

Marketing

An Introduction

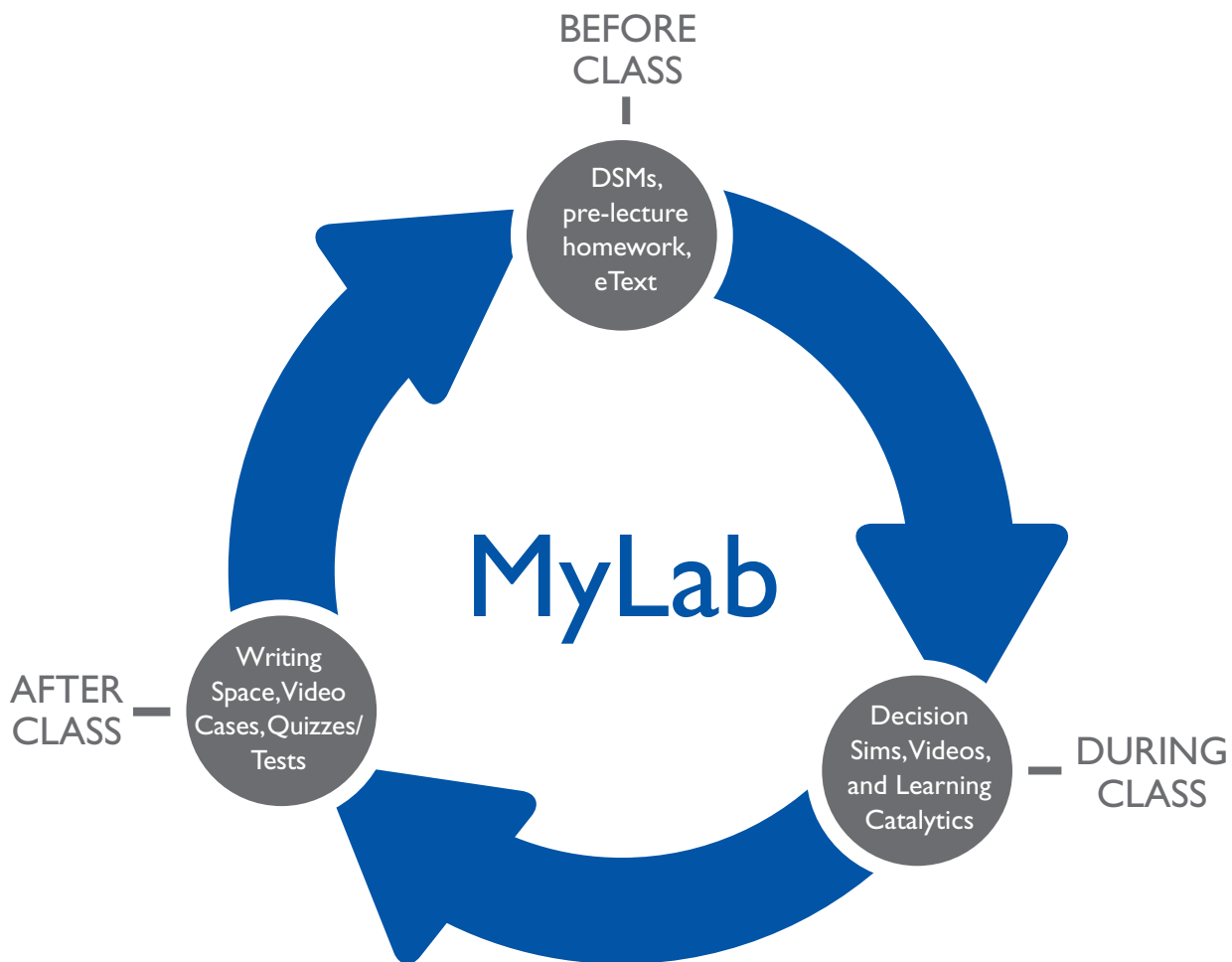


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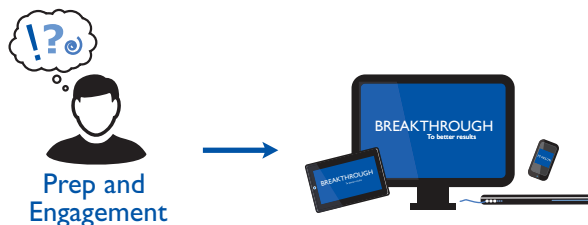
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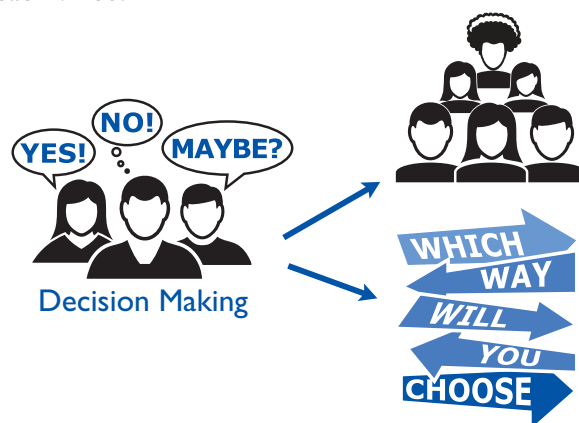
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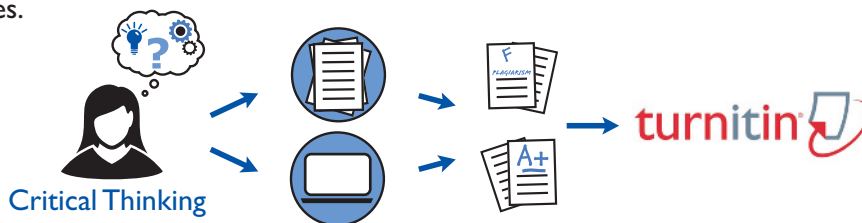


