riders looking to take a short journey across town, or from the subway or bus to their destination, a convenient mode of transportation that does not pollute the air or add to traffic. Founded in September 2017 and headquartered in Venice, California, Bird provides a fleet of shared electric scooters that can be accessed via smartphone. Rather than requiring dedicated docking areas, Bird scooters can be picked up and dropped off on sidewalks throughout the city. The company's business model has proved immensely popular; in its first year of operation its scooters were available in over 100 cities throughout North America, Europe, and Asia, and they logged 10 million rides. Facing growing competition from other dockless scooter-sharing



start-ups, such as Lime and Spin, Bird's business model has constantly evolved. It introduced Bird Delivery service, which enables consumers to request a Bird to be delivered to their home or business early in the morning to ensure that they have guaranteed transportation throughout the day. To speed up adoption, Bird also introduced Bird Platform, a suite of products and services that gives entrepreneurs the opportunity to become independent operators and manage a fleet of shared e-scooters in their community. Independent operators have the option to add their own logo to Bird scooters and are given logistical support to charge, maintain, and distribute the e-scooters each day.<sup>1</sup>

Good marketing is no accident. It is both an art and a science, and it results from careful planning and execution using state-of-the-art tools and techniques. Skillful marketers are continually updating classic practices and inventing new ones to find creative, practical ways to adapt to new marketing realities. In this chapter, we lay the foundation for sound marketing practices by reviewing important marketing concepts, tools, frameworks, and issues.

## The Scope of Marketing

To be a successful marketer, one must have a clear understanding of the essence of marketing, what can be marketed, and how marketing works. We discuss these three aspects of marketing next.

### WHAT IS MARKETING?

**Marketing** is about identifying and meeting human and social needs in a way that harmonizes with the goals of the organization. When Google recognized that people needed to more effectively and efficiently access information on the internet, it created a powerful search engine that organized and prioritized queries. When IKEA noticed that people wanted good furnishings at substantially lower prices, it created knockdown furniture. These two firms demonstrated marketing savvy and turned a private or social need into a profitable business opportunity.<sup>2</sup>

The American Marketing Association offers the following formal definition: *Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.*<sup>3</sup> Coping with these exchange processes calls for a considerable amount of work and skill. Marketing management takes place when at least one party to a potential exchange thinks about the means of achieving desired responses from other parties. Thus **marketing management** is the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value.

We can also distinguish between social and managerial definition of marketing. A social definition of marketing shows the role marketing plays in society; for example, one marketer has said that marketing's role is to "deliver a higher standard of living." Our social definition of marketing: *Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others.* Co-creation of value among consumers and with

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**Learning Objectives** After studying this chapter you should be able to:

- |   |   |
|---|---|
| <b>1.1</b> Define the scope of marketing.                     | <b>1.4</b> Illustrate how to organize and manage a modern marketing department. |
| <b>1.2</b> Describe the new marketing realities.              | <b>1.5</b> Explain how to build a customer-centric organization.                |
| <b>1.3</b> Explain the role of marketing in the organization. |   |

businesses, and the importance of value creation and sharing, have become important themes in the development of modern marketing thought.<sup>4</sup>

Managers sometimes think of marketing as “the art of selling products,” and many people are surprised when they hear that selling is *not* the most important part of marketing. Selling is only the tip of the marketing iceberg. Peter Drucker, famed management theorist, put it this way:

There will always, one can assume, be need for some selling. But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available.<sup>5</sup>

When Nintendo released its Wii game system, when Apple launched its iPad tablet computer, and when Toyota introduced its Prius hybrid automobile, these manufacturers were swamped with orders. Their success cannot be attributed merely to the great selling skills of retailers. Rather, their runaway success stemmed from the fact that they had designed the right product, based on careful marketing homework about consumers, competition, and all the external factors that affect cost and demand.

## WHAT IS MARKETED?

Marketing is ubiquitous—it permeates all aspects of the society. Specifically, marketing typically involves 10 different domains: goods, services, events, experiences, persons, places, properties, organizations, information, and ideas. Let’s take a quick look at these categories.

