PHILIP KOTLER GARY ARMSTRONG LLOYD C. HARRIS NIGEL PIERCY

PRINCIPLES OF Marketing

7TH EUROPEAN EDITION

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Principles of Marketing

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PREFACE

The Seventh European Edition of *Principles of Marketing* setting the standard in undergraduate marketing education

Principles of Marketing is the most-trusted source for teaching and learning basic marketing concepts and practices. More than ever, the Seventh European 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 Seventh European Edition, we've once again added substantial new content and pored 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 the Companion Website, which includes, among other resources, videos and questions, the Seventh European Edition of *Principles of Marketing* remains the world standard in introductory and 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 organisation can serve best, and developing a compelling value proposition by which the organisation 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 any time, any place 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 Seventh European Edition of *Principles of Marketing*, you'll learn how *customer value* and *customer engagement* drive every good marketing strategy.

What's new in the Seventh European 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 new 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, email, blogs and other digital platforms that engage consumers anywhere, anytime, via their computers, smartphones, tablets, Internet-ready TVs and other digital devices. The new edition is packed with new stories and examples illustrating how companies employ digital technology to gain competitive advantage – from McDonald's to new-age digital competitors such as Google, Amazon, Apple, Netflix, Pinterest and Facebook.
- The new edition features completely new and revised coverage of the emerging trend towards **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 new edition contains substantial new material on **customer engagement** and related developments such as **consumer empowerment**, **crowd sourcing**, **customer co-creation**, **consumer-generated marketing** and **real-time marketing**. A new **Chapter 1** section on 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 digitised 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 new 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 new 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 programmes; they are practising 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 new 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 new 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 new 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 new 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 objectives outline, and explanatory author comments on major chapter sections and figures. The chapter-opening material helps to preview and position the chapter and its key concepts. Figures annotated with author comments help students to simplify and organise material. End-of-chapter features help to summarise 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 new edition provides 20 new or revised end-of-chapter company cases by which students can apply what they learn to actual company situations. Finally all of the chapter-opening stories are either new or revised to maintain currency

Five major customer value and engagement themes

The Seventh European 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 programmes that engage customers and deliver value and satisfaction, and build strong 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 through 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 behaviours. The new 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' summarises the latest developments in digital engagement and relationship-building tools. Everywhere inbetween 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 on 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 new 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 euros are being well spent. in the past, many marketers spent freely on big, expensive marketing programmes, 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 through the new 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 through the new edition emphasises 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 new 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 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 new edition, every chapter includes an engaging opening story that provides 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 a 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 comment 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 personalise 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 per cent' 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 new 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 'Objectives outline' provides a helpful preview of chapter contents and learning objectives, complete with page numbers.
- *Author comments and figure annotations.* Throughout each chapter, author comments ease and enhance student learning by introducing and explaining major text sections and organising 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 mini-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. 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 1** contains a sample marketing plan that helps students to apply important marketing planning concepts.
- *Marketing by the numbers.* 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 Appendix.

More than ever before, the new 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!

ABOUT THE AUTHORS

Philip Kotler is S.C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management, Northwestern University. He received his master's degree at the University of Chicago and his PhD at MIT, both in economics. Dr Kotler is 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 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.*

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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 US and international companies in the areas of marketing strategy and planning, marketing organisation and international marketing. He has travelled and lectured extensively throughout Europe, Asia and South America, advising companies and governments about global marketing practices and opportunities.

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PART ONE

Defining marketing and the marketing process

CHAPTER ONE

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 programmes, 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 with Mini, the iconic British car. The secret to Mini's success? It's really no secret at all. Mini have a deep-down passion for creating customer engagement, value and relationships. 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.

Objectives outline

➤ **Objective 1** Define marketing and outline the steps in the marketing process.
What is marketing? (pp. 4–5)

➤ **Objective 2** Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.
Understanding the marketplace and customer needs (pp. 6–8)

➤ **Objective 3** Identify the key elements of a customer-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.
Designing a customer-driven marketing strategy (pp. 9–12)
Preparing an integrated marketing plan and programme (p. 13)

➤ **Objective 4** Discuss customer relationship management and identify strategies *for* creating value for customers and capturing value *from* customers in return.
Building customer relationships (pp. 13–18)
Capturing value from customers (pp. 18–20)

➤ **Objective 5** Describe the major trends and forces that are changing the marketing landscape in this age of relationships.
The changing marketing landscape (pp. 21–22)

Mini: Marketing Master?