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Marketing

An Introduction

Thirteenth Edition

 **GARY ARMSTRONG**
University of North Carolina

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Library of Congress Cataloging-in-Publication Data is on file with the Library of Congress

10 9 8 7 6 5 4 3 2 1




ISBN 10: 0-13-414953-X
ISBN 13: 978-0-13-414953-0

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


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About the Authors

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

 **GARY ARMSTRONG** is Crist W. Blackwell Distinguished Professor Emeritus of Undergraduate Education in the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill. He holds undergraduate and master's degrees in business from Wayne State University in Detroit, and he received his 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.

 **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 author of *Marketing Management* (Pearson), now in its 15th edition and the most widely used marketing textbook in graduate schools of business worldwide. He has authored dozens of other successful books and has written more than 50 books and 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 of 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.

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Preface

The Thirteenth Edition of *Marketing: An Introduction!*

Fresh. Proven. Practical. Engaging.

These are exciting times in marketing. Recent surges in digital technologies have created a new, more engaging, more connected marketing world. Beyond traditional tried-and-true marketing concepts and practices, today's marketers have added a host of new-age tools for engaging consumers, building brands, and creating customer value and relationships. In these digital times, sweeping advances in “the Internet of Things”—from social and mobile media, connected digital devices, and the new consumer empowerment to “big data” and new marketing analytics—have profoundly affected both marketers and the consumers they serve.

More than ever, the 13th edition of *Marketing: An Introduction* introduces the exciting and fast-changing world of marketing in a fresh yet proven, practical, and engaging way.

Marketing: Creating Customer Value and Engagement in the Digital and Social Age

Top marketers share a common goal: putting the consumer at the heart of marketing. 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 customers. 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 proven 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, and community. If marketers do these things well, they will reap the rewards in terms of market share, profits, and customer equity. In the 13th edition of *Marketing: An Introduction*, you'll learn how *customer value* and *customer engagement* drive every good marketing strategy.

Marketing: An Introduction makes learning and teaching marketing more productive and enjoyable than ever. The 13th edition's streamlined approach strikes an effective balance between depth of coverage and ease of learning. The 13th edition builds on proven content developed over 12 previous editions, yet it has been thoroughly revised to provide the freshest insights into current marketing concepts and practices.

The 13th edition remains highly approachable, with an organization, writing style, and design well suited to beginning marketing students. Its learning design—with integrative features at the start and end of each chapter plus insightful author comments throughout—helps students to learn, link, and apply important concepts. The text presents the practical side of marketing, with engaging examples and illustrations throughout that help to bring marketing to life. And when combined with MyMarketingLab, our online homework and

personalized study tool, *Marketing: An Introduction* ensures that students will come to class well prepared and leave class with a richer understanding of basic marketing concepts, strategies, and practices.

What's New in the 13th Edition?

Once again, we've thoroughly revised *Marketing: An Introduction* to provide the freshest coverage of the latest trends and forces that affect marketing. We've poured over every page, table, figure, fact, and example in order to keep this the best text from which to learn about and teach marketing. The new edition provides substantial new content, expanded coverage, and fresh examples throughout each chapter.

- The 13th edition adds fresh coverage in both traditional marketing areas and on fast-changing and trending topics such as customer engagement marketing, mobile and social media, big data and the new marketing analytics, omni-channel marketing and retailing, customer co-creation and empowerment, real-time customer listening and marketing, building brand community, marketing content creation and native advertising, B-to-B social media and social selling, tiered and dynamic pricing, consumer privacy, sustainability, global marketing, and much more.
- This new edition continues to build on its *customer engagement* framework—creating direct and continuous customer involvement in shaping brands, brand conversations, brand experiences, and brand community. New coverage and fresh examples throughout the text address the latest customer engagement tools, practices, and developments. See especially Chapter 1 (refreshed sections on *Customer Engagement and Today's Digital and Social Media* and *Consumer-Generated Marketing*); Chapter 4 (big data and real-time research to gain deeper customer insights); Chapter 5 (creating social influence and customer community through digital and social media marketing); Chapter 8 (customer co-creation and customer-driven new-product development); Chapter 11 (omni-channel retailing); Chapter 12 (marketing content curation and native advertising); Chapter 13 (salesforce social selling); and Chapter 14 (direct digital, online, social media, and mobile marketing).
- No area of marketing is changing faster than *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 13th edition of *Marketing: An Introduction* provides thoroughly refreshed, up-to-date coverage of these explosive developments in every chapter—from online, mobile, and social media engagement technologies discussed in Chapters 1, 5, 12, and 14 to “real-time listening” and “big data” research tools in Chapter 4, real-time dynamic pricing in Chapter 9, digitizing the in-store retail shopping experience in Chapter 11, and social selling in Chapter 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 14 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, blogs, and other digital platforms that engage consumers anywhere, anytime via their computers, smartphones, tablets, Internet-ready TVs, and other digital devices.
- The 13th edition continues to track fast-changing developments in *marketing communications* and the creation of *marketing content*. Marketers are no longer simply creating integrated marketing communications programs; they are joining with customers and media to curate customer-driven marketing content in paid, owned, earned, and shared media. You won't find fresher coverage of these important topics in any other marketing text.
- The 13th edition of *Marketing: An Introduction* continues to improve on its *innovative learning design*. The text's active and integrative presentation includes learning enhancements such as annotated chapter-opening stories, a chapter-opening objective outline, explanatory author comments on major chapter sections and figures, and Marketing at Work highlights that provide in-depth examples of marketing concepts and practices at