- **Goods.** Physical goods constitute the bulk of most countries’ production and marketing efforts. Each year U.S. companies market billions of fresh, canned, bagged, and frozen food products and millions of cars, refrigerators, televisions, machines, and other mainstays of a modern economy.
- **Services.** As economies advance, a growing proportion of their activities focus on the production of services. The U.S. economy today produces a services-to-goods mix of roughly two-thirds to one-third. Services include the offerings of airlines, hotels, car rental firms, barbers and beauticians, maintenance and repair people, accountants, bankers, lawyers, engineers, doctors, software programmers, and management consultants. Many market offerings mix goods and services, such as a fast-food meal.
- **Events.** Marketers promote time-based events, including major trade shows, artistic performances, and company anniversaries. Global sporting events such as the Olympics and the World Cup are promoted aggressively to companies and fans. Local events include craft fairs, bookstore readings, and farmers’ markets.
- **Experiences.** By orchestrating several services and goods, a firm can create, stage, and market experiences. Walt Disney World’s Magic Kingdom lets customers visit a fairy kingdom, a pirate ship, or a haunted house. Customized experiences include a week at a baseball camp with retired baseball greats, a four-day rock-and-roll fantasy camp, and a climb up Mount Everest.
- **Persons.** Artists, musicians, CEOs, physicians, high-profile lawyers and financiers, and other professionals often get help from marketers.<sup>6</sup> Many athletes and entertainers have done a masterful job of marketing themselves—former NFL quarterback Peyton Manning, talk show veteran Oprah Winfrey, and rock-and-roll legends The Rolling Stones. Management consultant Tom Peters, himself a master at self-branding, has advised each person to become a “brand.”
- **Places.** Cities, states, regions, and whole nations compete to attract tourists, residents, factories, and company headquarters.<sup>7</sup> Place marketers include economic development specialists, real estate agents, commercial banks, local business associations, and advertising and public relations agencies. The Las Vegas Convention & Visitors Authority has met with much success with its provocative ad campaign “What Happens Here, Stays Here,” portraying Las Vegas as “an adult playground.”
- **Properties.** Properties involve intangible rights of ownership to either real property (real estate) or financial property (stocks and bonds). They are bought and sold, and these exchanges require marketing. Real estate agents work for property owners and sellers, or they buy and sell residential and commercial real estate. Investment companies and banks market securities to both institutional and individual investors.
- **Organizations.** Museums, performing-arts organizations, corporations, and nonprofits all use marketing to boost their public image and compete for audiences and funds. Some universities

have created chief marketing officer (CMO) positions to better manage their school identity and image, encompassing everything from admission brochures and Twitter feeds to brand strategy.

- **Information.** Information is disseminated knowledge. It is produced, marketed, and distributed by TV and radio news, newspapers, the internet, think tanks, government and business entities, and schools and universities. Firms make business decisions using information supplied by organizations such as Nielsen, R.R. Donnelley & Sons, comscore, Gartner, J.D. Power and Associates, GfK, and Ipsos.
- **Ideas.** Social marketers promote such ideas as “Friends Don’t Let Friends Drive Drunk” and “A Mind Is a Terrible Thing to Waste.” Political parties promote social causes such as gun control, tax reform, and affordable health care. As part of their corporate social responsibility activities, many organizations promote causes focused on issues such as poverty, climate change, civil rights, social justice, racial discrimination, gender inequality, health care availability, and childhood obesity.

