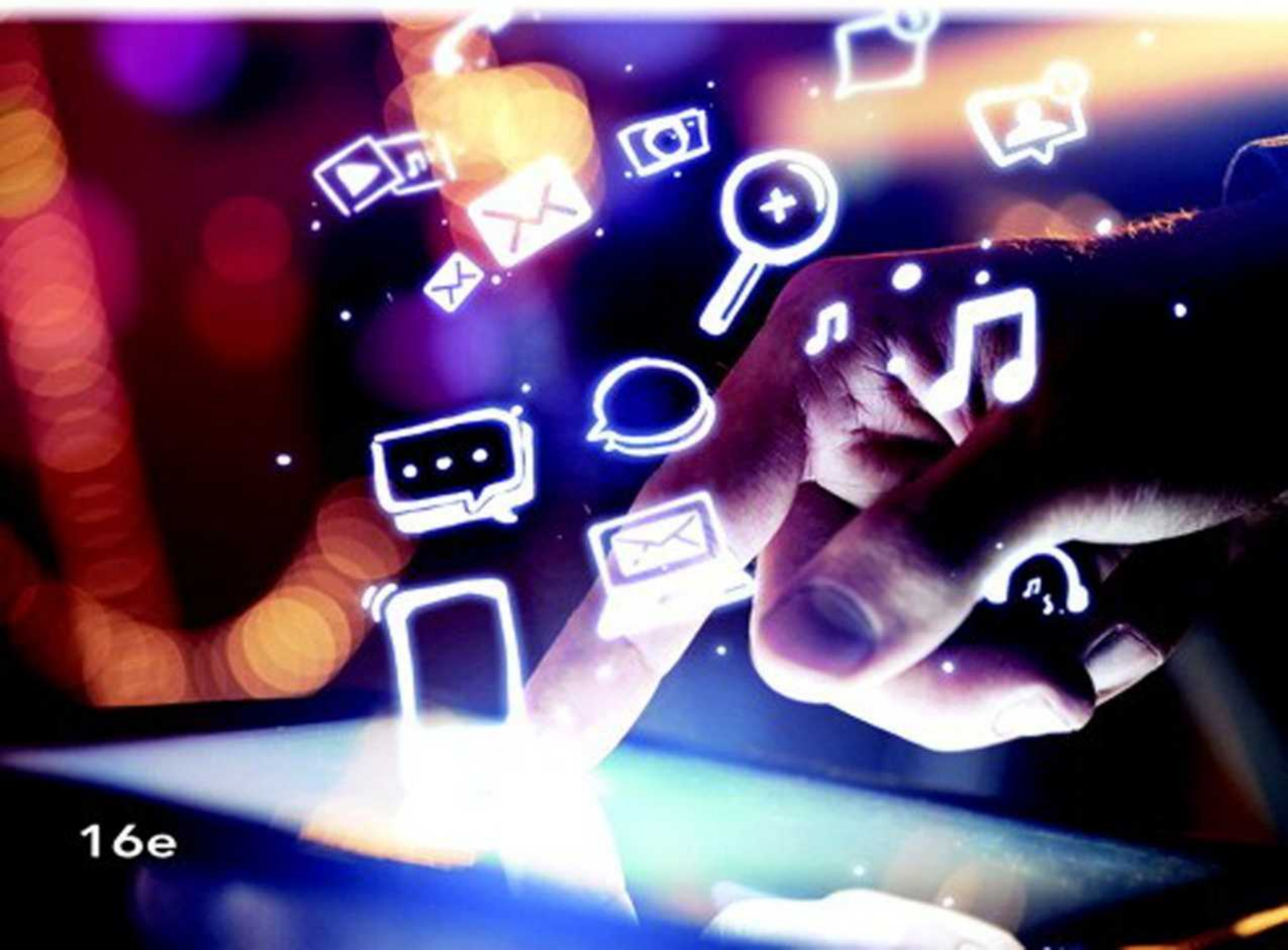


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PRINCIPLES OF MARKETING



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Dedication

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

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ABOUT THE AUTHORS

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



Philip Kotler is S.C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management, Northwestern University. He received his master's degree at the University of Chicago and his PhD at M.I.T., both in economics. Dr. Kotler is the author of *Marketing Management* (Pearson), now in its fifteenth edition and the most widely used marketing textbook in graduate schools

of business worldwide. He has authored dozens of other successful books and has written more than 100 articles in leading journals. He is the only three-time winner of the coveted Alpha Kappa Psi award for the best annual article in the *Journal of Marketing*.

