

PRINCIPLES OF MARKETING

EIGHTH EUROPEAN EDITION

PHILIP KOTLER
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Preface

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

All around the world – across five continents, more than 40 countries and 24 languages – students, professors and business professionals have long relied on *Principles of Marketing* as the most-trusted source for teaching and learning about the latest developments in basic marketing concepts and practices. More than ever, the eighth edition introduces new marketing students to the fascinating world of modern marketing in a complete and authoritative yet fresh, practical, and engaging way.

Once again, we've added substantial new content and pored over every page, table, figure, fact and example in order to make this the best text from which to learn about and teach marketing. The Eighth European 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 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 online, mobile and social media tools for engaging customers anytime, any place to jointly shape brand conversations, experiences and community. If marketers do these things well, they will reap the rewards in terms of market share, profits and customer equity. In the Eighth European Edition of *Principles of Marketing*, you'll learn how *customer value* and *customer engagement* drive every good marketing strategy.

What's new in this edition?

We've thoroughly revised this new European edition of *Principles of Marketing* to reflect the major trends and forces that affect 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.

- The new edition adds fresh coverage in both traditional marketing areas and on fast-changing and trending topics such as customer engagement marketing, mobile and social media, big data and the new marketing analytics, the Internet of Things, omni-channel marketing and retailing, customer co-creation and empowerment, real-time customer listening and marketing, building brand community, marketing content creation and native advertising, B-to-B social media and social selling, monetising social media, tiered and dynamic pricing, consumer privacy, sustainability, global marketing and much more.
- This new edition continues to build on its *customer engagement* framework – creating direct and continuous customer involvement in shaping brands, brand conversations, brand experiences and brand community. New coverage and fresh examples throughout the text address the latest customer engagement tools, practices and developments. See especially **Chapter 1** (refreshed sections on *Customer engagement and today's digital and social media* and *Consumer-generated marketing*); **Chapter 4** (big data and real-time research to gain deeper customer insights); **Chapter 5** (creating social influence and customer community through digital and social media marketing); **Chapter 9** (customer co-creation and customer-driven new-product development); **Chapter 13** (omni-channel retailing); **Chapters 14 and 15** (marketing content curation and native advertising); **Chapter 16**

- (sales force social selling); and **Chapter 17** (direct digital, online, social media and mobile marketing).
- No area of marketing is changing faster than online, mobile, social media and other digital marketing technologies. Keeping up with digital concepts, technologies and practices has become a top priority and major challenge for today's marketers. The Eighth European Edition of *Principles of Marketing* provides thoroughly refreshed, up-to-date coverage of these explosive developments in every chapter – from online, mobile and social media engagement technologies discussed in **Chapters 1, 5, 14, 15 and 17** to 'real-time listening' and 'big data' research tools in **Chapter 4**, real-time dynamic pricing in **Chapter 11**, omni-channel retailing in **Chapter 13**, and social selling in **Chapter 16**. In **Chapter 1** a section on *The digital age: online, mobile and social media marketing* introduces the exciting new developments in digital and social media marketing. Then in **Chapter 17** a section on *Direct, online, social media and mobile marketing* digs more deeply into digital marketing tools such as online sites, social media, mobile ads and apps, online video, email, blogs and other digital platforms that engage consumers anywhere, anytime via their computers, smartphones, tablets, internet-ready TVs and other digital devices.
 - The new edition continues to track fast-changing developments in marketing communications and the creation of marketing content. Marketers are no longer simply creating integrated marketing communications programmes; they are joining with customers and media to curate customer-driven marketing content in paid, owned, earned and shared media. You won't find fresher coverage of these important topics in any other marketing text.
 - The Eighth European Edition of *Principles of Marketing* 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 learning outcomes 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 organise chapter material. New and substantially revised end-of-chapter features help to summarise important chapter concepts and highlight important themes, such as marketing ethics, financial marketing analysis, and online, mobile and social media marketing. This innovative learning design facilitates student understanding and eases learning.
 - The new edition provides many new end-of-chapter company cases by which students can apply what they learn to actual company situations. It also features new video cases, with brief end-of-chapter summaries and discussion questions. The videos themselves can be

viewed at www.pearsoned.co.uk/kotler. Finally, all of the chapter-opening stories and end-of-chapter features in this edition are either new or revised.

