

EIGHTEENTH
EDITION



PRINCIPLES OF MARKETING

KOTLER
ARMSTRONG



Principles of **MARKETING**

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Principles of MARKETING

18e

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To Kathy, Betty, Mandy, Matt, KC, Keri, Delaney, Molly, Macy, and Ben;
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Brief Contents

Preface xv
Acknowledgments xix

Part 1 Defining Marketing and the Marketing Process 2

- 1 Marketing: Creating Customer Value and Engagement 2
- 2 Company and Marketing Strategy: Partnering to Build Customer Engagement, Value, and Relationships 36

Part 2 Understanding the Marketplace and Consumer Value 64

- 3 Analyzing the Marketing Environment 64
- 4 Managing Marketing Information to Gain Customer Insights 96
- 5 Consumer Markets and Buyer Behavior 130
- 6 Business Markets and Business Buyer Behavior 160

Part 3 Designing a Customer Value–Driven Strategy and Mix 182

- 7 Customer Value–Driven Marketing Strategy: Creating Value for Target Customers 182
- 8 Products, Services, and Brands: Building Customer Value 212
- 9 Developing New Products and Managing the Product Life Cycle 248
- 10 Pricing: Understanding and Capturing Customer Value 274
- 11 Pricing Strategies: Additional Considerations 296
- 12 Marketing Channels: Delivering Customer Value 322
- 13 Retailing and Wholesaling 354
- 14 Engaging Consumers and Communicating Customer Value: Integrated Marketing Communications Strategy 388
- 15 Advertising and Public Relations 414
- 16 Personal Selling and Sales Promotion 442
- 17 Direct, Online, Social Media, and Mobile Marketing 472

Part 4 Extending Marketing 504

- 18 Creating Competitive Advantage 504
- 19 The Global Marketplace 530
- 20 Sustainable Marketing: Social Responsibility and Ethics 560

- Appendix 1 Marketing Plan 589
- Appendix 2 Marketing by the Numbers 599
- Appendix 3 Careers In Marketing 617

Glossary 629
References 639
Index 681

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Contents

Preface xv
Acknowledgments xix

Part 1: Defining Marketing and the Marketing Process 2

CHAPTER 1 Marketing: Creating Customer Value and Engagement 2

What Is Marketing? 4

Marketing Defined 5 | The Marketing Process 5

Understanding the Marketplace and Customer Needs 6

Customer Needs, Wants, and Demands 6 | Market Offerings—Products, Services, and Experiences 7 | Customer Value and Satisfaction 9 | Exchanges and Relationships 9 | Markets 9

Designing a Customer Value–Driven Marketing Strategy and Plan 10

Customer Value–Driven Marketing Strategy 10 | Preparing an Integrated Marketing Plan and Program 14

Managing Customer Relationships and Capturing Customer Value 14

Engaging Customers and Managing Customer Relationships 14 | Capturing Value from Customers 19

The Changing Marketing Landscape 22

The Digital Age: Online, Mobile, and Social Media Marketing 22 | The Growth of Not-for-Profit Marketing 25 | Rapid Globalization 26 | Sustainable Marketing: The Call for More Environmental and Social Responsibility 27 | So, What Is Marketing? Pulling It All Together 27 | Developing Skills for Your Career 29

REVIEWING AND EXTENDING THE CONCEPTS 30 | Objectives Review 30 | Key Terms 31 | Discussion Questions 31 | Critical Thinking Exercises 31 | **APPLICATIONS AND CASES 32** | Online, Mobile, and Social Media Marketing: Fionamania 32 | Marketing Ethics: Patagonia—Saving Our Home Planet 32 | Marketing by the Numbers: Gillette Trying to Shave Off Competition 32 | Company Case: Buffalo Wild Wings: Fueling the Sports Fan Experience 33

CHAPTER 2 Company and Marketing Strategy: Partnering to Build Customer Engagement, Value, and Relationships 36

Company-Wide Strategic Planning: Defining Marketing’s Role 38

Defining a Market-Oriented Mission 38 | Setting Company Objectives and Goals 39

Designing the Business Portfolio 42

Analyzing the Current Business Portfolio 43 | The Boston Consulting Group Approach 43 | Developing Strategies for Growth and Downsizing 45

Planning Marketing: Partnering to Build Customer Relationships 46

Partnering with Other Company Departments 47 | Partnering with Others in the Marketing System 48

Marketing Strategy and the Marketing Mix 48

Customer Value–Driven Marketing Strategy 49 | Developing an Integrated Marketing Mix 50

Managing the Marketing Effort and Marketing Return on Investment 53

Managing the Marketing Effort 53 | Measuring and Managing Marketing Return on Investment 57

REVIEWING AND EXTENDING THE CONCEPTS 59 | Objectives Review 59 | Key Terms 60 | Discussion Questions 60 | Critical Thinking Exercises 60 | **APPLICATIONS AND CASES 60** | Online, Mobile, and Social Media Marketing: Lush UK Abandons Social Media 60 | Marketing Ethics: Creating Value or Distracting Consumers? 61 | Marketing by the Numbers: Facebook versus Google 61 | Company Case: Dyson: Solving Customer Problems in Ways They Never Imagined 61

Part 2: Understanding the Marketplace and Consumer Value 64

CHAPTER 3 Analyzing the Marketing Environment 64

The Microenvironment and Macroenvironment 66

The Microenvironment 66 | The Macroenvironment 70

The Demographic and Economic Environments 70

The Demographic Environment 70 | The Economic Environment 77

The Natural and Technological Environments 78

The Natural Environment 78 | The Technological Environment 80

The Political–Social and Cultural Environments 81

The Political and Social Environment 81 | The Cultural Environment 85

Responding to the Marketing Environment 89

REVIEWING AND EXTENDING THE CONCEPTS 91 | Objectives Review 91 | Key Terms 92 | Discussion Questions 92 | Critical Thinking Exercises 92 | **APPLICATIONS AND CASES 93** | Online, Mobile, and Social Media Marketing: #MeToo 93 | Marketing Ethics: Echo Dot Kids Edition 93 | Marketing by the Numbers: An Aging America 93 | Company Case: Square: In Relentless Pursuit of a More Elegant Payment Experience 94

CHAPTER **4** Managing Marketing Information to Gain Customer Insights **96**

Marketing Information and Customer Insights **98**

Marketing Information and Today's "Big Data" **98** | Managing Marketing Information **99**

Assessing Information Needs and Developing Data **100**

Assessing Marketing Information Needs **100** | Developing Marketing Information **101**

Marketing Research **103**

Traditional Marketing Research in Transition **103** | Defining the Problem and Research Objectives **104** | Developing the Research Plan **105** | Gathering Secondary Data **106** | Primary Data Collection **106** | Implementing the Research Plan **116** | Interpreting and Reporting the Findings **116**

Analyzing and Using Marketing Information **116**

Customer Relationship Management (CRM) **116** | Big Data, Marketing Analytics, and Artificial Intelligence **117** | Distributing and Using Marketing Information **118**

Other Marketing Information Considerations **120**

Marketing Research in Small Businesses and Nonprofit Organizations **120** | International Marketing Research **121** | Public Policy and Ethics in Marketing Research **122**

REVIEWING AND EXTENDING THE CONCEPTS **125** | Objectives Review **125** | Key Terms **126** | Discussion Questions **126** | Critical Thinking Exercises **126** | **APPLICATIONS AND CASES** **127** | Online, Mobile, and Social Media Marketing: The Trail You Leave Behind **127** | Marketing Ethics: WeChat **127** | Marketing by the Numbers: Descriptive Statistics **127** | Company Case: Qualtrics: Managing the Complete Customer Experience **128**

CHAPTER **5** Consumer Markets and Buyer Behavior **130**

Model of Consumer Behavior **132**

Characteristics Affecting Consumer Behavior **133**

Cultural Factors **133** | Social Factors **137** | Personal Factors **140** | Psychological Factors **142**

