Marketing Management

Philip Kotler

Kevin Lane Keller

Alexander Chernev

SIXTEENTH EDITION

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Philip Kotler
Northwestern University

Kevin Lane Keller
Dartmouth College

Alexander Chernev
Northwestern University

Pearson

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This book is dedicated to my wife and best friend, Nancy, with love.

—PK

This book is dedicated to my wife, Punam, and my two daughters, Carolyn and Allison, with much love and thanks.

—KLK

This book is dedicated to my parents, Irina and Christo, with love and gratitude.

—AC

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Brief Contents

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Contents

Preface

The 16th edition of *Marketing Management* builds on the classic examples, core concepts, and logical structure that made the first edition a landmark text. Much has changed since the 15th edition was published. Ongoing globalization; the increasing role of corporate social responsibility; advances in technology, e-commerce, and digital communication; the growing impact of social media, and the widespread use of data analytics, marketing automation, and artificial intelligence have disrupted many industries and have opened doors to new business models. Responding to these changes, the 16th edition was redesigned from the ground up to provide managers with the tools necessary to succeed in the new market environment.

Marketing Management owes its success to its maximization of three dimensions of marketing coverage: depth, breadth, and relevance. The *depth* includes its solid academic grounding; its examination of important theoretical concepts, models, and frameworks; and its ability to provide conceptual guidance to solve practical problems. The *breadth* reflects the wide range of topics addressed in the book and its emphasis on those topics that are most crucial to marketing management. The *relevance* is embodied by the ability of this book to identify the issues commonly faced by managers and present the material in a way that enables them to develop successful strategies to address these issues.

The 16th edition builds on the fundamental strengths of past editions that distinguish *Marketing Management* from all other marketing management texts:

- **Managerial orientation.** The book focuses on the major decisions that marketing managers and top management face in their efforts to harmonize the organization's objectives, capabilities, and resources with marketplace needs and opportunities.
- **Analytical approach.** The text presents conceptual tools and frameworks for analyzing recurring problems in marketing management. Cases and examples illustrate effective marketing principles, strategies, and practices.
- **Multidisciplinary perspective.** *Marketing Management* draws on the rich findings of various scientific disciplines—such as economics, behavioral science, and management theory—for fundamental concepts and tools that are directly applicable to marketing challenges.
- **Universal applications.** The book applies strategic thinking to the complete spectrum of marketing: products, services, persons, places, information, ideas, and causes; consumer and business markets; profit and nonprofit organizations; domestic and foreign companies; small and large firms; manufacturing and intermediary businesses; and low- and high-tech industries.
- **Comprehensive and balanced coverage.** *Marketing Management* covers the topics a manager must understand in order to design and execute a successful marketing campaign.

What's New in the 16th Edition

The overriding goal of the revision for the 16th edition of *Marketing Management* was to create a comprehensive, current, and engaging marketing text. We streamlined the organization of the content, added new material, cut or updated older material, and deleted material that was no longer relevant or necessary. The 16th edition allows those instructors who have used previous editions to build on past experience, while at the same time offering a text that is unsurpassed in breadth, depth, and relevance for students experiencing *Marketing Management* for the first time.

To improve the presentation of the material, individual chapters are organized into seven rather than eight major parts, as described next. We retained many of the favorably received within-chapter features that have been introduced through the years, such as topical chapter openers, examples highlighting noteworthy companies or issues, and the Marketing Insight and Marketing Spotlight features that provide in-depth conceptual and company-specific information. Most of the chapter-opening vignettes, in-text examples, and end-of-chapter features are new, reflecting current market developments.

UPDATED CHAPTER CONTENT

The content of the 16th edition has been reorganized to accommodate the introduction of new material and streamline the presentation of material retained from the previous edition. The chapters and the material in the redesigned book better reflect the ways in which marketing management is currently being taught in most business schools. The organization of the 16th edition and the ways its individual parts and chapters correspond to those from the previous edition are outlined next.