- 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** and discussed fully in **Chapter 19**.

Five major customer value and engagement themes

The Eighth European Edition of *Principles of Marketing* builds on five major customer value and engagement themes:

1. **Creating value for customers in order to capture value from customers in return.** Today's marketers must be good at *creating customer value, engaging customers, and managing customer relationships*. Outstanding marketing companies understand the marketplace and customer needs, design value-creating marketing strategies, develop integrated marketing programmes that engage customers and deliver value and satisfaction, and build strong customer relationships and brand community. In return, they capture value from customers in the form of sales, profits and customer equity.
This innovative *customer-value and engagement framework* is introduced at the start of **Chapter 1** in a five-step marketing process model, which details how marketing *creates* customer value and *captures* value in return. The framework is carefully developed in the first two chapters and then fully integrated throughout the remainder of the text.
2. **Customer engagement and today's digital and social media.** New digital and social media have taken today's marketing by storm, dramatically changing how companies and brands engage consumers and how consumers connect and influence each other's brand 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 **Chapter 1** sections: *Customer engagement and today's digital and social media* and *The digital age: online, mobile, and social media*. A refreshed **Chapter 17** on *Direct, online, social media and mobile marketing* summarises 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 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 budgets 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**, in **Appendix 2** (*Marketing by Numbers*), and throughout the eighth 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 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 eighth edition integrates global marketing and sustainability topics throughout the text. It then provides focused coverage on each topic in **Chapters 19 and 20**, respectively.

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 *Learning outcomes* outline that provides a helpful preview of chapter contents and learning objectives, complete with page numbers. Finally, a chapter-opening vignette – an engaging, deeply developed, illustrated and annotated marketing story that introduces the chapter material and sparks student interest.

- *Author comments and figure annotations.* Each figure contains author comments that ease student understanding and help organise major text sections.
- Sections at the end of each chapter summarise key chapter concepts and provide questions and exercises by which students can review and apply what they've learned. The *Learning outcomes review* and *Navigating the key terms* sections review major chapter concepts and link them to learning outcomes. They also provide a helpful listing of chapter key terms by order of appearance with page numbers that facilitate easy reference. A *Discussion and critical thinking* section provides discussion questions and critical-thinking exercises that help students to keep track of and apply what they've learned in the chapter.
- *Mini cases and applications.* Brief *Online, mobile and social media marketing*; *Marketing ethics*; and *Marketing by numbers* sections at the end of each chapter provide short applications 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.* **Appendix 1** contains a sample marketing plan that helps students to apply important marketing planning concepts.
- *Marketing by numbers appendix.* An 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 numbers* appendix.

More than ever before, the Eighth European 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 the Eighth European Edition of *Principles of Marketing*.

Instructor resources

At the Instructor Resource Centre, www.pearsoned.co.uk/kotler, instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format.

The following supplements are available with this text:

- Instructor's Resource Manual
- PowerPoint Presentation
- Student companion website containing the videos referred to in the end-of-chapter video case section

A note on the authors

Long-term users of this text will note that the authorship of this edition has changed from the seventh edition. My previous co-author of the European Edition – Nigel F. Piercy – sadly quietly and peacefully passed away (he must be really annoyed – he would have much preferred to sign out with a tremendous, earth-shattering bang!). Nigel was fun. He enjoyed scandalising people, poking fun at the pompous (I was a frequent and all too easy target) and generally causing mischief and mayhem. When he wanted he could charm the birds from the trees and when he didn't he could pop an ego with one searing look (most often through dirty glasses). He was the best writer I know and a simply brilliant lecturer. Others will write of his long list of achievements, victories and prizes – I would say he didn't care about them but that would be untrue – such things were a way of keeping score. I, however, will just remember most his cleverness, his wit, his sardonic grimace and his ironically raised eyebrows!