Professor Kotler was named the first recipient of 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*. His numerous other major honors include the *Sales and Marketing Executives International Marketing Educator of the Year Award*; The European Association of Marketing Consultants and Trainers *Marketing Excellence Award*; the *Charles Coolidge Parlin Marketing Research Award*; and the *Paul D. Converse Award*, given by the American Marketing Association to honor "outstanding contributions to science in marketing." A recent *Forbes* survey ranks Professor Kotler in the top 10 of the world's most influential business thinkers. And in a recent *Financial Times* poll of 1,000 senior executives across the world, Professor Kotler was ranked as the fourth "most influential business writer/guru" of the twenty-first century.

Dr. Kotler has served as chairman of the College on Marketing of the Institute of Management Sciences, a director of the American Marketing Association, and a trustee of the Marketing Science Institute. He has consulted with many major U.S. and international companies in the areas of marketing strategy and planning, marketing organization, and international marketing. He has traveled and lectured extensively throughout Europe, Asia, and South America, advising companies and governments about global marketing practices and opportunities.



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

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PREFACE

The Sixteenth Edition of Kotler/Armstrong's *Principles of Marketing!* The World Standard in Undergraduate Marketing Education

Across five continents, in more than 40 countries, and in 24 languages, students and professors rely on Kotler/Armstrong's *Principles of Marketing* as the most-trusted source for teaching and learning basic marketing concepts and practices. More than ever, the sixteenth edition introduces new marketing students to the fascinating world of modern marketing in an innovative, complete, and authoritative yet fresh, practical, and enjoyable way. In this sixteenth edition, we've once again added substantial new content and 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. Enhanced by MyMarketingLab, our online homework and personalized study tool, the sixteenth edition of *Principles of Marketing* remains the world standard in introductory marketing education.

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 consumers. Then, more than just making a sale, today's marketers want to *engage* customers and build deep customer relationships that make their brands a meaningful part of consumers' conversations and lives. In this digital age, to go along with their tried-and-true traditional marketing methods, marketers have a dazzling set of new customer relationship-building tools—from the Internet, smartphones, and tablets to online, mobile, and social media—for engaging customers anytime, anyplace to 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 sixteenth edition of *Principles of Marketing*, you'll learn how *customer value* and *customer engagement* drive every good marketing strategy.

What's New in the Sixteenth Edition?

We've thoroughly revised the sixteenth edition of *Principles of Marketing* to reflect the major trends and forces impacting marketing in this digital age of customer value, engagement, and relationships. Here are just some of the major and continuing changes you'll find in this edition.

- More than any other developments, sweeping new **online, social media, mobile, and other digital technologies** are now affecting how marketers, brands, and customers engage each other. The sixteenth edition features new and revised discussions and examples of the explosive impact of exciting *new digital marketing technologies* shaping marketing strategy and practice—from online, mobile, and social media engagement technologies discussed in Chapters 1, 5, 13, 14, 15, and 17; to “real-time listening” and “big data” research tools in Chapter 4, online influence and brand communities

in Chapter 5, and location-based marketing in Chapter 7; to the use of social media and social selling in business-to-business marketing in Chapters 6 and 16; to consumer Web, social media, mobile marketing, and other new communications technologies in Chapters 1, 5, 14, 15, 17, and throughout the text.

A new Chapter 1 section on *The Digital Age: Online, Mobile, and Social Media Marketing* introduces the exciting new developments in digital and social media marketing. A completely revised Chapter 17 on *Direct, Online, Social Media, and Mobile Marketing* digs deeply into digital marketing tools such as online sites, social media, mobile ads and apps, online video, e-mail, blogs, and other digital platforms that engage consumers anywhere, anytime via their computers, smartphones, tablets, Internet-ready TVs, and other digital devices. The sixteenth edition is packed with new stories and examples illustrating how companies employ digital technology to gain competitive advantage—from traditional marketing all-stars such as Nike, P&G, Coca-Cola, Walmart, IBM, and McDonald's to new-age digital competitors such as Google, Amazon, Apple, Netflix, Pinterest, and Facebook.