Buying Decision Behavior and the Buyer

Decision Process **147**

Types of Buying Decision Behavior **147** | The Buyer Decision Process **149** | The Customer Journey **151**

The Buyer Decision Process for New Products **152**

Stages in the Adoption Process **152** | Individual Differences in Innovativeness **153** | Influence of Product Characteristics on Rate of Adoption **154**

REVIEWING AND EXTENDING THE CONCEPTS **155** |

Objectives Review **155** | Key Terms **156** | Discussion Questions **156** | Critical Thinking Exercises **156** | **APPLICATIONS AND CASES** **156** | Online, Mobile, and Social Media Marketing: Digital Influencer Credibility **156** | Marketing Ethics: Cashless Pizza

Restaurant **157** | Marketing by the Numbers: Evaluating Alternatives **157** | Company Case: Kraft Heinz: Once a Taste Maker Now Struggles as Consumer Tastes Change **158**

CHAPTER **6** Business Markets and Business Buyer Behavior **160**

Business Markets **162**

Market Structure and Demand **163** | Nature of the Buying Unit **163** | Types of Decisions and the Decision Process **164**

Business Buyer Behavior **164**

Major Types of Buying Situations **165** | Participants in the Business Buying Process **166** | Major Influences on Business Buyers **167**

The Business Buyer Decision Process **169**

Problem Recognition **169** | General Need Description **170** | Product Specification **170** | Supplier Search **170** | Proposal Solicitation **170** | Supplier Selection **171** | Order-Routine Specification **171** | Performance Review **171**

Engaging Business Buyers with Digital and

Social Marketing **172**

E-procurement and Online Purchasing **172** | Business-to-Business Digital and Social Media Marketing **172**

Institutional and Government Markets **173**

Institutional Markets **173** | Government Markets **175**

REVIEWING AND EXTENDING THE CONCEPTS **178** | Objectives

Review **178** | Key Terms **178** | Discussion Questions **179** | Critical Thinking Exercises **179** | **APPLICATIONS AND CASES** **179** | Online, Mobile, and Social Media Marketing: E-procurement and Mobile Procurement **179** | Marketing Ethics: Big Tech for Military Activities **180** | Marketing by the Numbers: From Gaming to Public Safety **180** | Company Case: Shopify: An E-commerce Giant That Doesn't Sell to End Users **180**

Part 3: Designing a Customer Value–Driven Strategy and Mix **182**

CHAPTER **7** Customer Value–Driven Marketing Strategy: Creating Value for Target Customers **182**

Marketing Strategy **184**

Market Segmentation **185**

Segmenting Consumer Markets **185** | Segmenting Business Markets **191** | Segmenting International Markets **192** | Requirements for Effective Segmentation **193**

Market Targeting **193**

Evaluating Market Segments **193** | Selecting Target Market Segments **194**

Differentiation and Positioning **201**

Positioning Maps **201** | Choosing a Differentiation and Positioning Strategy **202** | Communicating and Delivering the Chosen Position **206**

REVIEWING AND EXTENDING THE CONCEPTS 207 | Objectives Review 207 | Key Terms 208 | Discussion Questions 208 | Critical Thinking Exercises 208 | **APPLICATIONS AND CASES 208** | Online, Mobile, and Social Media Marketing: Influence Not Accepted as Payment 208 | Marketing Ethics: Allegiant Airlines: Value Creation or Flying Public at Risk? 209 | Marketing by the Numbers: See the Clot, Bust the Clot, Save a Life 209 | Company Case: 5-Hour Energy: Hours of Energy without the Beverage 210

CHAPTER 8 Products, Services, and Brands: Building Customer Value 212

What Is a Product? 214

Products, Services, and Experiences 214 | Levels of Product and Services 215 | Product and Service Classifications 216

Product and Service Decisions 219

Individual Product and Service Decisions 219 | Product Line Decisions 225 | Product Mix Decisions 226

Services Marketing 227

The Nature and Characteristics of a Service 227 | Marketing Strategies for Service Firms 229 | The Service Profit Chain 229

Branding Strategy: Building Strong Brands 232

Brand Equity and Brand Value 232 | Building Strong Brands 234 | Managing Brands 241

REVIEWING AND EXTENDING THE CONCEPTS 242 | Objectives Review 242 | Key Terms 243 | Discussion Questions 243 | Critical Thinking Exercises 243 | **APPLICATIONS AND CASES 243** | Online, Mobile, and Social Media Marketing: Engaging Rival Brand Fans: 243 | Marketing Ethics: Permission to Unlock? Amazon In-Home/In-Car Delivery Service 244 | Marketing by the Numbers: Diet Coke with Fiber 244 | Company Case: MINI: Focus on the Essential—Maximize the Experience 244

CHAPTER 9 Developing New Products and Managing the Product Life Cycle 248

New Product Development Strategy 250

The New Product Development Process 251

Idea Generation 251 | Idea Screening 253 | Concept Development and Testing 254 | Marketing Strategy Development 255 | Business Analysis 255 | Product Development 256 | Test Marketing 256 | Commercialization 257 | Managing New Product Development 258

Product Life-Cycle Strategies 261

Introduction Stage 263 | Growth Stage 263 | Maturity Stage 265 | Decline Stage 266

Additional Product and Service Considerations 268

Product Decisions and Social Responsibility 268 | International Product and Services Marketing 268

REVIEWING AND EXTENDING THE CONCEPTS 269 | Objectives Review 269 | Key Terms 270 | Discussion Questions 270 | Critical

Thinking Exercises 270 | **APPLICATIONS AND CASES 271** | Online, Mobile, and Social Media Marketing: Share the Robot Vacuum Love 271 | Marketing Ethics: Autonomous Autos 271 | Marketing by the Numbers: Taking It on the Road 271 | Company Case: Bose: Better Products by Focusing on the Product 272

CHAPTER 10 Pricing: Understanding and Capturing Customer Value 274

What Is Price? 276

Major Pricing Strategies 277

Customer Value-Based Pricing 277 | Cost-Based Pricing 281 | Competition-Based Pricing 284

Other Internal and External Considerations

Affecting Price Decisions 286

Overall Marketing Strategy, Objectives, and Mix 286 | Organizational Considerations 288 | The Market and Demand 288 | The Economy 290 | Other External Factors 290

REVIEWING AND EXTENDING THE CONCEPTS 291 | Objectives Review 291 | Key Terms 292 | Discussion Questions 292 | Critical Thinking Exercises 292 | **APPLICATIONS AND CASES 292** | Online, Mobile, and Social Media Marketing: Online Price Tracking 292 | Marketing Ethics: Hidden Cities 293 | Marketing by the Numbers: Rock Bottom Promotional Pricing 293 | Company Case: Gillette: Searching for the Right Price in a Volatile Market 293

CHAPTER 11 Pricing Strategies: Additional Considerations 296

New Product Pricing Strategies 298

Market-Skimming Pricing 298 | Market-Penetration Pricing 299

Product Mix Pricing Strategies 299

Product Line Pricing 299 | Optional-Product Pricing 300 | Captive-Product Pricing 300 | By-Product Pricing 301 | Product Bundle Pricing 301

Price Adjustment Strategies 301

Discount and Allowance Pricing 301 | Segmented Pricing 302 | Psychological Pricing 303 | Promotional Pricing 304 | Geographical Pricing 305 | Dynamic and Personalized Pricing 306 | International Pricing 307

Price Changes 310

Initiating Price Changes 310 | Responding to Price Changes 312

Public Policy and Pricing 313

Pricing within Channel Levels 315 | Pricing across Channel Levels 315

REVIEWING AND EXTENDING THE CONCEPTS 317 | Objectives Review 317 | Key Terms 318 | Discussion Questions 318 | Critical Thinking Exercises 318 | **APPLICATIONS AND CASES 318** | Online, Mobile, and Social Media Marketing: Crazy Coupon Lady 318 | Marketing Ethics: Pink Tax 319 | Marketing by the Numbers: Lose Some

Customers, Be Better Off? 319 | Company Case: Casper: A Pricing Strategy That Flipped the Mattress Industry 319