Lloyd C. Harris

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 M.I.T., both in economics. Dr Kotler is the author of *Marketing Management* (Pearson), now in its seventeenth edition and the most widely used marketing textbook in graduate schools of business worldwide. He has authored more than 50 other successful books and has published more than 150 articles in leading journals. He is the only three-time winner of the coveted Alpha Kappa Psi award for the best annual article in the *Journal of Marketing*.

Professor Kotler was named the first recipient of four major awards: the *Distinguished Marketing Educator of the Year Award* and the *William L. Wilkie 'Marketing for a Better World' Award*, both given by the American Marketing Association; the *Philip Kotler Award for Excellence in Health Care Marketing* presented by the Academy for Health Care Services Marketing; and the *Sheth Foundation Medal for Exceptional Contribution to Marketing Scholarship and Practice*. He is a charter member of the Marketing Hall of Fame, was voted the first Leader in Marketing Thought by the American Marketing Association, and was named the Founder of Modern Marketing Management in the *Handbook of Management Thinking*. His numerous other major honours 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 honour '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 US and international companies in the areas of marketing strategy and planning, marketing organisation and international marketing.

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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 programme. 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 campus-wide 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 honour bestowed by the sixteen-campus University of North Carolina system.

Lloyd C. Harris is the Head of the Marketing Department and Professor of Marketing at Birmingham Business School, University of Birmingham. After working in retail and service organisations, he received his PhD in Marketing from Cardiff University and his Higher Doctorate (DSc) from the University of Warwick. His research results have been disseminated via a range of marketing strategy, HRM and general management journals. He has written widely in these fields and has published over 100 pieces. He is particularly proud of papers that have been published in the *Journal of Retailing*, *Journal of the Academy of Marketing Science*, *Journal of Management Studies*, *Human Resource Management*, *Organization Studies* and the *Annals of Tourism Research*. He has consulted and run programmes for many leading private and public organisations, especially focusing on retailing and service organisations.

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Part One



Defining marketing
and the
marketing process

Chapter One

Marketing: creating customer value and engagement

Chapter preview

This first chapter introduces you to the basic concepts of marketing. We start with the question: What is marketing? Simply put, marketing is engaging customers and managing profitable customer relationships. The aim of marketing is to create value for customers in order to capture value from customers in return. Next we discuss the five steps in the marketing process – from understanding customer needs, to designing customer value-driven marketing strategies and integrated marketing 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 at Pegasus Airlines, one of Europe's leading low-cost airlines. Pegasus's outstanding success stems from much more than just flying passengers around Turkey. It's based on a customer-focused marketing strategy by which Pegasus creates customer value for its customers.

Learning outcomes

- **Objective 1** You will be able to define marketing and outline the steps in the marketing process. What is marketing? (pp. 5–7)
- **Objective 2** You will be able to explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts. Understanding the marketplace and customer needs (pp. 7–10)
- **Objective 3** You will be able to identify the key elements of a customer value-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy. Designing a customer value-driven marketing strategy and plan (pp. 10–14)
- **Objective 4** You will be able to discuss customer relationship management and identify strategies for creating value *for* customers and capturing value *from* customers in return. Building customer relationships (pp. 14–20)
- **Objective 5** You will be able to describe the major trends and forces that are changing the marketing landscape in this age of relationships. The changing marketing landscape (pp. 23–27)