work. The chapter-opening layout helps to preview and position the chapter and its key concepts. Figures annotated with author comments help students to simplify and organize chapter material. New and substantially revised end-of-chapter features help to summarize important chapter concepts and highlight important themes, such as *marketing ethics*, *financial marketing analysis*, and *online, mobile, and social media marketing*. This innovative learning design facilitates student understanding and eases learning.

- The 13th edition provides 16 new end-of-chapter company cases by which students can apply what they learn to actual company situations. It also features 16 brand-new video cases, with brief end-of-chapter summaries and discussion questions. Finally, all of the chapter-opening stories, Marketing at Work highlights, and end-of-chapter features in the 13th edition are either new or substantially revised.

Five Major Customer Value and Engagement Themes

The 13th edition of *Marketing: An Introduction* builds on five major customer value and engagement themes:

- 1. *Creating value for customers in order to capture value from customers in return.*** Today's marketers must be good at *creating customer value*, *engaging customers*, and *managing customer relationships*. Outstanding marketing companies understand the marketplace and customer needs, design value-creating marketing strategies, develop integrated marketing programs that engage customers and deliver value and satisfaction, and build strong customer relationships and brand community. In return, they capture value from customers in the form of sales, profits, and customer equity.
This innovative *customer value and engagement framework* is introduced at the start of Chapter 1 in a five-step marketing process model, which details how marketing *creates* customer value and *captures* value in return. The framework is carefully developed in the first two chapters and then fully integrated throughout the remainder of the text.
- 2. *Customer engagement and today's digital and social media.*** New digital and social media have taken today's marketing by storm, dramatically changing how companies and brands engage consumers and how consumers connect and influence each other's brand behaviors. The 13th edition thoroughly explores the contemporary concept of *customer engagement marketing* and the exciting new digital and social media technologies that help brands to engage customers more deeply and interactively. 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 Marketing*. A refreshed Chapter 14 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 tools to create customer engagement and build brand community.
- 3. *Building and managing strong, value-creating brands.*** Well-positioned brands with strong brand equity provide the basis upon which to build customer value and profitable customer relationships. Today's marketers must position their brands powerfully and manage them well to create valued brand experiences. The 13th edition provides a deep focus on brands, anchored by a Chapter 7 section on *Branding Strategy: Building Strong Brands*.
- 4. *Measuring and managing return on marketing.*** Especially in uneven economic times, marketing managers must ensure that their marketing dollars are being well spent. In the past, many marketers spent freely on big, expensive marketing programs, often without thinking carefully about the financial returns on their spending. But all that has changed rapidly. "Marketing accountability"—measuring and managing 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,

Appendix 3: *Marketing by the Numbers*, and end-of-chapter Marketing by the Numbers features and throughout the 13th edition.

5. ***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 13th 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 13th edition integrates global marketing and sustainability topics throughout the text. It then provides focused coverage on each topic in Chapters 15 and 16, respectively.

An Emphasis on Real Marketing and Bringing Marketing to Life

Marketing: An Introduction, 13th edition, takes a practical marketing management approach, providing countless in-depth, real-life examples and stories that engage students with marketing concepts and bring modern marketing to life. In the 13th edition, every chapter has an engaging *First Stop* opening story plus *Marketing at Work* highlights that provide fresh insights into real marketing practices. Learn how:

- Netflix uses “big data” to personalize each customer’s viewing experience. While Netflix subscribers are busy watching videos, Netflix is busy watching *them*—very, very closely.
- Wildly innovative Google has become an incredibly successful new product “moonshot factory,” unleashing a seemingly unending flurry of diverse products, most of which are market leaders in their categories.
- Nike—by far the world’s largest sports apparel company—does much more than just make and sell sports gear. The iconic brand creates customer value by building deep engagement and a sense of community with and between the Nike brand and its customers.
- Toy market leader LEGO uses innovative marketing research—lots and lots of it—to dig out fresh customer insights, then uses the insights to create irresistible play experiences for children around the world.
- Mighty Kellogg, the world’s largest cereal maker, may be losing its snap, crackle, and pop as shifts in the marketing environment change how people today eat breakfast.
- Harley-Davidson’s market dominance comes from a deep understanding of the emotions and motivations that underlie consumer behavior. Harley doesn’t just sell motorcycles; it sells freedom, independence, power, and authenticity.
- Ultra low-price Spirit Airlines is thriving despite industry-low customer experience ratings. You don’t get much when you fly Spirit. Then again, you don’t pay for what you don’t get.
- Marketers are now using real-time online, mobile, and social media marketing to engage customers in the moment, linking brands to trending topics, events, causes, personal occasions, or other happenings in their lives.
- Amazon has become the poster child for direct and digital marketing. Its passion for creating superb online customer experiences has made it one of the most powerful names on the Internet.
- Direct marketing insurance giant GEICO has gone from bit player to behemoth thanks to a big-budget advertising campaign featuring a smooth-talking gecko and an enduring “15 minutes could save you 15 percent” tagline.
- Outdoor apparel and gear maker Patagonia’s “Conscious Consumption” mission takes sustainability to new extremes by telling consumers to buy *less* of its products.
- Cosmetics maker L’Oréal has become the “United Nations of Beauty” by achieving a global-local balance that adapts and differentiates brands in local markets while optimizing their impact across global markets.