## THE MARKETING EXCHANGE

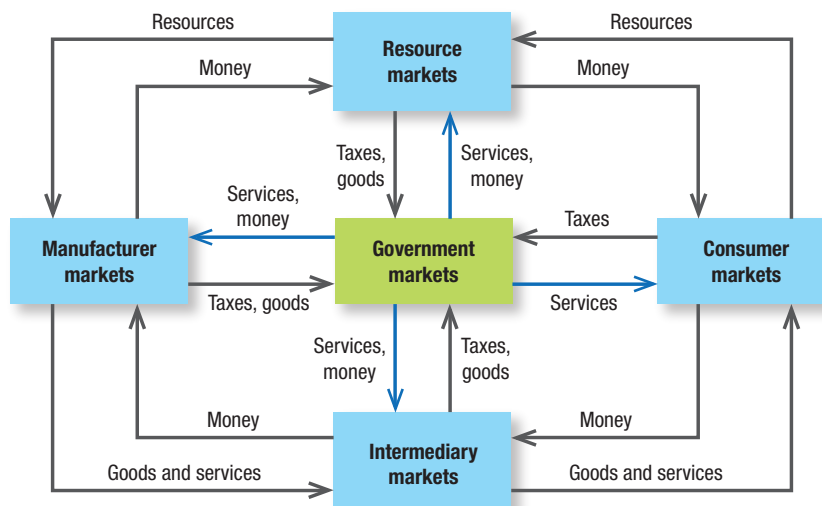
A marketer is someone who seeks a response—attention, a purchase, a vote, a donation—from another party. Marketers are skilled at stimulating demand for their products; however, that’s a limited view of what they do. They also seek to influence the level, timing, and composition of demand to meet the organization’s objectives.

Traditionally, a “market” was a physical place where buyers and sellers gathered to buy and sell goods. Economists describe a market as a collection of buyers and sellers who negotiate transactions that involve a particular product or product class (such as the housing market or the grain market).

There are five basic markets: resource markets, manufacturer markets, consumer markets, intermediary markets, and government markets. The five basic markets and their connecting flows of goods, services, and money are shown in Figure 1.1. Manufacturers go to resource markets (raw material markets, labor markets, money markets), buy resources and turn them into goods and services, and sell finished products to intermediaries, who sell them to consumers. Consumers sell their labor and receive money with which they pay for the goods and services they purchase. The government collects tax revenues to buy goods from resource, manufacturer, and intermediary markets and uses these goods and services to provide public services. Every nation’s economy, and the global economy itself, all consist of interacting sets of markets linked through exchange processes.

Marketers view *industry* as a group of sellers and use the term *market* to describe customer groups. There are need markets (the diet-seeking market), product markets (the shoe market), demographic markets (the “Millennium” youth market), and geographic markets (the Chinese market), as well as voter markets, labor markets, and donor markets.

Figure 1.2 shows how sellers and buyers are connected by four flows. Sellers send goods and services and communications such as ads and direct mail to the market; in return, they receive money and information such as data on customer attitudes and sales. The inner loop shows an exchange of money for goods and services; the outer loop shows an exchange of information.



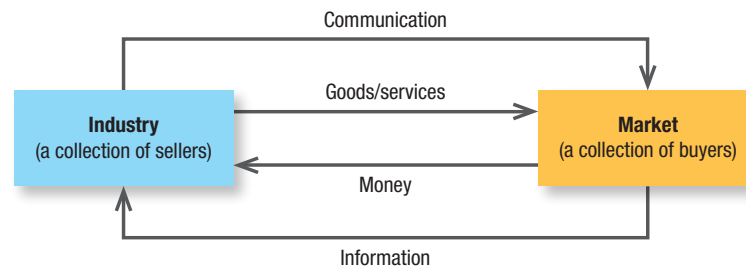
**FIGURE 1.1**

Structure of Goods, Services, and Money Flows in a Modern Exchange Economy



FIGURE 1.2

A Simple Marketing System



Finance, operations, accounting, and other business functions won't really matter without sufficient demand for products and services that enable a firm to make a profit. In other words, there must be an effective top line for there to be a healthy bottom line. Thus, financial success often depends on marketing ability. Marketing's value extends to society as a whole. It has helped introduce new or enhanced products that ease or enrich people's lives. Successful marketing builds demand for products and services, which, in turn, creates jobs. By contributing to the bottom line, successful marketing also allows firms to more fully engage in socially responsible activities.<sup>8</sup>

In an online- and mobile-fueled environment where consumers, competition, technology, and economic forces change rapidly and consequences quickly multiply, marketers must choose features, prices, and markets and decide how much to spend on advertising, sales, and online and mobile marketing.

