EIGHTEENTH EDITION

AI

VALUE

@ ENGAGE

PRINCIPLES OF MARKETING

KOTLER ARMSTRONG

BIG DATA

MOBILE

SOCIAL

Principles of
MARKETING

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Principles of
MARKETING

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

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Brief Contents

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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 users 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

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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.

Marketing: Engaging Customers to Create and Capture Customer Value

Create value *for customers* and build customer relationships

| Understand the marketplace and customer needs and wants | → | Design a customer value-driven marketing strategy | → | Construct an integrated marketing program that delivers superior value | → | Engage customers, build profitable relationships, and create customer delight | → | Capture value *from customers* in return — **Capture value from customers to create profits and customer equity** |

● FIGURE 1.1
The Marketing Process: Creating and Capturing Customer Value

- *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.*

- *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.

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.

Fixed costs
Costs that do not vary with produ[ct or] sales level.

Variable costs
Costs that vary directly with the le[vel of] production.

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

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.

Consider one of its most recent digital campaigns running in the United States to increase brand awareness and sales of its LifeWear line of clothing:

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

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 marketing ROS), 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 Arean van Veelen 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

- *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

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376 PART 3 | Designing a Customer Value–Driven Strategy and Mix

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 ask, "Forget it!" To help solve this custom... home-improvement retailer Lo... a virtual reality program called... let customers in some stores... tools or redo rooms to see ho... look without ever knocking dow...

Dubbed "Minecraft for Mom..." let customers use an in-store... design their dream room, s... nets, countertops, faucets, ap... and paint colors in endless con... with Lowe's products, of course... then donned an HTC Vive head... themselves standing in the mid... designed space in 3D virtual... on what they saw, they could... design until it looked just rig... could export it to YouTube 36... and viewing at home with Goog...

Welcome to the fast-growing... mented and virtual reality in reta... are increasingly using sophist... technologies to extend and enh... tomer shopping experience, bri... world into their stores, and brin... the outside world. They are usi... reality (AR) and virtual reality (V... artificial intelligence (AI), to crea... personalized, and highly engagi... riences that transcend real-worl...

Augmented reality merges... mented objects with real-worl... can help consumers design, tr... sualize products before buying... ample, Sephora's Virtual Artist... scans a customer's face and le... ment with different combinatio... and cheek makeup until she... likes. It also offers "virtual tutori... customers how to apply makeu... overlays the results on their fa... Sherwin-Williams Color Visualize... "Color It Before You Paint It!" by... tual room images and painting... And IKEA's AR app, IKEA Place... ers place furniture items virtually... to see what they look like before...

At the NIKEiD Direct Studi... augmented video mapping let... sign their own one-of-a-kind... watch the designs come to lif... very eyes. Customers start by... white version of the Nike Air Fo... NIKEiD Direct configurator—a... that serves as the display a...

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

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CHAPTER 4 | Managing Marketing Information to Gain Customer Insights **119**

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, service, 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—five-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 answers 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.
Elias Stein Illustration

Acknowledgments

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 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.

> 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.

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.

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Comment | about how you'd answer
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changes as you read the chapter.</td></tr>
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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.