- The sixteenth edition features completely new and revised coverage of the emerging trend toward **customer engagement marketing**—building direct and continuous customer involvement in shaping brands, brand conversations, brand experiences, and brand community. The burgeoning Internet and social media have created better informed, more connected, and more empowered consumers. Thus, today's marketers must now *engage* consumers rather than interrupt them. Marketers are augmenting their mass-media marketing efforts with a rich mix of online, mobile, and social media marketing that promote deep consumer involvement and a sense of customer community surrounding their brands. Today's **new customer engagement-building tools** include everything from online sites, blogs, in-person events, and video sharing to online communities and social media such as Facebook, YouTube, Pinterest, Vine, Twitter, or a company's own social networking sites.

In all, today's more engaged consumers are giving as much as they get in the form of two-way brand relationships. The sixteenth edition contains substantial new material on **customer engagement** and related developments such as **consumer empowerment, crowdsourcing, customer co-creation, consumer-generated marketing, and real-time marketing**. A new Chapter 1 section—*Engaging Customers*—introduces customer engagement marketing. This and other related customer engagement topics are presented in Chapter 1 (new or revised 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 (managing online influence and customer community through digital and social media marketing); Chapter 13 (online, social media, and digitized retailing); Chapter 9 (crowdsourcing and customer-driven new-product development); Chapters 14 and 15 (the new, more engaging marketing communications model and *content marketing*); and Chapter 17 (direct digital, online, social media, and mobile marketing).

- The sixteenth edition continues to build on and extend the innovative **customer-value framework** from previous editions. The customer value and engagement model presented in the first chapter is fully integrated throughout the remainder of the book. No other marketing text presents such a clear and compelling customer-value approach.
- The sixteenth edition provides revised and expanded coverage of developments in the fast-changing area of **integrated marketing communications**. It tells how marketers are **blending traditional media with new digital and social media** tools—everything from Internet and mobile marketing to blogs, viral videos, and social media—to create more targeted, personal, and engaging customer relationships. Marketers are no longer simply creating integrated promotion programs; they are practicing **content marketing** in paid, owned, earned, and shared media. No other text provides more current or encompassing coverage of these exciting developments.
- New material throughout the sixteenth edition highlights the increasing importance of **sustainable marketing**. The discussion begins in Chapter 1 and ends in Chapter 20, which pulls marketing together under a sustainable marketing framework. In between, frequent discussions and examples show how sustainable marketing calls for socially and environmentally responsible actions that meet both the immediate and the future needs of customers, companies, and society as a whole.

- The sixteenth edition provides new discussions and examples of the growth in **global marketing**. As the world becomes a smaller, more competitive place, marketers face new global marketing challenges and opportunities, especially in fast-growing emerging markets such as China, India, Brazil, Africa, and others. You'll find much new coverage of global marketing throughout the text, starting in Chapter 1; the topic is discussed fully in Chapter 19.
- The sixteenth edition continues its emphasis on **measuring and managing return on marketing**, including many new end-of-chapter financial and quantitative marketing exercises that let students apply analytical thinking to relevant concepts in each chapter and link chapter concepts to the text's innovative and comprehensive Appendix 2: *Marketing by the Numbers*.
- The sixteenth edition 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, and explanatory author comments on major chapter sections and figures. 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. End-of-chapter features help to summarize important chapter concepts and highlight important themes, such as **digital and social media marketing**, **marketing ethics**, and **financial marketing analysis**. This innovative learning design facilitates student understanding and eases learning.
- The sixteenth edition provides 20 new or revised end-of-chapter company cases by which students can apply what they learn to actual company situations. The sixteenth edition also features 20 video cases, with brief end-of-chapter summaries and discussion questions. Finally, all of the chapter-opening stories and Real Marketing highlights in the sixteenth edition are either new or revised to maintain currency.

Five Major Customer Value and Engagement Themes

The sixteenth edition of *Principles of Marketing* builds on five major value and customer 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, as well as how consumers connect and influence each other's brand behaviors. The sixteenth edition introduces and 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 new Chapter 1 sections: *Customer Engagement and Today's Digital and Social Media* and *The Digital Age: Online, Mobile, and Social Media Marketing*. A completely revised Chapter 17 on *Direct, Online, Social Media, and Mobile Marketing* summarizes the latest developments in digital engagement and relationship-building tools. Everywhere in-between, you'll find revised and expanded coverage of the exploding use of digital and social 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 sixteenth edition provides a deep focus on brands, anchored by a Chapter 8 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 2: *Marketing by the Numbers*, and throughout the sixteenth 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 sixteenth 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 sixteenth edition integrates global marketing and sustainability topics throughout the text. It then provides focused coverage on each topic in Chapters 19 and 20, respectively.