There is little margin for error in marketing. Just a short time ago, MySpace, Yahoo!, Blockbuster, and Barnes & Noble were admired leaders in their industries. What a difference a few years can make! All of these brands have been completely overtaken by upstart challengers—Facebook, Google, Netflix, and Amazon, respectively—and they now struggle, sometimes unsuccessfully, for mere survival. Firms must constantly move forward. At greatest risk are those companies that fail to carefully monitor their customers and competitors and thus fail to continually improve their value offerings and marketing strategies, in the process satisfying their employees, stockholders, suppliers, and channel partners.

Innovation in marketing is critical. Imaginative ideas on strategy exist in many places within a company. Senior management should identify and encourage fresh ideas from three generally under-represented groups: employees with youthful or diverse perspectives, employees far removed from company headquarters, and employees new to the industry. Each group can challenge company orthodoxy and stimulate new ideas.

British-based RB (formerly Reckitt Benckiser) has been an innovator in the staid household cleaning products industry by generating 35 percent of sales from products under three years old. Its multinational staff is encouraged to dig deeply into consumer habits and is well rewarded for excellent performance.

## The New Marketing Realities

The marketplace is dramatically different from even 10 years ago, with new marketing behaviors, opportunities, and challenges emerging.<sup>9</sup> The new market realities can be divided into three main categories: the market forces that shape the relationships among the different market entities, the market outcomes that stem from the interplay of these forces, and the emergence of holistic marketing as an essential approach to succeeding in the rapidly evolving market.

Figure 1.3 summarizes the four major market forces, three key market outcomes, and four fundamental pillars of holistic marketing that help to capture the new marketing realities. With these concepts in place, we can identify a specific set of tasks that make up successful marketing management and marketing leadership.

### THE FOUR MAJOR MARKET FORCES

The business environment today has been profoundly influenced by four main forces: technology, globalization, the physical environment, and social responsibility. We discuss these four transformative forces in more detail next.

**Technology.** The pace of change and the scale of technological achievement can be staggering. The rapid rise of e-commerce, online and mobile communication, and artificial intelligence has offered marketers increasing capabilities. Massive amounts of information and data about almost everything are now available to both consumers and marketers.

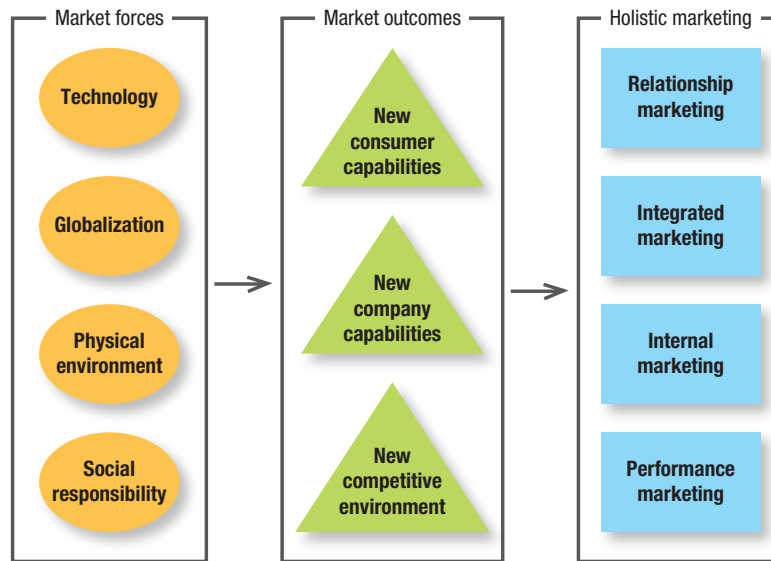


FIGURE 1.3

The New Marketing Realities

Technological developments have given birth to new business models that take advantage of the new capabilities stemming from these technologies. Companies like Netflix, Amazon, Airbnb, and Uber that have embraced the new technologies have disrupted markets and become major players in the industries in which they compete.