CHAPTER 12 Marketing Channels: Delivering Customer Value 322

Supply Chains and the Value Delivery Network 324

The Nature and Importance of Marketing Channels 325 | How Channel Members Add Value 326

Channel Behavior and Organization 328

Channel Behavior 328 | Vertical Marketing Systems 329 | Horizontal Marketing Systems 331 | Multichannel Distribution Systems 332 | Changing Channel Organization 333

Channel Design Decisions 335

Analyzing Consumer Needs 335 | Setting Channel Objectives 336 | Identifying Major Alternatives 336 | Types of Intermediaries 336 | Evaluating the Major Alternatives 338 | Designing International Distribution Channels 338

Channel Management Decisions 339

Selecting Channel Members 339 | Managing and Motivating Channel Members 339 | Evaluating Channel Members 341 | Public Policy and Distribution Decisions 341

Marketing Logistics and Supply Chain Management 342

Nature and Importance of Marketing Logistics 342 | Sustainable Supply Chains 343 | Goals of the Logistics System 344 | Major Logistics Functions 344 | Integrated Logistics Management 347

REVIEWING AND EXTENDING THE CONCEPTS 349 |

Objectives Review 349 | Key Terms 350 | Discussion Questions 350 | Critical Thinking Exercises 351 |

APPLICATIONS AND CASES 351 | Online, Mobile, and Social Media Marketing: Petco's Partnership with Shipt 351 | Marketing Ethics: Single-Pilot Cargo Planes? 351 | Marketing by the Numbers: Drinking from the Source 351 | Company Case: Target: A Serious Contender in the Same-Day Delivery Business 352

CHAPTER 13 Retailing and Wholesaling 354

Retailing 356

Retailing: Connecting Brands with Consumers 356 | The Shift-
ing Retailing Model 357 | Types of Store Retailers 358

Omni-Channel Retailing: Blending In-Store, Online, Mobile, and Social Media Channels 363

Retailer Marketing Decisions 365

Segmentation, Targeting, Differentiation, and Positioning Decisions 367 | Product Assortment and Services Decision 368 | Price Decision 370 | Promotion Decision 370 | Place Decision 371

Retailing Trends and Developments 372

Tighter Consumer Spending 372 | New Retail Forms, Shortening Retail Life Cycles, and Retail Convergence 373 |

The Rise of Megaretailers 374 | Growing Importance of Retail Technology 374 | Green Retailing 375 | Global Expansion of Major Retailers 377

Wholesaling 378

Types of Wholesalers 379 | Trends in Wholesaling 382

REVIEWING AND EXTENDING THE CONCEPTS 383 |

Objectives Review 383 | Key Terms 384 | Discussion Questions 384 | Critical Thinking Exercises 385 | **APPLICATIONS AND CASES 385** | Online, Mobile, and Social Media Marketing: Kohl's Courts Millennials with Merchandise Curated by Social Media Influencers 385 | Marketing Ethics: Embracing What's Good at Costco 385 | Marketing by the Numbers: Grocery Stores Offering Meal Kits 386 | Company Case: Ulta Beauty: Where the Experience Is Beautiful 386

CHAPTER 14 Engaging Consumers and Communicating Customer Value: Integrated Marketing Communications Strategy 388

The Promotion Mix 390

Integrated Marketing Communications 391

The New Marketing Communications Model 391 | The Need for *Integrated* Marketing Communications 394

Developing Effective Marketing Communication 396

A View of the Communication Process 396 | Steps in Developing Effective Marketing Communication 397 | Nonpersonal Communication Channels 401

Setting the Total Promotion Budget and Mix 402

Setting the Total Promotion Budget 402 | Shaping the Overall Promotion Mix 403 | Integrating the Promotion Mix 406 | Socially Responsible Marketing Communication 406

REVIEWING AND EXTENDING THE CONCEPTS 409 |

Objectives Review 409 | Key Terms 410 | Discussion Questions 410 | Critical Thinking Exercises 410 | **APPLICATIONS AND CASES 410** | Online, Mobile, and Social Media Marketing: "Buy a Lady a Drink" 410 | Marketing Ethics: Communicating Brand Purpose without Boasting 411 | Marketing by the Numbers: Never-Ending Cola War 411 | Company Case: LinkedIn: Crushing the White-Collar Stereotype with IMC 412

CHAPTER 15 Advertising and Public Relations 414

Advertising 416

Major Advertising Decisions 417

Setting Advertising Objectives 417 | Setting the Advertising Budget 419 | Developing Advertising Strategy 421 | Evaluating Advertising Effectiveness and the Return on Advertising Investment 430 | Other Advertising Considerations 432

Public Relations 434

The Role and Impact of PR 435

Major Public Relations Tools 436

REVIEWING AND EXTENDING THE CONCEPTS 436 |

Objectives Review 436 | Key Terms 437 | Discussion Questions 437 | Critical

Thinking Exercises 437 | **APPLICATIONS AND CASES 438** |
 Online, Mobile, and Social Media Marketing: Plum Organics: Patenting
 Unfiltered 438 | Marketing Ethics: Burger King's Real Meals 438 |
 Marketing by the Numbers: Advertising Costs 438 | Company Case:
 Allstate: Bringing Mayhem to the Auto Insurance Advertising Wars 439

CHAPTER **16** Personal Selling and Sales Promotion 442

Personal Selling 444

The Nature of Personal Selling 444 | The Role of the Sales
 Force 445

Managing the Sales Force 446

Designing the Sales Force Strategy and Structure 446 |
 Recruiting and Selecting Salespeople 449 | Training Sales-
 people 450 | Compensating Salespeople 451 | Supervising and
 Motivating Salespeople 451 | Evaluating Salespeople and Sales
 Force Performance 452 | Social Selling: Online, Mobile, and Social
 Media Tools 453

The Personal Selling Process 456

Steps in the Selling Process 456 | Personal Selling and
 Managing Customer Relationships 458

Sales Promotion 459

The Rapid Growth of Sales Promotion 460 | Sales Promotion
 Objectives 460 | Major Sales Promotion Tools 461 |
 Developing the Sales Promotion Program 465

REVIEWING AND EXTENDING THE CONCEPTS 466 | Objectives
 Review 466 | Key Terms 467 | Discussion Questions 467 | Critical
 Thinking Exercises 468 | **APPLICATIONS AND CASES 468** |
 Online, Mobile, and Social Media Marketing: Innovation Lab at a Trade
 Show 468 | Marketing Ethics: Using Pharmaceutical Sales Strategies
 to Promote Cost-Effective Drugs 468 | Marketing by the Numbers: Buy
 One, Get Something Free! 469 | Company Case: Procter & Gamble:
 Selling through Customer Business Development 469

CHAPTER **17** Direct, Online, Social Media, and Mobile Marketing 472

Direct and Digital Marketing 474

The New Direct Marketing Model 475 | Rapid Growth of Direct
 and Digital Marketing 476 | Benefits of Direct and Digital Mar-
 keting to Buyers and Sellers 476

Forms of Direct and Digital Marketing 477

Marketing in the Digital Age 478

Online Marketing 479

Social Media and Mobile Marketing 483

Social Media Marketing 483 | Mobile Marketing 488

Traditional Direct Marketing Forms 490

Direct-Mail Marketing 491 | Catalog Marketing 491
 Telemarketing 492 | Direct-Response Television
 Marketing 493 | Kiosk Marketing 494 | Public Policy Issues in
 Direct and Digital Marketing 494

REVIEWING AND EXTENDING THE CONCEPTS 498 | Objectives
 Review 498 | Key Terms 499 | Discussion Questions 499 | Critical
 Thinking Exercises 500 | **APPLICATIONS AND CASES 500** | Online,
 Mobile, and Social Media Marketing: Positioning QVC to Compete 500 |
 Marketing Ethics: Home Hub Paranoia 500 | Marketing by the Numbers:
 Uniqlo's Digital Marketing Campaigns 501 | Company Case: OfferUp: A
 Mobile Solution for the Mobile Era 501