An Emphasis on Real Marketing and Bringing Marketing to Life

Principles of Marketing, sixteenth 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 sixteenth edition, every chapter includes an engaging opening story plus *Real Marketing* highlights that provide fresh insights into real marketing practices. Learn how:

- Nike’s outstanding success results from more than just making and selling good sports gear. It’s based on a customer-focused strategy through which Nike creates brand engagement and close brand community with and among its customers.
- At T-shirt and apparel maker Life is good, engagement and social media are about building meaningful customer engagement, measured by the depth of consumer commenting and community that surround the brand.
- Chipotle’s sustainability mission isn’t an add-on, created just to position the company as “socially responsible”—doing good is ingrained in everything the company does.
- Sony’s dizzying fall from market leadership provides a cautionary tale of what can happen when a company—even a dominant marketing leader—fails to adapt to its changing environment.
- 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.
- Giant social network Facebook promises to become one of the world’s most powerful and profitable digital marketers—but it’s just getting started.
- 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.
- Retail giants Walmart and Amazon are fighting it out in a pitched price war for online supremacy.
- 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.
- The explosion of the Internet, social media, mobile devices, and other technologies has some marketers asking: “Who needs face-to-face selling anymore?”
- Under its “Conscious Consumption” mission, outdoor apparel and gear maker Patagonia takes sustainability to new extremes by telling consumers to buy *less*.

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 sixteenth edition of *Principles of Marketing*.

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 preview sections.* The active and integrative chapter-opening spread in each chapter starts with a *Chapter Preview*, which briefly previews chapter concepts, links them with previous chapter concepts, and introduces the chapter-opening story. This leads to a chapter-opening vignette—an engaging, deeply developed, illustrated, and annotated marketing story that introduces the chapter material and sparks student interest. Finally, an *Objective Outline* provides a helpful preview of chapter contents and learning objectives, complete with page numbers.
- *Real Marketing 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 text sections and organizing figures.
- *Objectives Review and Key Terms.* A summary at the end of each chapter reviews major chapter concepts, chapter objectives, and key terms.
- *Discussion Questions and Critical Thinking Exercises.* Sections at the end of each chapter help students to keep track of and apply what they've learned in the chapter.
- *Applications and Cases.* Brief *Online, Mobile, and Social Media Marketing*; *Marketing Ethics*; and *Marketing by the Numbers* sections at the end of each chapter provide short application cases that facilitate discussion of current issues and company situations in areas such as mobile and social marketing, ethics, and financial marketing analysis. A *Video Case* section contains short vignettes with discussion questions to be used with a set of 4- to 7-minute videos that accompany the sixteenth edition. End-of-chapter *Company Case* sections provide all-new or revised company cases that help students to apply major marketing concepts to real company and brand situations.
- *Marketing Plan appendix.* Appendix 1 contains a sample marketing plan that helps students to apply important marketing planning concepts.
- *Marketing by the Numbers appendix.* The innovative Appendix 2 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.

More than ever before, the sixteenth edition of *Principles of Marketing* 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 *Principles of Marketing*, sixteenth 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, a dedicated technical support team is ready to help with the media supplements that accompany the 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**

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*Gary Armstrong
Philip Kotler*

Principles of Marketing

1

Marketing Creating Customer Value and Engagement

Chapter Preview 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 Amazon.com, by far the world's leading online and digital marketer. The secret to Amazon's success? It's really no secret at all. Amazon is flat-out customer obsessed. It has a deep-down passion for creating customer engagement, value, and relationships. In return, customers reward Amazon with their buying dollars and loyalty. You'll see this theme of creating customer value in order to capture value in return repeated throughout this chapter and the remainder of the text.

AMAZON.COM: Obsessed with Creating Customer Value and Relationships

When you think of shopping online, chances are good that you think first of Amazon. The online pioneer first opened its virtual doors in 1995, selling books out of founder Jeff Bezos's garage in suburban Seattle. Amazon still sells books—lots and lots of books. But it now sells just about everything else as well, from music, electronics, tools, housewares, apparel, and groceries to fashions, loose diamonds, and Maine lobsters.