- Part I, "Fundamentals of Marketing Management," is a retitled version of Part I in the previous edition.
  - Chapter 1, "Defining Marketing for the New Realities," has been substantively rewritten to serve as an introductory chapter that defines the scope of marketing management as a business discipline.
  - Chapter 2, "Marketing Planning and Management," has also been extensively rewritten to provide an actionable framework for marketing management and marketing planning. It includes material from Chapters 2 and 23 of the previous edition, but most of the content—text and figures—is new. For example, the new section entitled "Planning and Managing Marketing Offerings," covers the G-STIC approach to action planning. New supporting Figure 2.6 illustrates the G-STIC framework and Figure 2.7 illustrates an action-planning flowchart.

will create value for collaborators. Finally, the *company value map* outlines the ways in which the offering will create value for the company's stakeholders. Note that these three value maps are intricately related as they reflect different aspects of the process of creating market value. Only by creating value for target customers, collaborators, and the company can a manager ensure the market success of an offering.

Planning and Managing Market Offerings

A company's future depends on its ability to develop successful market offerings that create superior value for target customers, the company, and its collaborators.[21] Market success typically results from diligent market analysis, planning, and management; rarely is it a lucky accident. Succeeding in the market requires a company to develop a viable business model and an action plan that allows the business model to become a reality. The process of developing such an action plan is encapsulated in the G-STIC framework described in the following sections.

THE G-STIC APPROACH TO ACTION PLANNING

The action plan, which articulates the company's goal and delineates a course of action to reach this goal, is the backbone of marketing planning. Five key activities guide the development of an action plan: These activities include setting a *goal*, developing a *strategy*, designing the *tactics*, defining an *implementation* plan, and identifying a set of *control* metrics to measure the success of the proposed action. The G-STIC (Goal-Strategy-Tactics-Implementation-Control) framework comprises these five activities and acts as the lynchpin of marketing planning and analysis. At the core of the action plan is the business model based on the offering's strategy and tactics.

The individual components of the G-STIC approach to marketing planning and management are as follows:

- The **goal** describes the company's ultimate criterion for success; it specifies the end result that the company plans to achieve. The two components of the goal are its *focus*, which defines the metric (such as net income) used to quantify the intended result of the company's actions, and the performance *benchmarks* that signal movement toward the goal and define the time frame for achieving the goal.
- The **strategy** provides the basis for the company's business model by delineating the company's *target market* and describing the offering's *value proposition* in this market.
- **Tactics** carry out the strategy by defining the key attributes of the company's offering. These seven tactics—*product, service, brand, price, incentives, communication,* and *distribution*—are the tools used to create value in the company's chosen market.
- **Implementation** consists of the processes involved in readying the company's offering for sale. Implementation includes *developing* the offering and *deploying* the offering in the target market.
- **Control** measures the success of the company's activities over time by monitoring the company's *performance* and the changes in the market *environment* in which the company operates.

The key components of the marketing plan and the key factors describing each component are outlined in Figure 2.7 and are examined in more detail in the following sections.

SETTING A GOAL

Defining the goal that the company aims to achieve sets the marketing plan in motion. The goal can be regarded as the beacon that guides all company activities. Two key decisions are involved in setting a goal: identifying the *focus* of the company's actions and specifying the performance *benchmarks* to be achieved. These decisions are discussed in more detail next.

Defining the Goal Focus. The goal's focus defines the desired outcome of the company's activities, an important criterion of a firm's success. Based on their focus, goals can be monetary or strategic.

- **Monetary goals** are based on such outcomes as net income, profit margins, earnings per share, and return on investment. For-profit firms use monetary goals as their primary performance metric.

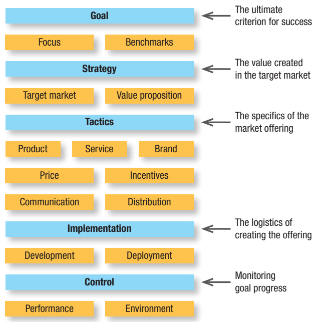


FIGURE 2.7
The G-STIC Action-Planning Flowchart
Source: Alexander Chernev, *Strategic Marketing Management: Theory and Practice* (Chicago, IL: Cerebellum Press, 2019).