Pegasus Airlines: delighting a new type of travelling customer

Until 1982, Turkish Airlines was the only airline company operating in Turkey, and it had no domestic competitors. Following deregulation and reduction of government controls across the airline industry, 29 airlines were established, with 22 finding themselves bankrupted a few years later, demonstrating the strong level of both internal and external competition and how the airline industry is affected by economic instability. Over the past 20 years, Turkey has experienced a number of financial crises, as well as political turmoil. Pegasus was created in 1989 as a charter airline partnered with Aer Lingus to create all-inclusive holidays. In 1994, the company was sold to a Turkish investment fund and in 2005 was re-sold to Ali Sabanci (of Sabanci Holding, an influential family-owned business in Turkey), who changed the airline from a charter airline to a low-cost airline. In 2008, Pegasus carried a total 4.4 million passengers in Turkey, more than any other private airline. However, by 2018 passenger traffic had exploded to around 29 million passengers carried. As of 2019, Pegasus has a fleet of 83 Boeing and Airbus planes. Its major competitors – other than the national carrier, Turkish Airlines – are Onur Air, Fly Air, Sun Express and Atlasjet. Instead of operating from Istanbul's main airport, which is overcrowded, Pegasus Airlines flies from Istanbul's second main hub, Sabiha Gökçen International Airport. Its on-time departure rate is around 85 per cent, which is well above the European average of 81 per cent, demonstrating the importance the company attaches to customer service. In 2017, Pegasus was awarded the title 'The Best Low-Cost Airline' and has been named the cheapest European low-cost airline numerous times.

What is the secret to the airline's success? Quite simply, it involves making sure Pegasus is continually developing to meet passenger expectations and priorities. Pegasus has put in place a yield management strategy for ticket pricing, using the strategy of Southwest Airlines of North America as an example. Supply and demand, as well as time, are taken into account in the ticket pricing strategy; for example, if customers book early (60 days) they receive further savings while those who book later pay the maximum current fare offered by competitors. The system is complemented by an electronic ticket policy whereby passengers receive their information via email and SMS. Pegasus has also developed a credit/loyalty card (the Pegasus Plus Card), which offers customers a range of benefits including insurance rate reductions. Although airlines can't often control flight delays, Pegasus has developed a specific customer satisfaction guarantee policy that provides customers with (i) in the case of a delay greater than 3 hours, a refund of the ticket and (ii) in the case of a delay greater than 5 hours, a refund and a free ticket. Pegasus also offers a customer service experience at the airport. It provides exclusive allotments for the first 72 hours of parking with a valet parking option, VIP and Business Class lounges, car rental and many hotel partners where customers can get some discount. Unlike many airlines, a one-class interior configuration is operated, but passengers can pay a small extra premium to choose their seats. This is complemented by the Pegasus Flying Café, which offers a range of refreshments and catering options for a small additional charge, allowing customers to pre-order and reserve their inflight meals. Pegasus offers further customer service options, including a 10 per cent discount to passengers on international flights who order their in-flight meals 48 hours in advance. An in-plane bulletin is also available, with a mix of offers and features on certain destinations. This bulletin is free for customers but generates income via advertising. These services are supported by Pegasus's own flight crew training centre and maintenance organisation, Pegasus Technic. Both are fully licensed and are used to train new staff members. The company

Pegasus Airlines – customer focused value creators.

Source: bodrumsurf/Shutterstock



regularly receives awards and recognition for, among other things, its management strategy; initiatives in website development; and its marketing strategy, which employs a new approach to advertising that includes viral marketing, flash campaigns and mobile campaigns. This strategy has succeeded in making Pegasus the most searched airline in Turkey on Google.

Although the tangible amenities that Pegasus offers are likely to delight most travellers, General Manager Sertaç Haybat, recognises that these practices are not nearly enough to provide a sustainable competitive advantage and that Pegasus must always present its customers with the most economical flight opportunities. Here the importance of the crew training centre remains crucial. Haybat emphasises that a culture that breeds trust is the most crucial factor. It's this personal culture that gives Pegasus's customer service an edge. Indeed, taking care of customers starts as early as a customer's first encounter with the Pegasus brand and website. Pegasus's employees work as a team with their goal being a common understanding of the airline's long-term objective to provide a democratic environment in which everyone shares their ideas freely. Training, as well as continuous development, is provided to ensure regular career progression and high levels of motivation through a solid performance system and regular personal feedback. Early in the process, Pegasus selects the people who best exhibit these values while directing the right person to the right department at the right time. The last tenet of Pegasus's customer-service strategy lies in the regularly scheduled and innovative destinations it offers. Not only does Pegasus share planes with Pegasus Asia and Izair, but it also has charter and scheduled services to around 120 airports in Europe and Asia. Pegasus operates regular flights to Georgia and Lebanon, providing additional destinations outside of Europe, thus maximising Turkey's short flight opportunities. This prompted speculation in the media about the changing preference of air travellers where low-cost companies are seen as a sustainable substitute to middle- and high-cost traditional carriers.