Part 4: Extending Marketing 504

CHAPTER **18** Creating Competitive Advantage 504

Competitor Analysis 506

Identifying Competitors 506 | Assessing Competitors 509
 Determining Competitors' Objectives 509 | Selecting Com-
 petitors to Attack and Avoid 511 | Designing a Competitive
 Intelligence System 513

Competitive Strategies 513

Approaches to Marketing Strategy 513 | Basic Competitive
 Strategies 514 | Competitive Positions 517 | Market Leader
 Strategies 518 | Market Challenger Strategies 520 | Market
 Follower Strategies 521 | Market Nicher Strategies 522

Balancing Customer and Competitor Orientations 523

REVIEWING AND EXTENDING THE CONCEPTS 525 | Objectives
 Review 525 | Key Terms 525 | Discussion Questions 526 | Critical
 Thinking Exercises 526 | **APPLICATIONS AND CASES 526** | Online,
 Mobile, and Social Media Marketing: Can Social Media Raise Awareness
 of Uniqlo in the United States? 526 | Marketing Ethics: Is Ugly Produce a
 True Food Waste Solution? 527 | Marketing by the Numbers: Changing
 Numbers in the Smartphone Market 527 | Company Case: Nokia:
 Finding Strength by Abandoning its Core Business 527

CHAPTER **19** The Global Marketplace 530

Global Marketing Today 532

Elements of the Global Marketing Environment 534 |
 Deciding Whether to Go Global 542 | Deciding Which
 Markets to Enter 542

Deciding How to Enter the Market 544

Exporting 544 | Joint Venturing 544 | Direct Investment 546

Deciding on the Global Marketing Program 546

Product 548 | Promotion 549 | Price 551 | Distribution
 Channels 552

Deciding on the Global Marketing Organization 553

REVIEWING AND EXTENDING THE CONCEPTS 554 | Objectives
 Review 554 | Key Terms 554 | Discussion Questions 555 | Critical
 Thinking Exercises 555 | **APPLICATIONS AND CASES 555** |
 Online, Mobile, and Social Media Marketing: Tinder Is an International
 Sensation 555 | Marketing Ethics: Unlicensed and Counterfeit
 Products 555 | Marketing by the Numbers: Peloton Pedals to the UK 556 |
 Company Case: 7-Eleven: Adapting to the World's Many Cultures 556

CHAPTER **20** Sustainable Marketing: Social Responsibility and Ethics 560

Sustainable Marketing 562

Social Criticisms of Marketing 564

Marketing’s Impact on Individual Consumers 564 | Marketing’s Impact on Society as a Whole 568 | Marketing’s Impact on Other Businesses 571

Consumer Actions to Promote Sustainable Marketing 572

Consumerism 572 | Environmentalism 573 | Public Actions to Regulate Marketing 576

Business Actions toward Sustainable Marketing 576

Sustainable Marketing Principles 577

Marketing Ethics and the Sustainable Company 580

Marketing Ethics 580 | The Sustainable Company 583

REVIEWING AND EXTENDING THE CONCEPTS 584 | Objectives Review 584 | Key Terms 584 | Discussion Questions 585 | Critical Thinking Exercises 585 | APPLICATIONS AND CASES 585 | Online, Mobile, and Social Media Marketing: Politically Neutral Social Media 585 | Marketing Ethics: Patagonia Rethinks Fleeces for Banker Bros 585 | Marketing by the Numbers: Gouging Their Eyes Out 586 | Company Case: LEGO: Making the World a Better Place—One Brick at a Time 586

Appendix 1: Marketing Plan 589

Appendix 2: Marketing by the Numbers 599

Appendix 3: Careers in Marketing 617

Glossary 629

References 639

Index 681

Preface

New to This Edition

All That's New in Marketing

The eighteenth edition of *Principles of Marketing* reflects the major trends and shifting forces that impact marketing in this digital age of customer value, engagement, and relationships. Here are just some of the major new and continuing changes you'll find in this edition.

- *Customer engagement framework*: This eighteenth edition continues to build on its *customer engagement* framework—creating direct and continuous customer involvement in shaping brands, brand conversations, brand experiences, brand advocacy, and brand community. New coverage and fresh examples throughout the text address the latest customer engagement tools, practices, and developments.
- *Fast-changing marketing trends and topics*: This edition adds fresh coverage of both traditional marketing areas and fast-changing topics such as digital, mobile, and social media marketing; customer engagement marketing; the customer journey; big data, artificial intelligence, and new marketing analytics; the major digital transformation in marketing research; omni-channel marketing and the massive shifts in today's retailing; direct-to-consumer marketing (DTC); real-time customer listening and marketing; marketing content creation and native advertising; B-to-B social media and social selling; online and dynamic pricing; sustainability; global marketing; and much more.
- *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 eighteenth edition of *Principles of Marketing* provides thoroughly refreshed, up-to-date coverage of these explosive developments in every chapter—from digital, online, mobile, and social media engagement technologies in Chapters 1, 5, 14, 15, and 17; to “big data,” new marketing analytics, the Internet of Things, and artificial intelligence in Chapters 1, 3, and 4; to the massive shift to omni-channel and digital retailing in Chapters 13 and 17; to the increasing use of augmented and virtual reality in Chapters 4 and 13. A Chapter 1 section on *The Digital Age: Online, Mobile, and Social Media Marketing* introduces the exciting new developments in digital and social media marketing. Then a Chapter 17 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, and other digital platforms that engage consumers anywhere, anytime via their computers, smartphones, tablets, and other digital devices.
- *Content marketing and marketing communications*: The eighteenth edition continues to track fast-changing developments in marketing communications and the creation of brand content. Marketers no longer simply create advertising and integrated marketing communications programs; they join with customers and media to curate and share marketing content in paid, owned, earned, and shared media. You won't find fresher coverage of these important topics in any other marketing text.

New Real-World Brand Stories, Highlights, Cases, and In-Text Examples

The eighteenth edition of *Principles of Marketing* is loaded with new brand stories, highlight features, cases, in-text examples, and end-of-chapter exercises and features that illustrate brand strategies and contemporary marketing issues and let students apply what they've learned.

- *Chapter-opening stories, Real Marketing highlights, and in-text examples*: The eighteenth edition brings marketing to life with new or heavily revised chapter-opening vignettes,

Company Case Qualtrics: Managing the Complete Customer Experience

Over the past few decades, the practice of gathering customer feedback data has been changing as new technologies allow marketers to dig deeper. Take customer satisfaction surveys, for example. Today's retail cashiers and hospitality staff commonly promote online surveys to customers, urging their participation with enticing incentives such as gift certificates.

In fact, everywhere customers turn, retailers and brands are emailing, texting, and handing out links to online surveys in hopes that customers will provide them with valuable feedback. What most customers don't know is that few if any of those companies are managing their own surveys. Instead, many marketers turn to a handful of experts to manage their online surveys and how such surveys fit into the bigger picture of their customer intelligence programs.

For companies like Lowe's, Ford, Verizon, 3M, and Disney, that expert is Qualtrics—the leader of the fast-growing online survey business. In fact, more than 8,500 of the world's leading brands trust Qualtrics to power customer data collection, including 75 of the Fortune 100 and 99 of the top 100 business schools. But to characterize Qualtrics' services as "online surveys" is an oversimplification. Ask anyone at Qualtrics what business they're in and they'll say it's all about "experience management."

Pioneering the Online Survey

Today, gathering survey data online seems like no-brainer. But to fully understand what Qualtrics is and does for its clients, you have to go back more than 20 years when online surveys didn't exist. The company's beginnings are a classic example of a tech startup at the turn of the millennium. But instead of a garage in Silicon Valley, Qualtrics started in the basement of a cul-de-sac home in Provo, Utah.