From the start, Amazon has grown explosively. Its annual sales have rocketed from a modest \$150 million in 1997 to more than \$74 billion today. During just the past three years, Amazon's revenues have more than doubled. This past Cyber Monday alone, Amazon.com sold 37 million items to its 237 million active customers worldwide—that's 428 items per second. Amazon's revenues will likely reach \$100 billion within the next year, faster to that mark than any other company in history (it took Walmart 34 years). That would make it the nation's second-largest retailer, trailing only Walmart.

What has made Amazon such an amazing success story? Founder and CEO Bezos puts it in three simple words: "Obsess over

customers." To its core, the company is relentlessly customer driven. "The thing that drives everything is creating genuine value for customers," says Bezos. Amazon believes that if it does what's good for customers, profits will follow. So the company starts with the customer and works backward. Rather than asking what it can do with its current capabilities, Amazon first asks: Who are our customers? What do they need? Then, it develops whatever capabilities are required to meet those customer needs.

At Amazon, every decision is made with an eye toward improving the Amazon.com customer experience. In fact, at many Amazon meetings, the most influential figure in the room is "the empty chair"—literally an empty chair at the table that represents the all-important customer. At times, the empty chair isn't empty, but is occupied by a "Customer Experience Bar Raiser,"

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

an employee who is specially trained to represent customers' interests. To give the empty chair a loud, clear voice, Amazon relentlessly tracks performance against nearly 400 measurable customer-related goals.

Amazon's obsession with serving the needs of its customers drives the company to take risks and innovate in ways that other companies don't. For example, when it noted that its book-buying customers needed better access to e-books and other digital content, Amazon developed the Kindle e-reader, its first-ever original product. The Kindle took more than four years and a whole new set of skills to develop. But Amazon's start-with-the-customer thinking paid off handsomely. The Kindle is one of the company's best-selling products, and Amazon.com now sells more e-books than hardcovers and paperbacks combined. What's more, the company's growing line of Kindle Fire tablets now leads the market for low-priced tablet computers. Thus, what started as an effort to improve the customer experience now gives Amazon a powerful presence in the burgeoning world of digital, mobile, and social media. Not only does the Kindle allow access to e-books, music, videos, and apps sold by Amazon, it makes interacting with the online giant easier than ever. Customers use their Kindles to shop at Amazon.com and interact with the company on its blogs and social media pages.

Perhaps more important than *what* Amazon sells is *how* it sells. Amazon wants to deliver a special experience to every customer. Most Amazon.com regulars feel a surprisingly strong relationship with the company, especially given the almost complete lack of actual human interaction. Amazon obsesses over making each customer's experience uniquely personal. For example, the Amazon.com site greets customers with their very own home pages, complete with personalized recommendations. Amazon was the first company to sift through each customer's past purchases and browsing histories and the purchasing patterns of customers with similar profiles to come up with personalized site content. Amazon wants to personalize the shopping experience for each individual customer. If it has 237 million customers, it reasons, it should have 237 million stores.

Visitors to Amazon.com receive a unique blend of benefits: huge selection, good value, low prices, and convenience. But it's the "discovery" factor that makes the buying experience really special. Once on the Amazon.com site, you're compelled to stay for a while—looking, learning, and discovering. Amazon.com has become a kind of online community in which customers can browse for products, research purchase alternatives, share opinions and reviews with other visitors, and chat online with authors and experts. In this way, Amazon does much more than just sell goods online. It engages customers and creates direct, personalized customer relationships and satisfying online experiences. Year after year, Amazon places at or near the top of almost every customer satisfaction ranking, regardless of industry.

Based on its powerful growth, many analysts have speculated that Amazon will become the Walmart of the Web. In



"We see our customers as invited guests to a party, and we are the hosts. It's our job every day to make every important aspect of the customer experience a little better." – Jeff Bezos

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

Contour by Getty Images

fact, some argue, it already is. Although Walmart's total sales of \$469 billion dwarf Amazon's \$74 billion in sales, Amazon's online sales are more than seven times greater than Walmart's. So online, it's Walmart that's chasing Amazon. Put another way, Walmart wants to become the Amazon of the Web, not the other way around. However, despite its mammoth proportions, to catch Amazon online, Walmart will have to match the superb Amazon.com customer experience, and that won't be easy.