Customers are the most important aspect of any service industry. Since the global recession, many airlines have seen a drop in passenger numbers, and it is a challenge to achieve and sustain profitability. In the case of Turkey, other factors provide further opportunities for the airline industry. On the one hand, the economy is growing at a faster rate than the rest of Europe, and on the other hand, as is the case in many emerging countries and in traditional industrial areas of developed economies, a substantial expatriate population exists. New migrants or integrated second- or third-generation migrants usually provide opportunities for travel due to cultural affinities and understanding. Regular holidays or business-related trips 'home' can create a good foundation in terms of overall capacity planning. In terms of weekly seat capacity, Pegasus currently ranks in the top 30 among European airlines. While most airline customers are loyal because of frequent flyer programmes, in the case of Pegasus and Turkey in general, further affinities can be developed and sustained, including a certain sense of nationalist pride or nostalgia. History can also provide potential future markets. Countries such as Azerbaijan, Turkmenistan, Uzbekistan and others around the Black Sea region are long-term trading partners of Turkey and have been growing rapidly since the breakup of the USSR in 1991. This potential is also opening up opportunities with countries in the Middle East, which have large, young markets both in terms of tourism and business. However, Pegasus customers want more in terms of social network relationships with the brand and, therefore, Pegasus aims to keep up with its customers even when they are not flying. For example, Pegasus has a Facebook page complete with a game entitling customers to win free tickets. The company also has a Twitter account, through which it offers customers special competitions. Furthermore, in association with Vodafone, a special campaign was developed called 'mobile phone fly', whereby consumers accumulated for each SMS an award of 5 per cent toward a Pegasus ticket discount, emulating the 'shop and miles' strategy of traditional airlines. Over time, Pegasus hopes to create a sustainable relationship with its customers while leveraging the possibilities of social networks and other digital technologies. Pegasus's strong word of mouth has also been important in the airline's success and is reflected in the words of customers on a special website titled 'Pegasus listens to you'. Sections of the website encourage customers to generate ideas for service improvement, to debate generic questions and topics relating to the airline's management and services, and to encourage customers to report problems they have encountered. Since its formation in 2005,

Pegasus has shown that a low-cost airline can deliver low fares, excellent service and steady profits. It has demonstrated that even in the airline business, entry barriers can be lowered and a powerful brand can be created. Pegasus embodies success in four marketing cornerstones: (i) it ensures successful service through safety, training and its devoted employees, (ii) it employs creative communication with its customers, (iii) it offers great destinations and easy access to international hubs, and (iv) it uses efficient management techniques, delivering low prices with a high-quality service experience. To be successful in the low-cost airline industry, great attention needs to be paid to customers' changing travel patterns and needs. Booking flights, post-purchase evaluation through regular customer relationship management, and intangible value created by a variety of details make Pegasus a formidable brand in the low-cost airline industry.¹

Today's successful companies have one thing in common: Like Pegasus, they are strongly customer focused and heavily committed to marketing. These companies share a passion for satisfying customer needs in well-defined target markets. They motivate everyone in the 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 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. It's now more important than ever to build strong customer engagement, relationships and advocacy based on real and enduring customer value.