Advances in data analytics, machine learning, and artificial intelligence have enabled companies not only to better understand their customers but also to tailor their offerings to consumers' needs. Exponentially increasing computing power—coupled with complex data analysis algorithms that include natural language processing, object recognition, and affective computing—have provided marketers with unprecedented knowledge about their customers and enabled them to interact with these customers on a one-to-one basis. The growth of data analytics and artificial intelligence platforms have democratized these technologies by making them available to smaller companies that typically would not have had the resources to implement these technologies on their own.

Even traditional marketing activities have been profoundly affected by technology. To improve sales force effectiveness, drug maker Roche issued iPads to its entire sales team. Though the company had previously used a sophisticated customer relationship management software system, it still depended on sales reps to input data accurately and in a timely fashion, which, unfortunately, did not always happen. With iPads, however, sales teams can do real-time data entry, improving the quality of the data entered while freeing up time for other tasks.

**Globalization.** The world has become a level playing field that offers competitors across the globe an equal opportunity to succeed. Geographic and political barriers have been eroded as advanced telecommunication technologies and workflow platforms that enable all types of computers to work together continue to create almost limitless opportunities for communication, collaboration, and data mining. The notion that the world has become a smaller place connecting businesses and customers across the globe is well captured by the phrase “The World Is Flat” coined by Thomas Friedman in his book of that name.<sup>10</sup>

Friedman illustrates the impact of globalization with the following example: The person taking your order at a McDonald's in Missouri might be working at a call center 900 miles away in Colorado Springs. She then zaps your order back to the McDonald's so that it's ready minutes later as you drive to the pickup window. Friedman warns of the consequences of ignoring the rapid pace of global advances that will necessitate changes in the way companies do business, including the loss of American jobs to skilled employees who will work for less. In order to succeed in this “flattened” world, the U.S. workforce must continually update its specialized skills and create superior products.

Globalization has made countries increasingly multicultural. U.S. minorities have expanding economic clout, with their buying power growing faster than that of the general population. Demographic trends favor developing markets with populations whose median age is below 25. In terms of growth of the middle class, the vast majority of the next billion people who join the middle class are likely to be Asian.<sup>11</sup>

Globalization changes innovation and product development as companies take ideas and lessons from one country and apply them to another. After years of little success with its premium ultrasound scanners in the Chinese market, GE successfully developed a portable, ultra-low-cost version that addressed the country's unique market needs. Later, it began to successfully sell the product throughout the developed world for use in ambulances and operating rooms where existing models were too big.<sup>12</sup>

**Physical Environment.** The physical environment in which companies operate has changed dramatically during the past decade. Two particularly far-ranging changes in the physical environment deserve special attention: climate change and changes in global health conditions.

*Climate change*—a term referring to lasting changes in Earth's global climate as well as changes in regional climates—can have a significant impact on a company's business activities. Climate change is not limited to global warming; it can also involve lower rather than rising temperatures (global cooling). In addition, the effects of climate change go beyond lasting changes in the temperature to trigger more frequent and more extreme weather events, fluctuations in humidity and rainfall, and rising sea levels resulting from thermal expansion of ocean waters and unprecedented melting of glaciers and the polar ice caps.

Climate change can have a profound effect on the business models of virtually all companies regardless of their size or the industry in which they operate. For example, an increase in the average annual temperature can lead to lower yields of fruits and vegetables that are accustomed to cooler temperatures and to higher yields of warm-climate vegetation. As the warm season lengthens, warm-weather activities tend to grow, whereas winter sports tend to suffer. Rising sea levels are creating major disruptions in global commerce as well as in people's daily lives. As a result of rising seas and extreme weather caused by climate change, Indonesia's government announced plans to move its endangered national capital from Jakarta to a new location on the island of Borneo. The impact of rising sea levels not only entails frequent flooding; it also means higher rates of erosion, greater damage from storms, and saltwater contamination of drinking water.