Beyond such features, each chapter is packed with countless real, engaging, and timely examples that reinforce key concepts. No other text brings marketing to life like the 13th edition of *Marketing: An Introduction*.

Learning Aids That Create Value and Engagement

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

- **Integrated Chapter-Opening Road Maps.** The active and integrative chapter-opening spread in each chapter features an *Objective Outline* that outlines chapter contents and learning objectives, a brief *Previewing the Concepts* section that introduces chapter concepts, and a *First Stop* opening vignette—an engaging, deeply developed, illustrated, and annotated marketing story that introduces the chapter material and sparks student interest.
- **Marketing at Work highlights.** Each chapter contains two carefully developed highlight features that provide an in-depth look at real marketing practices of large and small companies.
- **Author 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, exercises, and cases by which students can review and apply what they've learned. The *Chapter Review and Critical Thinking* section reviews major chapter concepts and links them to chapter objectives. It provides a helpful listing of chapter key terms by order of appearance with page numbers that facilitate easy reference. Finally, it provides discussion questions and critical thinking exercises that help students to keep track of and apply what they've learned in the chapter.

The *Minicases and Applications* section at the end of each chapter provides brief *Marketing Ethics; Online, Mobile, and Social Media Marketing; 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. It also includes a *Video Case* section that contains short vignettes with discussion questions to be used with a set of short videos that accompany the 13th edition. An end-of-chapter *Company Cases* section identifies which of the company cases found in Appendix 1 are best for use with each chapter.

- **Company Cases.** Appendix 1 contains 16 all-new company cases that help students to apply major marketing concepts to real company and brand situations.
- **Marketing Plan appendix.** Appendix 2 contains a sample marketing plan that helps students to apply important marketing planning concepts.
- **Marketing by the Numbers appendix.** An innovative Appendix 3 provides students with a comprehensive introduction to the marketing financial analysis that helps to guide, assess, and support marketing decisions. An exercise at the end of each chapter lets students apply analytical and financial thinking to relevant chapter concepts and links the chapter to the Marketing by the Numbers appendix.
- **Careers in Marketing.** Appendix 4 helps students to explore marketing career paths open to them and lays out a process for landing a marketing job that best matches their special skills and interests.

More than ever before, the 13th edition of *Marketing: An Introduction* creates value and engagement for you—it gives you all you need to know about marketing in an effective and enjoyable total learning package!

A Total Teaching and Learning Package

A successful marketing course requires more than a well-written book. Today's classroom requires a dedicated teacher, well-prepared students, and a fully integrated teaching system.

A total package of teaching and learning supplements extends this edition's emphasis on creating value and engagement for both the student and instructor. The following aids support *Marketing: An Introduction*, 13th edition.

Instructor Resources

At the Instructor Resource Center, www.pearsonhighered.com/irc, instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <http://247.pearsoned.com> for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available with this text:

- **Instructor's Resource Manual**
- **Test Bank**
- **TestGen® Computerized Test Bank**
- **PowerPoint Presentation**

Acknowledgments

No book is the work only of its authors. We greatly appreciate the valuable contributions of several people who helped make this new edition possible. As always, we owe extra-special thanks to Keri Jean Miksza for her dedicated and valuable contributions to *all* phases of the project and to her husband Pete and daughters Lucy and Mary for all the support they provide Keri during this very absorbing project.

We owe substantial thanks to Andy Norman of Drake University for his skillful help in developing chapter vignettes and highlights, company and video cases, and the Marketing Plan appendix. This and many previous editions have benefited greatly from Andy's assistance. We also thank Laurie Babin of the University of Louisiana at Monroe for her dedicated continued efforts in preparing end-of-chapter materials and for keeping our Marketing by the Numbers appendix fresh. Additional thanks also go to Jennifer Barr, Tony Henthorne, and Douglas Martin.

Many reviewers at other colleges and universities provided valuable comments and suggestions for this and previous editions. We are indebted to the following colleagues for their thoughtful inputs:

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George Bercovitz, *York College*

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Sylvia Clark, *St. John's University*

Linda Jane Coleman, *Salem State University*

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Marc Newman, *Hocking College*

John T. Nolan, *SUNY, Buffalo State*

Nikolai Ostapenko, *University of the District of Columbia*

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William M. Ryan, *University of Connecticut*

Elliot Schreiber, *Drexel University*

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Tom Voigt, *Judson University*

Terry Wilson, *East Stroudsburg University*

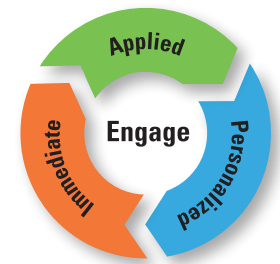
We also owe a great deal to the people at Pearson Education who helped develop this book. Senior Acquisitions Editor Mark Gaffney provided resources and support during the revision. Senior Project Manager Jacqueline Martin and Program Manager Jennifer Collins provided valuable assistance and advice in guiding this complex revision project through development, design, and production. We'd also like to thank Stephanie Wall, Lenny Ann Kucenski, Judy Leale, Jeff Holcomb, and Eric Santucci for their able assistance along the way. We are proud to be associated with the fine professionals at Pearson. We also owe a mighty debt of gratitude to Charles Fisher and the team at Integra.