Kate L. Daunt, Cardiff Business School

The Mini is arguably the most successful British car brand in history. Designed by Sir Alec Issigonis, two models of Mini zoomed into production in the UK in 1959, the Morris Mini Minor and the Austin Seven. The Mini, representing a breakthrough in small car design, offered consumers something different. Priced at £496, the car was affordable, economical to run and, with a 34bhp engine, practical and agile to drive. Safely seating four adults, the Mini was somewhat like Dr Who's Tardis, small on the outside but big on the inside. Mini quickly became the car of choice for housewives running family errands. However, it was the swinging 60s that defined the Mini brand. A collaboration with John Cooper (twice F1 champion constructor) in 1961 resulted in the release of the Mini Cooper model. With its sporty 55bhp engine, iconic two-tone paint (the roof was a different colour to the body of the car) and bonnet stripes, the Mini was made fashionable. The brand now transcended demographics: everyone who was anyone owned a Mini Cooper ranging from the pop band the Beatles, to fashion designer Mary Quant, to royal Prince Charles, to actor Clint Eastwood, to my Dad (!). Mini's connections to Hollywood, celebrities and motorsports shaped a brand personality that was stylish, sporty, fun-loving and a little bit cheeky. This is demonstrated in the 1960s advertising strapline, 'You don't need a big one to be happy. Happiness is Mini shaped'. With the introduction of the super sporty Cooper S and stretched Clubman Estate models it seemed that the Mini brand could do no wrong.

Yet, in spite of Mini's momentous start to life, the 1970s, 1980s and 1990s held a darker picture in terms of customer demand. Mini increasingly no longer held the niche for small cars with competitors including Volkswagen, Ford and Renault not only entering the UK's small car market, but offering customers technological innovations, increased specifications and new body shapes. At the same time, Mini's technology, style and size remained comparatively unchanged. The Mini's adventure appeared all but over; with unsuccessful changes to ownership and management, the last Mini rolled off of the production line in Oxford on 3 October 2000. However, all was not lost. Acquired by BMW (when under the ownership of Rover), the German firm had big plans for the little car's future. Expanding BMW's current product portfolio and offering instant access to the small car sector, in 2001 the BMW Mini was launched. Although markedly larger than its original incarnation, the design and 'go-kart' handling was unmistakably 'Mini' and it proved a huge commercial success. At the heart of this success was an offering that customers valued – the ability to customise and personalise their vehicle. Literally thousands of different colour, exterior and interior trims and technological specification combinations were offered. Thus, the average price paid by the customer for their car far exceeded that of the list price for the vehicle. The basic shape of the car may look like its 60s predecessor but beneath the bonnet the updated design was tailored to the needs of modern consumers. This strategy placed Mini in the previously untapped 'premium' segment of the small car market. Under the management of BMW, Mini's customer service was also taken seriously. Mini salespeople were awarded bonuses based on customer satisfaction ratings not car sales alone, a marked departure from the industry norm.

Mini returned to its quirky roots, presenting a stylish, heritage-founded, and above all fun brand image. Demand for the growing line-up of Mini models grew not only in domestic markets but international markets too. The quintessential British car was coveted by consumers spanning the USA to Australia, with India representing the 100th country in which Mini made a pit stop in 2012. Explaining Mini's marketing strategy, Tom Salkowsky, Mini's USA Head of Marketing, states: 'We do things differently. Win markets but international markets too. The quintessentially British 2001 New Mini was a little quirky. We lean into that. That's not typical, that's not traditional, that's not ordinary, that's not normal. That's Mini.' Indeed, doing things differently appears to underpin Mini's ethos. New car owners are encouraged to personify their car with a formal name (which they can log online). Cost-effective stunts, digital and events marketing are favoured over more traditional methods; Mini appreciates the power of brand experience and that owning a Mini is membership to a club. As such the line between organisationally driven

Mini styles its self as exciting, quirky and downright fun!
Source: David Hartley/REX/Shutterstock

events and owner-driven activities is somewhat blurred, ranging from Guinness Book of Records attempts for the biggest ever parade of Minis and the most people crammed into a Mini, to web-generated content, to rallies, to a presence at the 2012 British-hosted Olympic games. Here, in addition to holding a starring role in the closing ceremony, smiles were brought to spectators' faces as miniature radio-controlled Minis were used to return javelins, discuses and hammers to competitors in the field events.