*Health conditions* range from short-term illnesses that are confined to a particular geographic area to pandemics that spread across the globe. Changes in health conditions can influence not only the operations of pharmaceutical, biotechnology, and health management companies but also companies that are not directly related to health care. Pandemics, such as avian influenza and swine flu, can have a profound effect on all areas of business, including food, tourism, hospitality, and transportation. A truly global pandemic such as COVID-19 could effectively paralyze most, if not all, business transactions, leading to a virtual standstill of global commerce. Because the process of globalization and the related increase in global travel have magnified the probability of localized diseases becoming pandemics, managers must be prepared to adapt their business models to account for changing health conditions that threaten their customers, employees, and the company's bottom line.

**Social Responsibility.** Poverty, pollution, water shortages, climate change, social injustice, and wealth concentration demand our attention. The private sector is taking some responsibility for improving living conditions, and firms all over the world have elevated the role of corporate social responsibility.

Because marketing's effects extend to society as a whole, marketers must consider the ethical, environmental, legal, and social context of their activities.<sup>13</sup> The organization's task is thus to determine the needs, wants, and interests of target markets and satisfy them more effectively and efficiently than competitors, while preserving or enhancing consumers' and society's long-term well-being.

As goods have become more commoditized and consumers have grown more socially conscious, some companies—including The Body Shop, Timberland, and Patagonia—have incorporated social responsibility as a way to differentiate themselves from competitors, build consumer preference, and achieve notable sales and profits.<sup>14</sup>

In making these shifts in marketing and business practices, firms also face ethical dilemmas and perplexing trade-offs. Consumers may value convenience but find it difficult to justify disposable products or elaborate packaging in a world trying to minimize waste. Increasing material aspirations can defy the need for sustainability. Smart companies are creatively designing with energy efficiency, carbon footprints, toxicity, and disposability in mind.



Source: ZUMA Press, Inc./Alamy Stock Photo

<< A powerful electric motor combined with a quick changeover to gas lets the Prius get over 50 mpg both in the city and on highways. It also allows owners to display their concern for the environment.

**Toyota Prius** Some auto experts scoffed when Toyota predicted sales of 300,000 cars within five years of launching its gas-and-electric Prius hybrid sedan in 2001. But by 2004, the Prius had a six-month waiting list. Toyota's winning formula consists of a powerful electric motor and the ability to quickly switch power sources—resulting in 55 miles per gallon for city and highway driving. It also offers the roominess and power of a family sedan and an eco-friendly design and look at a starting price of a little more than \$20,000. Some consumers also appreciate that the Prius's distinctive design allows them to make a visible statement about their commitment to the environment. The lesson? Functionally successful products that consumers see as also being good for the environment can offer enticing options.<sup>15</sup>

Now more than ever, marketers must think holistically and craft creative win-win solutions to balance conflicting demands. They must develop fully integrated marketing programs and meaningful relationships with a range of constituents.<sup>16</sup> Besides doing all the right things inside their company, they need to consider the broader consequences in the marketplace, topics we turn to next.

## THE THREE KEY MARKETING OUTCOMES

The four major forces shaping today's markets—technology, globalization, the physical environment, and social responsibility—are fundamentally changing the ways consumers and companies interact with each other. These forces provide both consumers and companies with new capabilities, while at the same time promoting a competitive market environment. We discuss these three market outcomes in more detail next.

**New Consumer Capabilities.** Consumers today have more power at their fingertips than they have ever had in the past. Expanded information, communication, and mobility enable customers to make better choices and share their preferences and opinions with others around the world. The new consumer capabilities involve several key aspects:

- **Consumers can use online resources as a powerful information and purchasing aid.** From home, office, or mobile phone, they can compare product prices and features, consult user reviews, and order goods online from anywhere in the world 24 hours a day, seven days a week, bypassing limited local offerings and realizing significant price savings. They can also engage in "showrooming": comparing products in stores but buying online. Because consumers and other