Finally, we owe many thanks to our families for all of their support and encouragement — Kathy, Betty, Mandy, Matt, KC, Keri, Delaney, Molly, Macy, and Ben from the Armstrong clan and Nancy, Amy, Melissa, and Jessica from the Kotler family. To them, we dedicate this book.

Gary Armstrong
Philip Kotler

Marketing

An Introduction Thirteenth Edition



1 Marketing

Creating Customer Value and Engagement

CHAPTER ROAD MAP

Objective Outline

- ▶ **OBJECTIVE 1-1** Define marketing and outline the steps in the marketing process. What Is Marketing? (4–5)
- ▶ **OBJECTIVE 1-2** Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts. Understanding the Marketplace and Customer Needs (6–8)
- ▶ **OBJECTIVE 1-3** Identify the key elements of a customer-value driven marketing strategy and discuss the marketing management orientations that guide marketing strategy. Designing a Customer-Driven Marketing Strategy (9–12)
Preparing an Integrated Marketing Plan and Program (12–13)
- ▶ **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 (13–20); Capturing Value from Customers (20–23)
- ▶ **OBJECTIVE 1-5** Describe the major trends and forces that are changing the marketing landscape in this age of relationships. The Changing Marketing Landscape (24–31)

Previewing the Concepts

This 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 Nike, the world's leading sports apparel company and one of the best-known brands on the planet. Nike's outstanding success results from much more than just making and selling good sports gear. It's based on a customer-focused marketing strategy by which Nike creates customer value through deep brand–customer engagement and close brand community with and among its customers.

First Stop

Nike's Customer Value-Driven Marketing: Engaging Customers and Building Brand Community

The Nike “swoosh”—it’s everywhere! Just for fun, try counting the swooshes whenever you pick up the sports pages or watch a basketball game or tune into a televised soccer match. Over the past 50 years, through innovative marketing, Nike has built the ever-present swoosh into one of the world’s best-known brand symbols.

Product innovation has always been a cornerstone of Nike’s success. Nike makes outstanding shoes, clothing, and gear, whether for basketball, football, and baseball or golf, skateboarding, wall climbing, bicycling, and hiking. But from the start, a brash, young Nike revolutionized sports marketing. To build image and market share, the brand lavishly outspent competitors on big-name endorsements, splashy promotional events, and big-budget, in-your-face “Just Do It” ads. Whereas competitors stressed technical performance, Nike built customer engagement and relationships.

Beyond shoes, Nike marketed a way of life, a genuine passion for sports, a “just-do-it” attitude. Customers didn’t just wear their Nikes, they *experienced* them. As the company once stated on its Web page, “Nike has always known the truth—it’s not so much the shoes but where they take you.” Nike’s mission isn’t to “make better gear,” it’s to “connect with and inspire athletes around the world.” Few brands have become more ever-present and valued than Nike in their customers’ lives and conversations.

Whether customers connect with Nike through ads, in-person events at Niketown stores, a local Nike running club, or one of the company’s profusion of community Web and social media sites, more and more people are bonding closely with the Nike brand. Connecting once required simply outspending competitors on big media ads and celebrity endorsers that talk *at* customers. But in these digital times, Nike is forging a new kind of brand–customer connection—a deeper, more personal, more engaging one. Nike still invests heavily in traditional advertising. But the brand now spends a lion’s share of its marketing budget on cutting-edge digital and social media marketing that interacts *with* customers to build brand engagement and community.

Nike’s innovative use of online, mobile, and social media recently earned the brand the title of “top genius” in “digital IQ” among 42 sportswear companies in one digital consultancy’s rankings. Nike also placed first in creating brand “tribes”—large groups of highly engaged users—with the help of social media platforms such as Facebook, Twitter, Instagram, YouTube, and Pinterest. For example, the main Nike Facebook page has more than 42 million Likes. The Nike Soccer page adds another 35 million, the Nike Basketball page 7 million more, and Nike Running another 3 million. More than just numbers, Nike’s social media presence engages customers at a high level, gets them talking with each other about the brand, and weaves the brand into their daily lives.

Nike excels at cross-media campaigns that integrate digital media with traditional tools to connect with customers. An



» The Nike swoosh—it’s everywhere. Nike has mastered social networking, both online and off, creating deep engagement and community with and among customers.

© Steve Hellerstein/Alamy

example is Nike’s recent “Risk Everything” World Cup soccer campaign. The Risk Everything campaign began with captivating four- to five-minute videos embedded in Nike social media sites and its own Risk Everything Web site. The campaign—featuring Nike-sponsored soccer superstars such as Portugal’s Cristiano Ronaldo, England’s Wayne Rooney, Brazil’s Neymar, and a dozen others—was built around an intense, provocative World Cup story line of taking risks to gain the glory of succeeding against rival teams and nations.