Noting changes in the marketing environment, by 2014 the Mini was ready for a facelift and the New Mini was launched on what would have been Sir Issigonis' 107th birthday. Larger than its predecessor, Mini argue that their latest model is more practical, with a 134bhp Cooper engine, improved fuel economy, reduced $C0_2$ emissions and improved suspension and handling, the Mini is made for the modern driver. Quirky yet practical specifications also include variable suspension settings (comfort or sport), a self-parking function and an assist option that warns drivers of imminent collisions. Recognising consumers' need for easy access, a five-door hatch was also launched. But what does the future hold for Mini? To triumph against the ever growing competition, including the Audi A1 and the Fiat 500, size will once again play a role. Since its re-launch, in addition to special editions, the number of Mini models has risen to eight to include the SUV crossover Countryman, Convertible and Coupé models, and the super sporty and pricey John Cooper Works. Moving forward, Mini is reportedly planning to cut the size of its range to five models in a bid to sharpen its appeal in an increasingly saturated market. Peter Schwarzenbauer, Mini Brand Chief, notes, 'Mini now faces competition in areas where it previously stood alone' and 'less is more . . . we have to set the right properties and always remember what premium really means: Excellent product substance and a strong, emotionally-appealing brand'. Keeping the fun and quirk in the brand, Schwarzenbauer explains that each model in the new line-up will be recognisable for its own personality and capabilities 'like a superhero'. With trade reports noting future projects including contactless credit card car access and operation and integrated Spotify streaming, may the marvel of Mini continue.[1]

Today's successful companies have one thing in common: like Mini, 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 organisation 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 revolutionised 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?[2]

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, Dyson's underlying philosophy of taking everyday products that don't work particularly well and making them more efficient, more effective and simply better has rocketed Dyson to (well-deserved) global success. McDonald's fulfils its 'I'm lovin' it' motto by being 'our customers' favourite place and way to eat' the world over, giving it nearly as much market share as its nearest four competitors combined. 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'. Virgin Atlantic fulfils its motto to 'embrace the fun spirit and let it fly' through being hugely attractive and responsive to customer needs, wants and demands.

Sound marketing is critical to the success of every organisation. Large for-profit firms, such as Unilever, Nestlé, Shell and Santander use marketing. But so do not-for-profit organisations, 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 centre and the ads that fill your TV screen, spice up your magazines or stuff your mailbox. But in recent years, marketers have assembled a host of new marketing approaches, everything from imaginative websites and 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 defined

What *is* marketing? Many people think of marketing as only selling and advertising. We are bombarded every day with TV commercials, catalogues, 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 organisations 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.[4]

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 programmes.

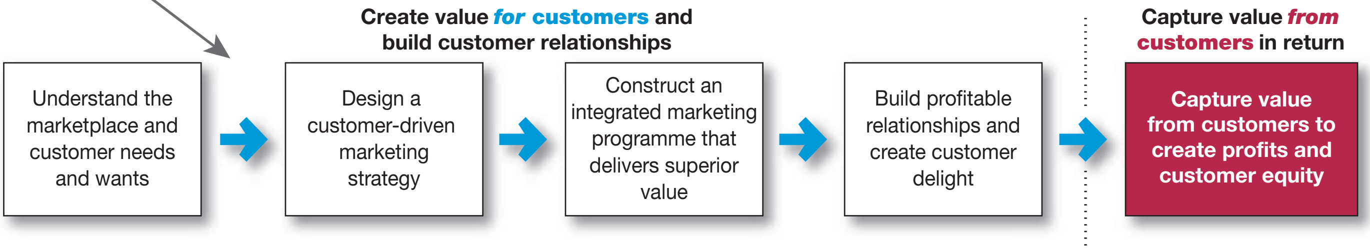

Create value *for customers* and build customer relationships
Capture value *from customers* in return
Understand the marketplace and customer needs and wants
Design a customer-driven marketing strategy
Construct an integrated marketing programme that delivers superior value
Build profitable relationships and create customer delight
Capture value from customers to create profits and customer equity

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.

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.

Demands—Human wants that are backed by buying power.

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 make-up.

Wants are the form human needs take as they are shaped by culture and individual personality. If you'll excuse the stereotypes – used for illustrative purposes only – a German consumer *needs* food but *wants* a sauerkraut, sausage and beer. A trite example of a person in Papua, New Guinea, *needs* food but *wants* taro, rice, yams and pork. A similarly clichéd Englishman *needs* food but *wants* cucumber sandwiches and gallons of insipid tea. 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, analyse mountains of customer data, and observe customers as they shop and interact, offline and online. People at all levels of the company – including top management – stay close to customers. For example, James Averdiek, founder and MC of extraordinarily amazing Gü Chocolate Puds, argues that a core tenet of any successful business is getting close to your customers by finding out what they are doing and taking part in it. At P&G, executives from the chief executive officer down spend time with customers in their homes and on shopping trips. P&G brand managers routinely spend a week or two living on the budget of low-end consumers to gain insights into what they can do to improve customers' lives.[5]

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

Market offerings – products, services and experiences

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

More broadly, market offerings also include other entities, such as *persons, places, organisations, information* and *ideas*. For example, Tourism Ireland invites tourists to 'Jump into' Ireland's Wild Atlantic Way, at 2400km the longest defined coastal drive in the world. In late 2014 alone, Tourism Ireland will spend around €11 million to boosting late season travel bookings to Ireland by around 30 per cent. This campaign is tailored to different markets with slightly different campaigns for the UK, North America, mainland Europe and developing markets such as Australia.[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.