The house belonged to BYU marketing professor Scott Smith. In 1997 he came up with the idea to develop a digital survey engine that would facilitate his own research. Back then, the standard process for collecting survey data was distributing a paper-and-pencil questionnaire in person or through the mail. As such, it was a costly process in terms of both time and money to create a survey, collect responses, and enter the data into a computer. But everything changed when Smith administered his first online survey. "The first survey that we collected online—within 48 hours, our data was in the computer," says Smith, noting that the process would normally have taken months using traditional methods. "All of a sudden, the light clicks on and you're like, this is something wonderful. It's quick, it's easy, it's more accurate."

Smith enlisted his sons, Ryan and Jared, to help develop and launch one of the first online survey services. What started as SurveyPro became Qualtrics in 2002. Initially targeting the academic community, the team soon recognized the potential for online surveys as a marketing research tool. Honing the software over several years, Qualtrics expanded its client base in 2008 to include organizations of all kinds—business and academic, for-profit and non-profit. Before long, the majority of Qualtrics' business was coming from corporations.

From the start, Qualtrics differentiated its offering by making it user-friendly. The goal was to help anyone with a non-tech background quickly and easily create and manage an online survey. With Qualtrics, clients could use simple question-generating tools to draw from various types of questions, including sliding scales with endpoints such as "happy" and "sad" or grades

from "A" to "F." An early Qualtrics innovation was heat maps that let respondents click on a particular location in a retail facility, indicating preferences for certain types of product or service experiences, such as the preferred seating in a theater. Users could also choose from numerous types of graphs to summarize results.

From the beginning, Qualtrics employed a cloud-only model, eliminating the need to install software on individual computers. This innovation allowed customers to develop, tweak, and adapt their own custom surveys without asking Qualtrics to do it for them. Along the way, Qualtrics has added features that not only increase the flexibility of survey creation but make it easier to aggregate and analyze collected data. The online do-it-yourself Qualtrics approach not only saves users a great deal of time compared with more traditional methods, it's also considerably cheaper.

Experience Management—the Pioneering Continues

Today, the original basic Qualtrics survey engine has evolved into what the company dubs the Experience Management (XM) Platform—a suite of products that lets clients use a single interface to manage the four core business experiences: customer experience, brand experience, product experience, and employee experience. According to Mike Maughan, head of global insights at Qualtrics, the four core experiences used to be managed separately by corporations, if at all. But the Qualtrics XM platform integrates them and manages them simultaneously, helping companies gain a holistic view of customers and develop accurate customer profiles.

The four core experiences are evident in the pitch on the company website: "Software to help turn customers into fanatics, products into obsessions, employees into ambassadors, and brands into religions." Qualtrics' XM Platform focuses on breaking down data silos to provide a holistic picture of customer experience across the four different factors. "We all know that how employees act directly impacts the experience customers have," Maughan says, referring to how one aspect of a customer's experience can affect their entire perspective. "A common saying is that disengaged employees are firing your customers."

The single, integrated Qualtrics data analysis platform allows organizations to "bridge the experience gap." To illustrate, consider a 2005 Bain and Company study that revealed that 80 percent of CEOs believed their company was delivering a superior customer experience. However, "when their customers were asked if they felt they were receiving a superior customer experience, only eight percent agreed," notes Maughan. Qualtrics XM narrows this experience gap by measuring stakeholder experiences to establish a baseline, predicting and prioritizing stakeholder needs, initiating a plan of action, and tracking progress in narrowing the gap between the baseline and the need. If used correctly, the XM platform drives continuous experience improvement.

AI Comes to Experience Management

A few years ago, the company introduced Qualtrics iQ as part of the XM platform. This innovative new product uses artificial intelligence (AI) to automatically identify trends, statistically validate key consumer drivers, and identify the appropriate statistical tests that should be used to deliver results. "Qualtrics iQ hunts down experience gaps automatically, predicting what customers

boxed features that highlight relevant companies and marketing issues, and loads of new in-text examples throughout that illustrate contemporary marketing practice.

- **New company cases and end-of-chapter applications and exercises:** The eighteenth edition provides 20 new company cases by which students can apply what they learn to actual company situations. End-of-chapter discussion questions, critical thinking exercises, and other applications features are also new and revised.

Solving Teaching and Learning Challenges

Today's marketing is all about creating customer value and engagement in a fast-changing, increasingly digital and social marketplace. Marketing starts with understanding consumer needs and wants, determining which target markets the organization can serve best, and developing a compelling value proposition by which the organization can attract and grow valued consumers. Then, more than just making a sale, today's marketers want to engage customers and build deep customer relationships that make their brands a meaningful part of consumers' conversations and lives.

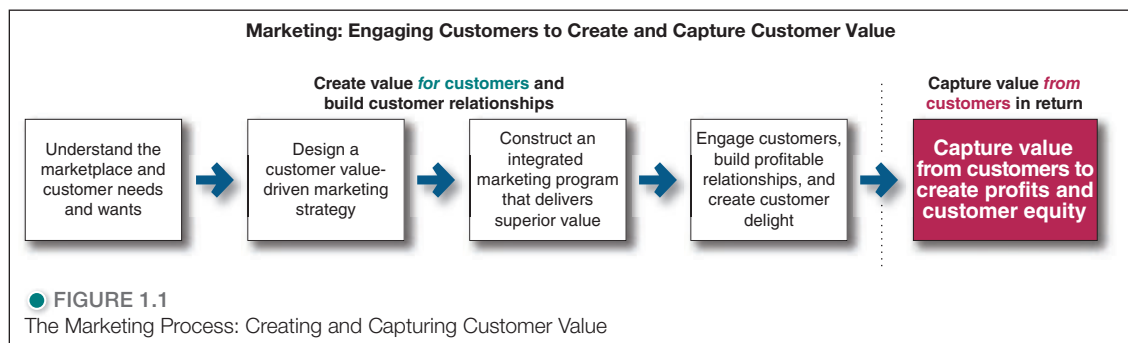
In this digital age, to go along with their tried-and-true traditional marketing methods, marketers have a dazzling set of new online, mobile, and social media tools for engaging customers anytime, anyplace to jointly shape brand conversations, experiences, advocacy, and community. If marketers do these things well, they will reap the rewards in terms of market share, profits, and customer equity.

In the eighteenth edition of *Principles of Marketing*, students learn how customer value and customer engagement drive every good marketing strategy.

Five Major Customer Value and Engagement Themes

The eighteenth edition of *Principles of Marketing* builds on five major customer value and engagement themes:

- **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*. 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 unique 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.



- **Customer engagement and today's digital and social media.** Digital and social media have taken today's marketing by storm, dramatically changing how companies and brands engage consumers and how consumers connect and influence each other's brand behaviors. The eighteenth edition thoroughly explores the exciting new digital, mobile, 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* summarizes the latest developments in digital engagement and relationship-building tools. Everywhere in between, you'll find revised and expanded coverage of the exploding use of digital and social marketing tools.
- **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 eighteenth edition provides a deep focus on brands, anchored by a Chapter 8 section on *Branding Strategy: Building Strong Brands*.

APPENDIX 2 Marketing by the Numbers

Marketing managers are facing increased accountability for the financial implications of their actions. This appendix provides a basic introduction to measuring marketing financial performance. Such financial analysis guides marketers in making sound marketing decisions and in assessing the outcomes of those decisions.

CHAPTER 17 Direct, Online, Social Media, and Mobile Marketing 501

Marketing by the Numbers Uniqlo's Digital Marketing Campaigns

Uniqlo is a Japanese retail brand that has grown into a global brand in 15 countries thanks to digital marketing campaigns. Founder Tadashi Yamai inherited a chain of men's tailoring retail stores, so he was no stranger to fashion retailing. But he wanted to bring affordable, fashionable, casual clothing to all people, so he created Uniqlo in 1984 to offer casual clothing for all. The philosophy of the brand is "UNIQLO clothes are MADE FOR ALL." The company focuses on its signature innovative clothing lines that have names like HeatTech, UV Cut, LifeWear, and AIRism. In 2007, its pioneering "Uniqlock" viral marketing campaign won dozens of advertising awards, including the coveted Grand Prix award at Cannes. The company continues to run digital marketing campaigns, and while awards are nice, results are better. Marketers measure all sorts of metrics related to digital campaigns, from impressions and click-throughs to purchases.