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

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 value and 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. Facebook has attracted more than 1.5 billion active web and mobile users worldwide by helping them to 'connect and share with the people in their lives.' While 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. Similarly, Coca-Cola has earned an impressive 49 per cent global share of the carbonated beverage market – more than twice Pepsi's share – by fulfilling its 'Taste the Feeling' motto with products that provide 'a simple pleasure that makes everyday moments more special'.²

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

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.

imaginative websites and smartphone apps to blogs, online videos and social media. These new approaches do more than just blast out messages to the masses. They reach you directly, personally and interactively. Today's marketers want to become a part of your life and enrich your experiences with their brands. They want to help you *live* their brands.

At home, at school, where you work and where you play, you see marketing in almost everything you do. Yet there is much more to marketing than meets the consumer's casual eye. Behind it all is a massive network of people, technologies and activities competing for your attention and purchases. This book will give you a complete introduction to the basic concepts and practices of today's marketing. In this chapter, we begin by defining marketing and the marketing process.

Marketing defined

What is marketing? Many people think of marketing as only selling and advertising. We are bombarded every day with TV commercials, 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 engage customers, build strong customer relationships, and create customer value in order to capture value from customers in return.⁴

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

The marketing process

Figure 1.1 presents a simple, five-step model of the marketing process for creating and capturing customer value. In the first four steps, companies work to understand consumers, create customer value and build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value. By creating value *for* consumers, they in turn capture value *from* consumers in the form of sales, profits and long-term customer equity.

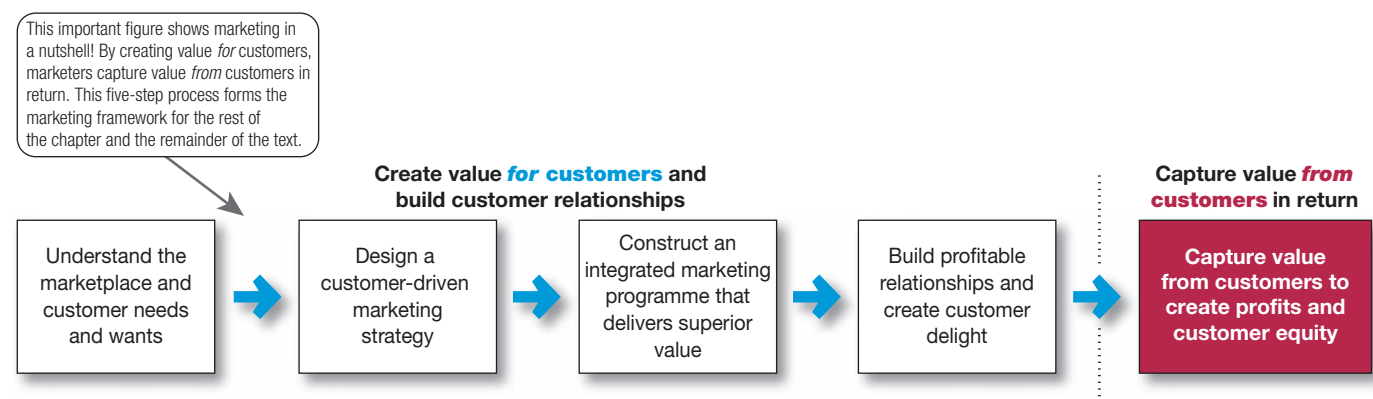


Figure 1.1 The marketing process: creating and capturing customer value

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.

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

Companies go to great lengths to learn about and understand customer needs, wants and demands. They conduct consumer research, 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.⁵ 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.

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, Fáilte Ireland have begun a campaign to promote 'Ireland's Hidden Heartlands', Ireland's latest tourism experience. This new campaign was created following research with thousands of customers from the UK, Ireland, the USA, Germany and France. In past campaigns, Tourism Ireland has invited tourists to 'Jump Into' Ireland's Wild

Author comment

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

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.

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



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

Source: James Caldwell/Alamy Stock Photo

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.