In one Risk Everything video—“Winner Stays”—two teams of young men faced off on a local soccer field for a pickup game, pretending to be (then turning into) the superstars. The scene transformed into a legendary bout on a global stage. As the video ended, a young boy stepped in for Ronaldo and under immense pressure scored the winning goal. According to one analyst, the Risk Everything videos were “the perfect blend of product placement, provocative storytelling, and real-time marketing.” Although the videos were filled with Nike swooshes, products, and stars, highly engaged viewers hardly realized that they were consuming ad content.

By the end of the final World Cup match, the Risk Everything videos had produced 372 million views, 22 million engagements (Likes, comments, shares), and 650,000 uses of #riskeverything. Nike reigned as the “most-viewed brand” of the World Cup in terms of online video, trouncing rival adidas. In fact, Nike’s online views accounted for an incredible one-half of all the views attributed to the event’s 97 World Cup marketing campaigns—and Nike wasn’t even an official sponsor. Along with the Risk Everything videos, Nike ran a full array of traditional television, print, radio, cinema, and gaming

Nike’s outstanding success results from much more than just making good sports gear. The iconic brand delivers customer value by building deep engagement and a sense of community with and between the Nike brand and its customers.

advertising. Taken as a whole, across all media, the Risk Everything campaign generated more than 6 billion impressions in 35 countries. Now that's customer engagement.

Nike has also created customer value and brand community through groundbreaking mobile apps and technologies. For example, its Nike+ apps have helped Nike become a part of the daily fitness routines of millions of customers around the world. The Nike+ FuelBand device, for instance, converts just about every imaginable physical movement into NikeFuel, Nike's own universal activity metric. So whether your activity is running, jumping, baseball, skating, dancing, stacking sports cups, or chasing chickens, it counts for NikeFuel points. Everyday athletes can use NikeFuel to track their personal performance, then share and compare it across sports and locations with others in the global Nike community. The Nike+ mobile app lets users watch their progress, get extra motivation on the go, and stay connected with friends. Nike+ has engaged a huge global brand community. To date, more than 5 million Nike+ users worldwide have logged 1,118,434,247

miles. That's 44,914 trips around the world or 4,682 journeys to the moon and back.

Thus, Nike delivers customer value well beyond the products it makes. It has built a deep kinship and sense of community with and between the Nike brand and its customers. Whether it's through local running clubs, a performance-tracking app, primetime TV ads, videos, and other content in any of its dozens of brand Web sites and social media pages, the Nike brand has become a valued part of customers' lives and times.

As a result, Nike remains the world's largest sports apparel company, an impressive 44 percent larger than closest rival adidas. During the past decade, even as a sometimes-shaky economy left many sports footwear and apparel rivals gasping for breath, Nike's global sales and income have sprinted ahead by more than double. "Connecting used to be, 'Here's some product, and here's some advertising. We hope you like it,'" notes Nike's CEO. "Connecting today is a dialogue." Says Nike's chief marketing officer, "The engagement levels we have received... drive huge momentum for our brand. This is just the beginning of how we will connect with and inspire athletes around the world."¹

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

Customer relationships and value are especially important today. Facing dramatic technological advances and deep economic, social, and environmental challenges, today's customers are relating digitally with companies and each other, spending more carefully, and 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. In these fast-changing times, it's now more important than ever to build strong customer relationships 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?

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

For example, Walmart has become the world's largest retailer—and the world's largest company—by delivering on its promise "Save Money. Live Better." Coca-Cola has earned a 49 percent global share of the carbonated beverage market—more than twice Pepsi's share—by fulfilling its "open happiness" motto with products that "spread smiles and open happiness every day all across the world." Facebook has attracted more than 1.4 billion active Web and mobile users worldwide by helping them to "connect and share with the people in their lives."²

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

You already know a lot about marketing—it's all around you. Marketing comes to you in the good old traditional forms: You see it in the abundance of products at your nearby

shopping mall and the ads that fill your TV screen, spice up your magazines, or stuff your mailbox. But in recent years, marketers have assembled a host of new marketing approaches, everything from imaginative Web sites and smartphone apps to blogs, 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—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, catalogs, spiels from salespeople, and online pitches. However, selling and advertising are only the tip of the marketing iceberg.

Today, marketing must be understood not in the old sense of making a sale—“telling and selling”—but in the new sense of *satisfying customer needs*. If the marketer 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