Measures	Value
Impressions	4,000,000
Click-through to site	150,000
Cost of campaign	\$45,000
Number of orders	10,250
Revenue generated	\$750,000
Abandoned shopping cart	650
Average cost of goods sold (%)	45%
Shipping and handling costs (per order)	\$8.50

Performance Metric	Equation
Click-through rate (CTR)	(Click-throughs ÷ Impressions) × 100
Cost-per-click (CPC)	Cost of campaign ÷ Click-throughs
Conversion ratio	(Number of orders ÷ Click-throughs) × 100
Cost per conversion	Cost of campaign ÷ Number of orders
Average-order-value (AOV)	Revenue generated ÷ Number of orders
Shopping cart abandonment rate	(Abandoned shopping cart ÷ Click-throughs) × 100

Fixed costs

Costs that do not vary with production level.

Variable costs

Costs that vary directly with the level of production.

Total costs

The sum of the fixed and variable costs for any given level of production.

17-14 Calculate the performance metrics listed in the preceding table. Based on these metrics, evaluate the campaign. (AACSB: Communication; Analytic Reasoning; Reflective Thinking)

17-15 Calculate the net marketing contribution (NMC), marketing return on sales (MROS), and

marketing return on investment (marketing ROI). Was the campaign successful? Refer to Marketing Profitability Metrics in Appendix 2: Marketing by the Numbers to learn how to do this analysis. (AACSB: Communication; Reflective Thinking; Analytic Reasoning)

Company Case OfferUp: A Mobile Solution for the Mobile Era

When people think of buying and selling things online locally, most think automatically of Craigslist, the classified ad marketplace that has dominated that business for the past two decades. But as the rest of the world has gone mobile, Craigslist has not. In fact, the familiar but cluttered collection of blue hyperlinks has changed very little over the years. Some critics suggest that Craigslist has taken its monopoly for granted. One industry observer refers to Craigslist as "the cockroach of the internet age—an ugly but effective e-commerce platform that...emerged unscathed from technology shifts that crippled mightier contemporaries like Netscape and Yahoo."

In the new landscape of digital disruption, one thing seems certain: What dominates today could be under threat tomorrow. That tomorrow may already be here for Craigslist as numerous, more user-friendly competitors have emerged to challenge the classified ad champ. Enter OfferUp—a relatively new mobile app for buying and selling items that is taking the digital marketplace by storm. OfferUp is not only challenging Craigslist as the go-to platform by which individuals and businesses sell goods and services in local markets, it's also starting to challenge the likes

of eBay and even Amazon by flexing its muscles beyond local market boundaries. Unexpectedly, OfferUp now rivals the most popular social media apps in terms of time spent by users.

About a decade ago, as the mobile device revolution began to explode, Seattle resident Nick Huzar was frustrated as he tried to unload unwanted household items in preparation for his soon-to-be-born daughter's nursery. He didn't have time to post all these items on Craigslist, which required multiple steps that pretty much required a desktop or laptop to complete. Instead, he went to Goodwill, where he always found a line to drop donations. With a smartphone in his hand, he recognized the potential for an online marketplace that made posting, monitoring, and browsing items for sale in a local market as simple as social media interactions. That led to a partnership with friend Aree van Veen and the ultimate launch of OfferUp in 2011.

A Different Kind of Marketplace

The main thing that differentiates OfferUp from Craigslist and other traditional online marketplace platforms is that it's

- **Measuring and managing return on marketing.** Especially in uneven economic times, marketing managers must ensure that their marketing dollars are being well spent. "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 the Numbers*, and throughout the eighteenth edition.
- **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 eighteenth edition emphasizes the concepts of global marketing and sustainable marketing—meeting the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs. The eighteenth edition integrates global marketing and sustainability topics throughout the text. It then provides focused coverage on each topic in Chapters 19 and 20, respectively.

In-Text Teaching and Learning Features

Principles of Marketing provides a wealth of chapter-opening, within-chapter, and end-of-chapter learning features that 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 an *Objectives Outline* that provides a helpful preview of chapter contents and learning objectives, complete with page numbers. Next, a *Chapter Preview* section briefly previews chapter concepts, links them with previous chapter concepts, and introduces the chapter-opening story. Finally, a *chapter-opening vignette*—an engaging, deeply developed, illustrated, and annotated marketing story—introduces the chapter material and sparks student interest.

- **Author comments and figure annotations.** Throughout each chapter, author comments ease and enhance student learning by introducing and explaining major chapter sections and figures.
- **Reviewing and extending the concepts.** Sections at the end of each chapter summarize key chapter concepts and provide questions and exercises by which students can review and apply what they've learned. The *Objectives Review* section reviews major chapter concepts and links them to chapter objectives. The *Key Terms* section provides a helpful listing of chapter key terms by order of appearance with page numbers that facilitate easy reference. *Discussion Questions* and *Critical Thinking Exercises* sections help students to keep track of and apply what they've learned in the chapter.
- **Applications and Cases.** Completely revised sections at the end of each chapter provide brief *Online, Mobile, and Social Media Marketing*; *Marketing Ethics*; and *Marketing by the Numbers* applications cases that facilitate discussion of current issues and company situations in areas such as mobile and social marketing, ethics, and financial marketing analysis. All-new end-of-chapter *company cases* in each chapter help students apply major marketing concepts and critical thinking to real company and brand situations.

Developing Employability Skills

Real Marketing features. Each chapter contains two deeply developed Real Marketing highlight features that provide in-depth looks at real brand marketing strategies and contemporary marketing issues. For example, students learn how retail titans Walmart and Amazon are battling it out for supremacy in the new omni-channel retailing world; how Netflix uses big data and advanced marketing analytics to personalize each customer's experience; why Apple's products fly off the shelves despite their premium prices; how basketball's Chicago Bulls bond with superfans in real time; how Instagram has made itself a win-win-win for the company, advertisers, and Instagrammers alike; what makes LinkedIn the place to be for B-to-B marketers; why store retailer Best Buy is thriving in the age of Amazon; how Coca-Cola, long a master of mass market advertising, has now also mastered digital, mobile, and social media marketing; and how outdoor apparel and gear maker Patagonia urges "conscious consumption," telling customers to buy *less* of its products. They learn that artificial intelligence in marketing is now "a bigger deal than fire and electricity," how companies are increasingly using augmented and virtual reality to enhance consumer shopping experiences, and how mobile marketing engages consumers in the moments that matter. No other text brings marketing to life like the eighteenth edition of *Principles of Marketing*.

Marketing Plan appendix. Appendix 1 contains a detailed sample marketing plan that helps students to apply important marketing planning concepts.

Marketing by the Numbers appendix. An innovative and freshly revised Appendix 2 provides students with a comprehensive introduction to the marketing financial analysis that helps guide, assess, and support marketing decisions. A new or revised exercise at the end of each text chapter lets students apply analytical and financial thinking to that chapter's concepts and links the chapter to the *Marketing by the Numbers* appendix.

Careers in Marketing. Appendix 3 helps students to explore marketing career paths and lays out a process for landing a marketing job that best matches their special skills and interests.

For more information and resources, visit www.pearson.com

Real Marketing 13.2 | AR and VR in Retailing: Extending and Enhancing the Shopping Experience

Remodeling a dated kitchen or bathroom can be a Herculean task, and many customers simply throw up their hands and say, "Forget it!" To help solve this customer problem, a home-improvement retailer like Lowe's has designed a virtual reality program called iHome.

Let customers in some stores use iHome tools or redo rooms to see how they look without ever knocking down a wall. Dubbed "iHomecraft for Mom," let customers use an in-store design their dream room, such as a kitchen, countertops, faucets, and paint colors in endless color combinations. Lowe's products, of course, then dorned an HTC Vive headset themselves standing in the mid-designed space in 3D virtual reality. On what they saw, they could design until it looked just right and export it to YouTube 360 and viewing at home with Google.