Whatever the eventual outcome, Amazon has become the poster child for companies that are obsessively and successfully focused on delivering customer value. Jeff Bezos has known from the very start that if Amazon creates superior value for customers, it will earn their business and loyalty, and success will follow in terms of company sales and returns. As Bezos puts it, "When things get complicated, we simplify them by asking, 'What's best for the customer?' We believe that if we do that, things will work out in the long term."¹

Objective Outline

OBJECTIVE 1	<p>Define marketing and outline the steps in the marketing process.</p> <p>What Is Marketing? (pp 5–6)</p>
OBJECTIVE 2	<p>Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.</p> <p>Understanding the Marketplace and Customer Needs (pp 6–9)</p>
OBJECTIVE 3	<p>Identify the key elements of a customer-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.</p> <p>Designing a Customer-Driven Marketing Strategy (pp 9–13)</p> <p>Preparing an Integrated Marketing Plan and Program (p 13)</p>
OBJECTIVE 4	<p>Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return.</p> <p>Building Customer Relationships (pp 13–21)</p> <p>Capturing Value from Customers (pp 22–24)</p>
OBJECTIVE 5	<p>Describe the major trends and forces that are changing the marketing landscape in this age of relationships.</p> <p>The Changing Marketing Landscape (pp 24–29)</p>

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Today's successful companies have one thing in common: Like Amazon, they are strongly customer focused and heavily committed to marketing. These companies share a passion for 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 two-fold goal of marketing is to attract new customers by promising superior value and to keep and grow current customers by delivering satisfaction.

For example, McDonald's fulfills its "i'm lovin' it" motto by being "our customers' favorite place and way to eat" the world over, giving it nearly as much market share as its nearest four competitors combined. Walmart has become the world's largest retailer—and the world's largest *company*—by delivering on its promise, "Save Money. Live Better." Facebook has attracted more than a billion active Web and mobile users worldwide by helping them to "connect and share with the people in their lives."

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 mobile phone 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 is all around you, in good old traditional forms and in a host of new forms, from Web sites and mobile phone apps to videos and online social media.

Justin Lewis

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."² 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 create value for customers and build strong customer relationships in order to capture value from customers in return.³

Marketing

The process by which companies create value for customers and build strong customer relationships 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.

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

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:⁴

Walmart president and CEO Michael Duke and his entire executive team make regular store and in-home visits with customers to get to know them and understand their needs. Top McDonald's marketers hold frequent Twitter chats, connecting directly with McDonald's Twitter followers, both fans and critics, to learn their thoughts about topics ranging from nutrition and sustainability to products and brand promotions. ● And 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."

Market Offerings—Products, Services, and Experiences

Consumers' needs and wants are fulfilled through **market offerings**—some combination of products, services, information, or experiences offered to a market to satisfy a need or a want. Market offerings are not limited to physical *products*. They also include *services*—activities or benefits offered for

Needs

States of felt deprivation.

Wants

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

Demands

Human wants that are backed by buying power.

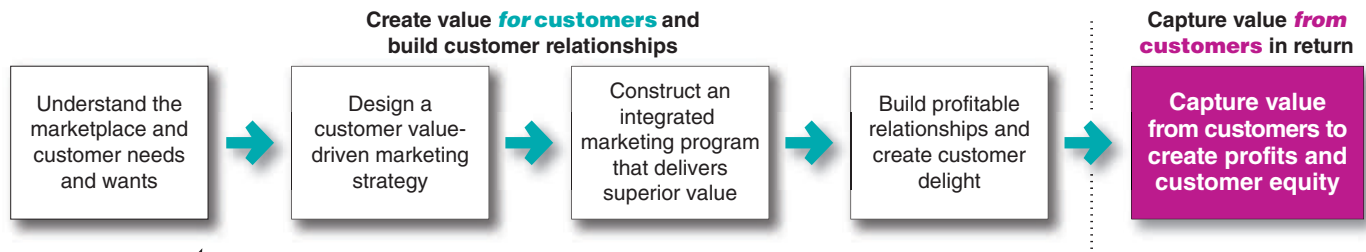


● **Staying close to customers:** Boston Market CEO George Michel frequently visits the company's restaurants, working in the dining room and engaging customers to learn about "the good, the bad, and the ugly."