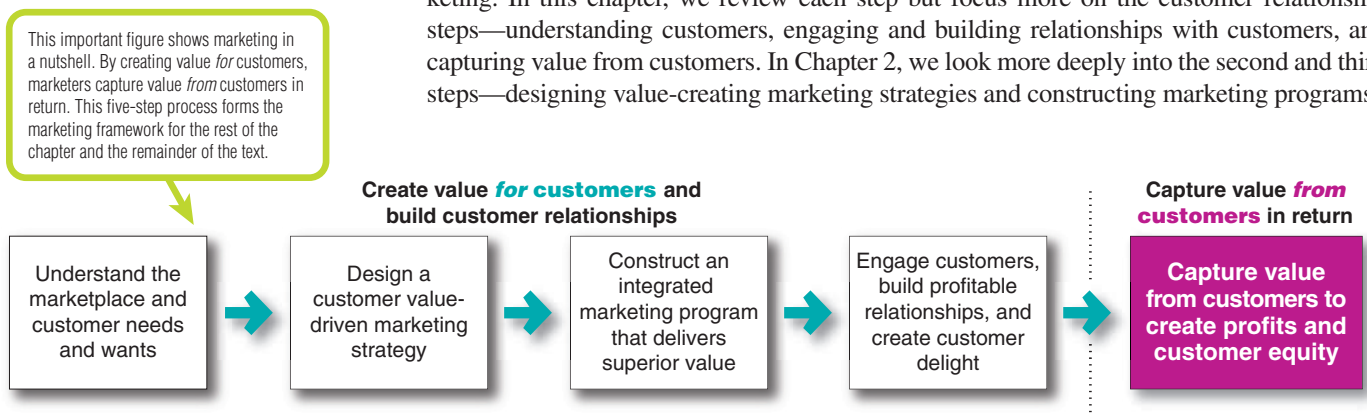
Marketing

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, companies reap the rewards of creating superior customer value. By creating value *for* consumers, they in turn capture value *from* consumers in the form of sales, profits, and long-term customer equity.

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



»» Figure 1.1 The Marketing Process: Creating and Capturing Customer Value

Author Comment

Marketing is all about creating value for customers. So, as the first step in the marketing process, the company must fully understand consumers and the marketplace in which it operates.

Understanding the Marketplace and Customer Needs

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

Customer Needs, Wants, and Demands

Needs

States of felt deprivation.

Wants

The form human needs take as they are shaped by culture and individual personality.

The most basic concept underlying marketing is that of human needs. Human **needs** are states of felt deprivation. They include basic *physical* needs for food, clothing, warmth, and safety; *social* needs for belonging and affection; and *individual* needs for knowledge and self-expression. Marketers did not create these needs; they are a basic part of the human makeup.

Wants are the form human needs take as they are shaped by culture and individual personality. An American *needs* food but *wants* a Big Mac, french fries, and a soft drink. A person in Papua, New Guinea, *needs* food but *wants* taro, rice, yams, and pork. Wants are shaped by one's society and are described in terms of objects that will satisfy those needs. When backed by buying power, wants become **demands**. Given their wants and resources, people demand products and services with benefits that add up to the most value and satisfaction.

Outstanding marketing companies go to great lengths to learn about and understand their customers' needs, wants, and demands. They conduct consumer research, 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:⁵

Target's energetic new CEO, Brian Cornell, makes regular unannounced visits to Target stores, accompanied by local moms and loyal Target shoppers. >> Cornell likes nosing around stores and getting a real feel for what's going on. It gives him "great, genuine feedback." Similarly, Boston Market CEO George Michel makes frequent visits to company restaurants, working in the dining room and engaging customers to learn about "the good, the bad, and the ugly." He also stays connected by reading customer messages on the Boston Market Web site and has even cold-called customers for insights. "Being close to the customer is critically important," says Michel. "I get to learn what they value, what they appreciate."



>> **Staying close to customers:** Energetic new Target CEO Brian Collins makes regular unannounced visits to Target stores, accompanied by local moms and loyal Target shoppers.

Ackerman + Gruber

Market Offerings—Products, Services, and Experiences

Demands

Human wants that are backed by buying power.

Market offerings

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

Consumers' needs and wants are fulfilled through **market offerings**—some combination of products, services, information, or experiences offered to a market to satisfy a need or a want. Market offerings are not limited to physical *products*. They also include *services*—activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, airline, hotel, retailing, and home repair services.

More broadly, market offerings also include other entities, such as *persons, places, organizations, information, and ideas*. For example, San Diego recently launched a \$9 million "Happiness Is Calling" advertising campaign that invites visitors to come and enjoy the city's great weather and good times—everything from its bays and beaches to its downtown nightlife and urban scenes. And the Ad Council and

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.



» Marketing experiences: American Girl does more than just make and sell high-end dolls. It creates special experiences between the dolls and the girls who adore them.

Image courtesy of American Girl, Inc. All rights reserved.

the National Highway Traffic Safety Administration created a “Stop the Texts. Stop the Wrecks.” campaign that markets the idea of eliminating texting while driving. The campaign points out that a texting driver is 23 times more likely to get into a crash than a non-texting driver.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.

Smart marketers look beyond the attributes of the products and services they sell. By orchestrating several services and products, they create *brand experiences* for consumers. For example, you don’t just visit Walt Disney World Resort; you immerse yourself and your family in a world of wonder, a world where dreams come true and things still work the way they should. “Let the magic begin!” says Disney. » Similarly, Mattel’s American Girl does much more than just make and sell high-end dolls. It creates special experiences between the dolls and the girls who adore them.⁸

To put more smiles on the faces of the girls who love their American Girl dolls, the company operates huge American Girl experiential stores in 20 major cities around the country. Each store carries an amazing selection of dolls plus every imaginable outfit and accessory. But more than just shopping spots, American Girl stores are exciting destinations unto themselves, offering wonderfully engaging experiences for girls, mothers, grandmothers, and even dads or grandpas. There’s an in-store restaurant where girls, their dolls, and grown-ups can sit down together for brunch, lunch, afternoon tea, or dinner. There’s even a doll hair salon where a stylist can give a doll a new hairdo. American Girl also offers “perfect parties” to celebrate a birthday or any day, as well as a full slate of special events, from crafts and activities to excursions. Much more than a store that sells dolls, says the company, “it’s the place where imaginations can soar.” A visit to American Girl creates “Fun today. Memories forever.”