Welcome to the fast-growing world of virtual reality in retail. It's increasingly using sophisticated technologies to extend and enhance shopping experience, bring the world into their stores, and bring the outside world. They are using reality (AR) and virtual reality (VR) artificial intelligence (AI), to create personalized, and highly engaging experiences that transcend real-world.

Augmented reality merges merged objects with real-world, to visualize products before buying. For example, Sephora's Virtual Artist scans a customer's face and is merged with a different combination and cheek makeup until she likes it. It also offers virtual tutors, customers how to apply makeup, overlays the results on their face. Sherwin-Williams Color Visualizer "Color it Before You Paint It!" by tool room images and painting. And IKEA's AR app, IKEA Place, lets customers place furniture items virtually to see what they look like before.

At the NIKEiD Direct Studio, augmented video mapping lets sign their own one-of-a-kind watch the designs come to life very eyes. Customers start by a white version of the Nike Air Force NIKEiD Direct configurator—a that serves as the display and

customers select colors, materials, and patterns from the options on a tablet interface, their selections are projected onto the shoe

the ground and say, "You know what? this is too tight," then swipe your hand to try another tent." Whereas Walmart doesn't have room to

Real Marketing 4.2 | Artificial Intelligence in Marketing: "A Bigger Deal Than Fire or Electricity"

It's early morning, you're headed out to start your day, and you feel the urge for that first jolt of caffeine. As you get in your car, you tap the Starbucks app on your phone and ask for "the usual." Your Starbucks virtual barista replies in her familiar, cheerful voice: "One tall caramel latte!" She then politely suggests a breakfast snack—a Vermont maple nut muffin—not your usual, but it sure sounds good. You agree. "Thanks! Your order will be ready for pickup in five to seven minutes at University and 28th," she confirms. "Would you like to pay for that with your credit card on file?" You step inside the store, bypass the long lines, and grab your order—no fuss, no muss. Welcome to the world of artificial intelligence (AI).

This is just one example of how AI has exploded onto the marketing scene. Starbucks has long been into cutting-edge technology—a full 25 percent of its transactions are already placed through its smartphone apps. But My Starbucks Barista is more than just an ordering app. It uses artificial intelligence to create personalized customer experiences and manage real-time customer interactions, based on everything from customers' past transactions and preferences to demographics, store trends and inventories, and local traffic and weather conditions.

Artificial intelligence is sweeping the world. It involves machines that think and learn in a way that looks and feels human but with a lot more analytical capacity. The engine behind the AI's explosive growth is big data. Raw data is flowing in from everywhere: customer transaction and interaction data, web and social media data, news and environmental data, and data from more than 50 billion connected devices—everything from consumer wearables and GPS technology to household thermostats, washing machines, and cars. Companies need to make sense of all that data for their brands and consumers.

The human mind simply can't grapple with today's glut of big data. But machines can. However, more than just collecting and tabulating mountains of data, AI analyzes it at lightning speed to gain deep insights and apply them to accomplish designated tasks. AI learns as it goes along—the more data it ingests, the smarter and more accurate it gets. "AI is the planet we're headed to," says one AI expert. "Machine learning is the rocket that's going to get us there. And big data is the fuel."

Marketers use AI to assess, address, serve, and sell to customers. In turn, AI can help customers manage their lives and their buying. It might be requesting a ride from Lyft via chat (Facebook Messenger or Slack) or voice (Amazon Echo's Alexa virtual assistant). Lyft's chatbot lets you know the current location of your driver along with a picture of the license plate and car model. Or it might be IBM's Watson supercomputer combing through vast amounts of data to unearth customer and market insights that help marketers sharpen their targeting, personalize customer engagements, design new products, and even craft better ads in real time.

Today's machines are smart and eerily human. IBM's Watson "is loquacious; it can tell jokes, answer questions, and write songs," notes one observer. "Google's AI can now read lips better than a professional and can master video games within hours. MIT's AI can predict action on video two seconds before it begins. Tesla's AI powers [its] innovative self-driving car."

Companies like Amazon have mastered AI, harnessing insights and interactions that let it understand and serve customers. Amazon's Echo brings Alexa's AI magic to nearly 50 million U.S. homes. Beyond serving as a valet for duties such as adjusting household appliances, controlling music, keeping shopping lists, sending text messages, and answering questions on about any subject, Echo and other similar AI devices,

such as Google Home, have become voice-activated personal shopping assistants. Companies ranging from P&G and Clorox to 1-800-Flowers are hard at work perfecting ways to tap into Echo users who voice-shop from the comfort of their own kitchens.

At Amazon's shopping and video sites, AI powers recommendations that help consumers decide what to buy and what to watch. "Increasingly, Amazon will be selling you things you didn't even know you needed because it has learned what you like and are most inclined to buy," says an analyst. Amazon is so good at this that it's even considering what it calls "predictive delivery," sending consumers stuff they haven't even ordered yet. If customers don't want it, they would just keep it for free. Although such deliveries may still be a while off, Amazon uses such AI predictions to keep the right stock in warehouses or even on trucks to support its ever-more-popular one-day or even one-hour delivery promise.

Hosts of retailers are employing AI to improve how they service and sell to their customers. For example, home improvement retailer Lowe's is experimenting with LoweBots—live-foot something, fully mobile, AI-powered robots that roam stores helping customers. The LoweBots detect customers who might need assistance and engage them through voice and touchscreens. The AI robots tap store and external data to answer customer questions, offer solutions,



Artificial intelligence: The My Starbucks Barista uses artificial intelligence to create personalized customer experiences and manage real-time customer interactions, based on everything from customers' past transactions and preferences to local traffic and weather conditions.

Elisa Stein Illustration

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Philip Kotler
Gary Armstrong

About the Authors

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

Philip Kotler is S.C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management, Northwestern University. He received his master's degree at the University of Chicago and his Ph.D. at M.I.T., both in economics. Dr. Kotler is the co-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 more than 60 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 honors include the Sales and Marketing Executives International Marketing Educator of the Year Award; the European Association of Marketing Consultants and Trainers Marketing Excellence Award; the Charles Coolidge Parlin Marketing Research Award; and the Paul D. Converse Award, given by the American Marketing Association to honor "outstanding contributions to science in marketing." A recent *Forbes* survey ranks Professor Kotler in the top 10 of the world's most influential business thinkers. And in a recent *Financial Times* poll of 1,000 senior executives across the world, Professor Kotler was ranked as the fourth "most influential business writer/guru" of the twenty-first century.

Dr. Kotler has served as chairman of the College on Marketing of the Institute of Management Sciences, a director of

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

Gary Armstrong is Blackwell Distinguished Professor Emeritus of Undergraduate Education in the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill. He holds undergraduate and master's degrees in business from Wayne State University in Detroit, and he received his Ph.D. in marketing from Northwestern University. Dr. Armstrong has contributed numerous articles to leading business journals. As a consultant and researcher, he has worked with many companies on marketing research, sales management, and marketing strategy.

But Professor Armstrong's first love has always been teaching. His long-held Blackwell Distinguished Professorship is the only permanent endowed professorship for distinguished undergraduate teaching at the University of North Carolina at Chapel Hill. He has been very active in the teaching and administration of Kenan-Flagler's undergraduate program. His administrative posts have included Chair of Marketing, Associate Director of the Undergraduate Business Program, Director of the Business Honors Program, and many others. Through the years, he has worked closely with business student groups and has received several UNC campuswide and Business School teaching awards. He is the only repeat recipient of the school's highly regarded Award for Excellence in Undergraduate Teaching, which he received three times. Most recently, Professor Armstrong received the UNC Board of Governors Award for Excellence in Teaching, the highest teaching honor bestowed by the 16-campus University of North Carolina system.