Invision for Boston Market

● FIGURE | 1.1

The Marketing Process: Creating and Capturing Customer Value



This important figure shows marketing in a nutshell. By creating value *for* customers, marketers capture value *from* customers in return. This five-step process forms the marketing framework for the rest of the chapter and the remainder of the text.

Market offerings

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

Marketing myopia

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

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, the “Pure Michigan” campaign markets the state of Michigan as a tourism destination that “lets unspoiled nature and authentic character revive your spirits.” And the Ad Council and 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.⁵

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.⁶ 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.



● **Marketing experiences:** More than just a mobile game app, Angry Birds is “a digital immersion in addictively cheerful destruction.” Creator Rovio plans to expand the Angry Birds experience through animated videos, licensed products, and even Angry Birds-branded playgrounds and activity parks.

Archivo CEET GDA Photo Service/Newscom

Similarly, ● Angry Birds is much more than just a mobile game app. To more than 200 million fans a month in 116 countries, it’s a deeply involving experience. As one observer puts it: “Angry Birds land is a state of mind—a digital immersion in addictively cheerful destruction, a refuge from the boredom of subway commutes and doctors’ waiting rooms, where the fine art of sling-shooting tiny brightly hued birds at wooden fortresses to vanquish pigs taking shelter inside makes eminent sense and is immensely satisfying.” So far, in all its forms, Angry Birds has been downloaded more than two billion times. The game’s creator, Rovio, plans to expand the Angry Birds experience through everything from animated short videos (called *Angry Birds Toons*) and three-dimensional animated movies to a growing list of new games, licensed toys, apparel, yard art, and even Angry Birds-branded playgrounds, activity parks, and theme parks.⁷

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.

Marketing consists of actions taken to create, maintain, and grow desirable exchange *relationships* with target audiences involving a product, service, idea, or other object. Companies want to build strong relationships by consistently delivering superior customer value. We will expand on the important concept of managing customer relationships later in the chapter.

Markets

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

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

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.

Exchange

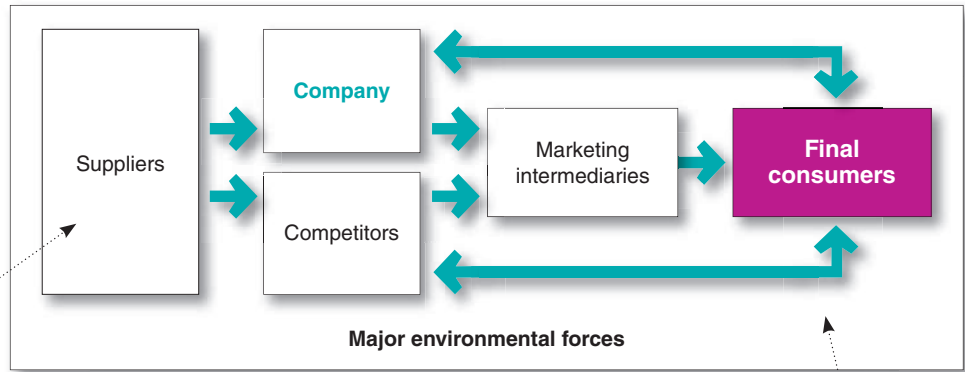
The act of obtaining a desired object from someone by offering something in return.

Market

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

FIGURE | 1.2
A Modern Marketing System

Each party in the system adds value. Walmart cannot fulfill its promise of low prices unless its suppliers provide low costs. Ford cannot deliver a high-quality car-ownership experience unless its dealers provide outstanding service.



Arrows represent relationships that must be developed and managed to create customer value and profitable customer relationships.

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 find, engage, keep, and grow target customers by creating, delivering, and communicating superior customer value.

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

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.

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*.



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.

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. BMW promises “the ultimate driving machine,” whereas the Nissan Leaf electric car is “100% electric. Zero gas. Zero tailpipe.” New Balance’s Minimus shoes are “like barefoot only better”; and with Vibram FiveFingers shoes, “You are the technology.” Facebook helps you “connect and share with the people in your life,” whereas YouTube “provides a place for people to connect, inform, and inspire others across the globe.” And 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.”⁸