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.

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 watch a Wimbledon tennis tournament; you immerse yourself in the historical home of tennis. Similarly, Ferrari recognises that their cars are much more than just a combustion engine, a collection of wires and electrical components. To the owners of a Ferrari car, their Ferrari is an expression of their status, taste and style.

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-shotting 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 2 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 (the first released in the summer of 2016) to a growing list of new games, licensed toys, apparel, yard art, and even Angry Birds-branded playgrounds, activity parks and theme parks.[8]

Tourism Ireland stresses the breadth of experiences visitors to beautiful Ireland can embrace.

Source: Patryk Kosmider/Shutterstock.com

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

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

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

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

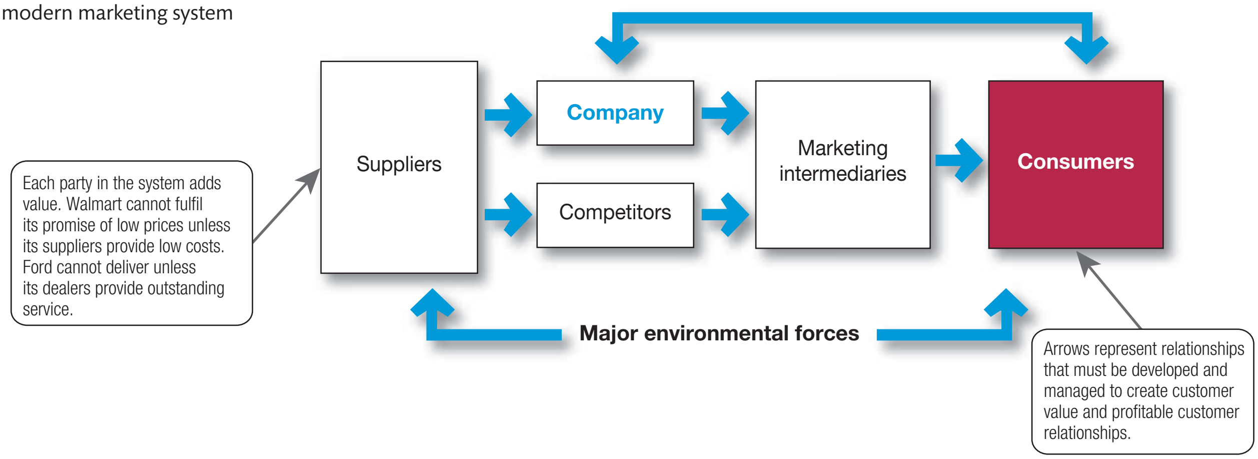
The concepts of exchange and relationships lead to the concept of a market. A **market** is the set of actual and potential buyers of a product or service. These buyers share a particular need or want that can be satisfied through exchange relationships.

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).

Figure 1.2 A modern marketing system



Each party in the system adds value. Walmart cannot fulfil its promise of low prices unless its suppliers provide low costs. Ford cannot deliver unless its dealers provide outstanding service.

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

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. Lidl cannot fulfil its promise of low prices unless its suppliers provide merchandise at low costs, while Citroen cannot deliver a high-quality car-ownership experience unless its dealers provide outstanding sales and service.

Author comment

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

DESIGNING A CUSTOMER VALUE-DRIVEN MARKETING STRATEGY

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, La Perla (with Headquarters in Italy) profitably targets affluent professionals; Aldi 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. Red Bull Energy Drink 'gives you wiiings' whereas with T-Mobile, family and friends can 'stick together'. Saab cars boast their engineering excellence credentials by being 'born from jets'. The diminutive Smart car suggests that you 'open your mind to the car that challenges the status quo', whereas Infiniti 'makes luxury affordable', and BMW promises 'the ultimate driving machine'. 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'.[9]

Value propositions: in tough economic times, companies must emphasise the *value* in their value propositions. Waitrose now has an essential range that they promote as 'Waitrose quality at everyday prices.'

Source: Clynt Garnham Food & Drink/Alamy Images

essential Waitrose olive spread
essential Waitrose british honey roast ham
essential Waitrose cream of tomato soup
essential Waitrose creamed horseradish sauce
essential Waitrose special choice red fruit
essential Waitrose orange juice smooth