Principles of **MARKETING**

1

Marketing Creating Customer Value and Engagement

OBJECTIVES OUTLINE

OBJECTIVE 1-1 Define marketing and outline the steps in the marketing process. **See: What Is Marketing?** (pp 4–6)

OBJECTIVE 1-2 Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts. **See: Understanding the Marketplace and Customer Needs** (pp 6–10)

OBJECTIVE 1-3 Identify the key elements of a customer value–driven marketing strategy and discuss the marketing management orientations that guide marketing strategy. **See: Designing a Customer Value–Driven Marketing Strategy and Plan** (pp 10–14)

OBJECTIVE 1-4 Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return. **See: Managing Customer Relationships and Capturing Customer Value** (pp 14–22)

OBJECTIVE 1-5 Describe the major trends and forces that are changing the marketing landscape in this age of relationships. **See: The Changing Marketing Landscape** (pp 22–29)

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 programs to building customer relationships and capturing value for the firm. Finally, we discuss the major trends and forces affecting marketing in this new age of digital, mobile, and social media.

Understanding these basic concepts and forming your own ideas about what they really mean to you will provide a solid foundation for all that follows.

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

AMAZON: Obsessed with Creating Customer Value, Engagement, and Relationships

When you think of shopping online—or of shopping anywhere, for that matter—chances are good that you think first of Amazon. The online pioneer first opened its virtual doors in 1995, selling books out of founder Jeff Bezos's garage in suburban Seattle. Amazon still

sells books—lots and lots of books. But it now sells just about everything else as well, from electronics, tools, housewares, apparel, and groceries to fashions, loose diamonds, musical instruments, and Maine lobsters. And Amazon has rapidly moved beyond online selling, not just into physical stores but

also into video and music streaming, cloud services, and the Internet of Things. If one company represents where the world is now headed, it's probably Amazon.

From the start, Amazon has grown explosively. Its annual sales have rocketed from a modest \$150 million in 1997 to \$233 billion today. During just the past three years, Amazon's revenues have more than doubled. Last year, the company sold 5 billion items to its more than 100 million Amazon Prime members alone—that's an average of 159 items every second. Currently, Amazon is the nation's second-largest retailer, trailing only Walmart. And as unthinkable as it might have seemed only a few years ago, at its current growth rate, Amazon could overtake even mighty Walmart in as little as four years.

What has made Amazon such an amazing success story? Jeff Bezos puts it in three simple words: "Obsess over customers." To its core, the company is relentlessly customer driven. "The thing that drives everything is creating genuine value for customers," says Bezos. Amazon believes that if it does what's good for customers, profits will follow.

Amazon wants to deliver a special experience to every customer. Most Amazon.com regulars feel a surprisingly strong relationship with the company, especially given the almost complete lack of actual human interaction. Amazon obsesses over making each customer's experience uniquely personal. For example, the Amazon.com site greets customers with their very own home pages, complete with personalized site content and recommendations based on their past purchase and browsing histories and the purchasing patterns of customers with similar profiles. If it has 300 million Prime and non-Prime customers, Amazon reasons, it should have 300 million stores.

Visitors to Amazon.com receive a unique blend of benefits: huge selection, good value, low prices, and convenience. But it's the "discovery" factor that makes the buying experience really special. Once on Amazon.com, you're compelled to stay for a while—looking, learning, and discovering. More than just a place to buy things, Amazon.com has become a kind of online community in which customers can browse for products, research purchase alternatives, and share opinions and reviews with other visitors. In this way, Amazon does much more than just sell goods online. It engages customers and creates direct, personalized customer relationships and satisfying experiences.

From the very start, selection, convenience, and value have been the foundation stones of the Amazon experience. Amazon's primary goal is to help customers get whatever they want in the shortest possible time at the right price. To create even greater selection and discovery for customers,

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



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

Jonathan Weiss/Alamy Stock Photo

Amazon allows competing retailers—from mom-and-pop operations to Marks & Spencer—to sell their products on Amazon.com through the Amazon Marketplace, creating a virtual shopping mall of incredible proportions.

Amazon's innovations have made the order and delivery process a breeze. First it was 1-Click ordering that let customers purchase and ship to preset options with just one click. Then Amazon added Dash Buttons—shortcut buttons that let customers quickly reorder favorite products. If there's no smartphone or app handy, customers equipped with an Amazon Echo smart speaker can now voice-shop with a simple command, "Alexa, reorder laundry detergent"—Amazon's artificial intelligence-driven digital assistant will place and ship the order for them. Or easier yet, Amazon's Subscribe & Save system gives customers discounts for setting up automatic repurchase of consumable products. And Amazon Dash Replenishment can even check product levels in cloud-connected devices (think printer cartridges) and place reorders before customers even know they are running low.

As for delivery, no other seller—online or offline—has been more effective than Amazon in getting the goods to its customers fast. As much as it sells products and convenience, Amazon also sells "speed." When the online giant first introduced Amazon Prime more than a decade ago, free 48-hour shipping was unheard of; now it's standard across the industry. So Amazon introduced Amazon Prime Now, delivery within two hours or less. "It's cheap, easy, and insanely fast," says one awe-struck customer.

According to the vice president of Amazon Prime Now, her business boils down to two simple questions: “Do you have what I want, and can you get it to me when I need it?” Amazon continues to invest heavily in making the answers to both questions a resounding “yes.” To build an even faster and more reliable customer delivery experience, Amazon is rapidly amassing its own fleets of delivery vans, trucks, and Boeing 767 cargo planes that will make it less dependent on third-party shippers such as FedEx, UPS, and the U.S. postal service. It’s also actively exploring more futuristic options, such as delivery drones, robots, and driverless vehicles.

In its quest to create the perfect customer experience, Amazon pursues endless innovation. For example, take Amazon Key. For as little as \$199, the Amazon Key kit comes with Amazon’s new Cloud Cam and a compatible smart door lock. Once installed, it lets Amazon’s delivery people unlock customers’ doors and leave packages inside, safely out of the reach of porch pirates or inclement weather. Once a delivery is made, the customer receives a notification along with a short video showing the drop-off.

As Walmart and other store retailers are increasingly invading Amazon’s digital domain, the online retailer is now invading their brick-and-mortar worlds. It knows that a complete customer relationship will require merging online and offline selling into the seamless cross-channel shopping experience that today’s consumers expect. For example, Amazon’s purchase of upscale grocery chain Whole Foods

Market has given it a leap forward in grocery retailing and also provides a physical store platform for the selling and more speedy delivery of other kinds of goods. And recently, Amazon announced that it will expand its Amazon Books bookstores and Amazon Go convenience stores, which provide a new twist on convenience by using cameras and sensors to detect what customers take from shelves and let them “just walk out,” automatically charging purchases to their accounts.

So what sweeping new customer-pleasing changes can you expect from Amazon in the next 10 years? According to Bezos, that’s not the most important question. The more important question is what’s not going to change? And at Amazon, that’s creating real customer value. “We know that customers want low prices,” says Bezos, “and I know that’s going to be true 10 years from now. They want fast delivery; they want vast selection. And so...we know the energy we put into [those things] today will still be paying off dividends for our customers 10 years from now.”

Thus, Amazon has become the poster child for companies that are obsessively and successfully focused on delivering customer value. “Our customers are loyal to us right up until the second somebody offers them a better service,” says Bezos. “And I love that. It’s super-motivating for us.” He concludes, “When things get complicated, we simplify them by asking, ‘What’s best for the customer?’ We believe that if we do that, things will work out in the long term.”¹

TODAY’S SUCCESSFUL COMPANIES have one thing in common: Like Amazon, they are strongly customer focused and heavily committed to marketing. These companies share a passion for satisfying customer needs in well-defined target markets. They motivate everyone in the organization to help build lasting customer relationships based on creating value.

Customer relationships and value are especially important today. Facing dramatic technological advances and deep economic, social, and environmental challenges, today’s customers are reassessing how they engage with brands. New digital, mobile, and social media developments have revolutionized how consumers shop and interact, in turn calling for new marketing strategies and tactics. 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.

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?

OBJECTIVE 1-1 Define marketing and outline the steps in the marketing process.

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