Customer Value and Satisfaction

Consumers usually face a broad array of products and services that might satisfy a given need. How do they choose among these many market offerings? Customers form expectations about the value and satisfaction that various market offerings will deliver and buy accordingly. Satisfied customers buy again and tell others about their good experiences. Dissatisfied customers often switch to competitors and disparage the product to others.

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

Exchanges and Relationships

Marketing occurs when people decide to satisfy their needs and wants through exchange relationships. **Exchange** is the act of obtaining a desired object from someone by offering something in return. In the broadest sense, the marketer tries to bring about a response to some market offering. The response may be more than simply buying or trading products and services. A political candidate, for instance, wants votes; a church wants membership; an orchestra wants an audience; and a social action group wants idea acceptance.

Exchange

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

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

Market

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

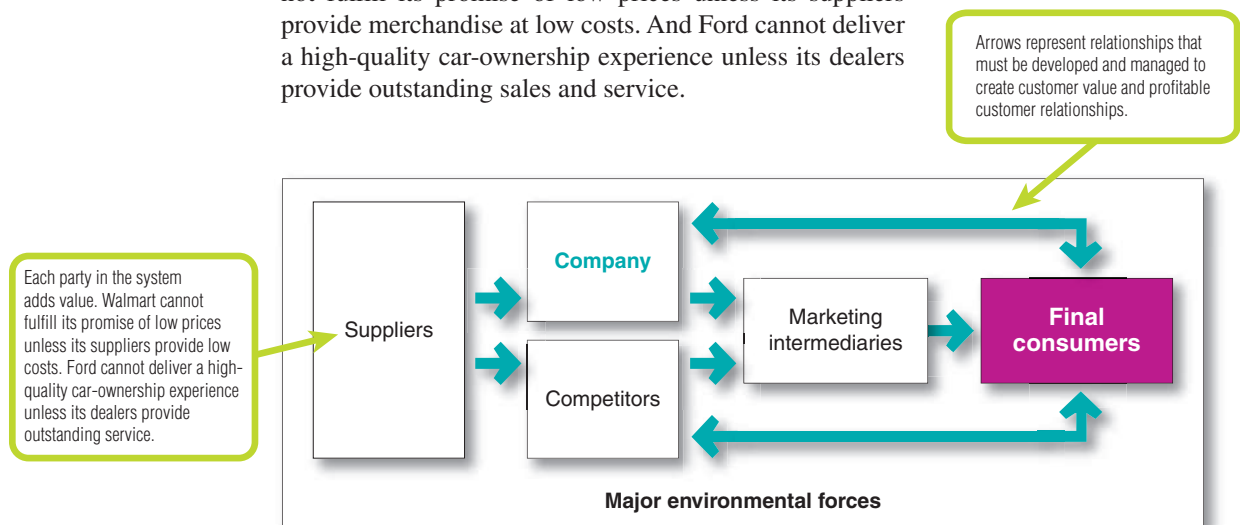
The concepts of exchange and relationships lead to the concept of a market. A **market** is the set of actual and potential buyers of a product or service. These buyers share a particular need or want that can be satisfied through exchange relationships.

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.

Although we normally think of marketing as being carried out by sellers, buyers also carry out marketing. Consumers market when they search for products, interact with companies to obtain information, and make their purchases. In fact, today's digital technologies, from online sites 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.



»» **Figure 1.2** A Modern Marketing System

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

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 6.

Marketing management

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

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 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 on the level, timing, and nature of their demand. Simply put, marketing management is *customer management* and *demand management*.

Choosing a Value Proposition

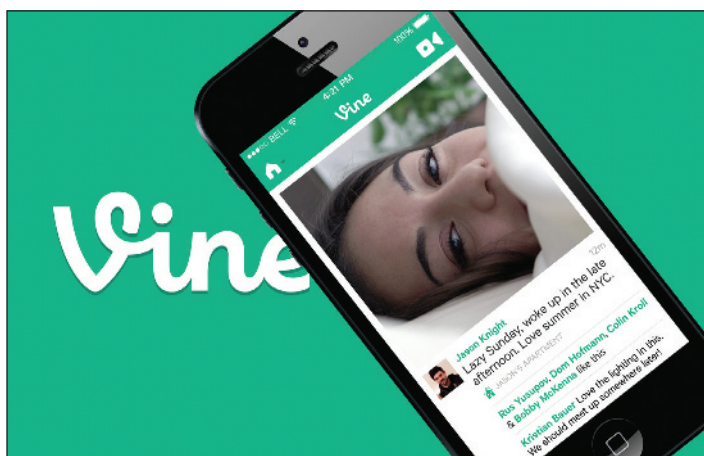
The company must also decide how it will serve targeted customers—how it will *differentiate and position* itself in the marketplace. A brand's *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs. JetBlue promises to put “You Above All” by bringing “humanity back to travel.” By contrast, Spirit Airlines gives you “Bare Fare” pricing: “Less Money. More Go.”⁹ Facebook helps you “connect and share with the people in your life,” whereas Twitter's Vine app gives you “the best way to see and share life in motion” through “short, beautiful, looping videos in a simple and fun way for your friends and family to see.”⁹

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*.



➤ Value propositions: Vine gives you “the best way to see and share life in motion” through “short, beautiful, looping videos in a simple and fun way for your friends and family to see.”

Twitter, Inc.