Atlantic Way; at 2400km the longest defined coastal drive in the world. These campaigns are tailored to different markets with slightly different campaigns for the UK, North America, mainland Europe and developing markets such as Australia and Asia. The results of this and other campaigns have seen overseas visits to Ireland jump by around 12 per cent from mainland Europe and the USA, while arrivals from the UK have increased by 2.4 per cent despite the falls in the pound and Brexit fears.⁶

Many sellers make the mistake of paying more attention to the specific products they offer than to the benefits and experiences produced by these products. These sellers suffer from **marketing myopia**. They are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs.⁷ They forget that a product is only a tool to solve a consumer problem. A manufacturer of quarter-inch drill bits may

think that the customer needs a drill bit. But what the customer *really* needs is a quarter-inch hole. These sellers will have trouble if a new product comes along that serves the customer's need better or less expensively. The customer will have the same *need* but will *want* the new product.

Smart marketers look beyond the attributes of the products and services they sell. By orchestrating several services and products, they create *brand experiences* for consumers. For example, you don't just 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, for L'École Van Cleef & Arpels, Paris, France, jewellery isn't something you just buy and wear. In 2012, Van Cleef & Arpels, certainly one of the finest global jewellery design houses, developed an inspiring initiative for those interested in the secret art and world of jewellery. Michelle Greenwald notes that 'guests can take a variety of 4-hour classes given in French and English around three themes: Art History, *Savoir-Faire* (know how) and the Universe of Gemstones. They learn jewellery and watch history, how to analyse quality, design and craftsmanship, and they're guided through the process of creating fine works. Course examples include The Story of Talisman Jewels, From French jewellery to Japanese lacquer, and Recognizing Gemstones.' This, says Michelle Greenwald writing in *Forbes*, is smart experience marketing as 'it reinforces Van Cleef's quality perception and makes this luxury brand more accessible, customers value experiences more than ever and spread them virally, once customers better understand all the quality and craftsmanship in high-end jewellery pieces, they're likely to better understand the value and through these programs, Van Cleef & Arpels reaches new audiences'.⁸

Customer value and satisfaction

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

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

Exchanges and relationships

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

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

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

Markets

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.

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

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

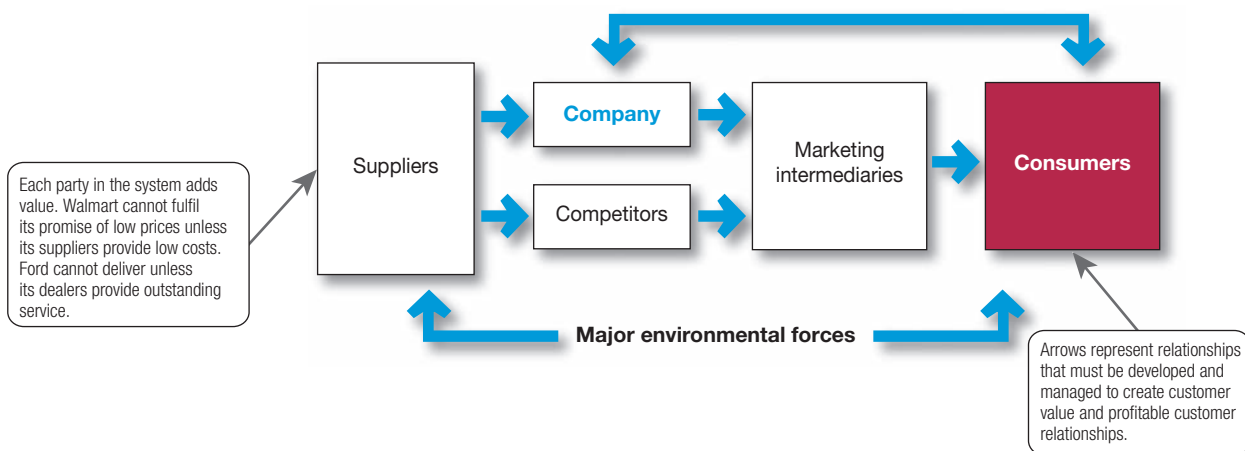


Figure 1.2 A modern marketing system