- **Strategic goals** are centered on nonmonetary outcomes that are of strategic importance to the company. Among the most common strategic goals are increasing sales volume, brand awareness, and social welfare, as well as enhancing the corporate culture and facilitating employee recruitment and retention. Nonprofit companies and for-profit companies looking to support items that are bigger revenue producers than the focal offering have strategic goals as their main performance metric. As an example, Amazon might only break even or actually take a loss on some of its Kindle devices and yet view them as a strategically important platform for its retail business.

Companies are increasingly looking beyond sales revenue and profit to consider the legal, ethical, social, and environmental effects of their marketing activities and programs. The concept of a "triple bottom line"—people, planet, and profits—has gained traction among many companies taking stock of the societal impact of their activities.[22] For example, one of Unilever's key initiatives—its Sustainable Living Plan—has three major goals: to improve people's health and well-being, to reduce our environmental impact, and to enhance livelihoods. These goals are underpinned by metrics spanning social, environmental, and economic performance in the company's value chain.[23]

Defining Performance Benchmarks. Quantitative and temporal performance benchmarks work in tandem to provide the measurements that track the progress of the company toward reaching its established goal.

- **Quantitative benchmarks** set out the specific milestones to be achieved as the company moves toward its ultimate goal. These benchmarks quantify the company's focal goal, which might, for example, include increasing market share by 5 percent, or improving retention rates by 15 percent, or growing revenues by 10 percent. Quantitative benchmarks can be stated in relative terms, such as aiming to increase market share by 20 percent, or in absolute terms, such as aspiring to achieve sales of one million units per year.
- **Temporal benchmarks** identify the time frame for achieving a specific quantitative or qualitative benchmark—e.g., revamp the company's Web site by the end of the first quarter. The timeline set for achieving a goal is a key decision that can affect the type of strategy used to implement the goal, the number of people involved, and even costs. For example, the goal of maximizing next quarter's profits is likely to require a different strategy and tactics than the goal of ensuring long-term profitability.

Implementing the company goal requires that three main objectives be specified: *what* the company aims to achieve (goal focus), *how much* the company wants to achieve (quantitative benchmark), and *when* the company wants to achieve it (temporal benchmark). Thus, a company might have the goal

- Part II, "Understanding the Market," includes most of the material from Parts II and III in the previous edition.
  - Chapters 3 and 4, "Analyzing Consumer Markets" and "Analyzing Business Markets," are updated versions of namesake Chapters 6 and 7 in the previous edition. Both chapters have been significantly revised to present a systematic view of market analysis.
  - Chapter 5, "Conducting Marketing Research" combines the content outlined in Chapters 3 and 4 in the previous edition to present a streamlined approach for gathering market insights. Chapter 5 includes a new section on "Data Mining" that covers how marketers can gather useful information about consumers, businesses, and markets.

- Part III, “Developing a Winning Marketing Strategy” is a modified version of Part IV of the previous edition.
  - Chapter 6, “Identifying Market Segments and Targets,” is a substantially revised version of Chapter 9 from the previous edition. This chapter offers new content that defines the strategic and tactical aspects of segmenting the market and identifying target customers.
  - Chapter 7, “Crafting a Customer Value Proposition and Positioning,” is a largely revised and updated version of Chapter 10 from the previous edition. This chapter builds on the content presented in Chapter 6 to outline a systematic approach to developing a value proposition of the chosen target market. New content examines how to develop a meaningful value proposition by creating benefits across three domains—functional, psychological, and monetary—and delineates strategies for creating a sustainable competitive advantage.
- Part IV, “Designing Value,” is a modified version of Part V from the previous edition.
  - Chapter 8, “Designing and Managing Products,” Chapter 9, “Designing and Managing Services,” and Chapter 10, “Building Strong Brands,” correspond to Chapters 13, 14, and 11 in the previous edition. All three chapters have been significantly revised to reflect new market realities.

The New Services Realities

Service firms once lagged behind manufacturers in their understanding and use of marketing because they were small or faced large demand or little competition. This has certainly changed. Some of the most skilled marketers now are service firms.

Savvy services marketers are recognizing the new services realities, such as the increasing role of technology, the importance of the increasingly empowered customer, customer coproduction, and the need to engage employees as well as customers.

INCREASING ROLE OF TECHNOLOGY

Technology is changing the rules of the game for services in a very fundamental way. Banking, for instance, is being transformed by the ability to bank online and via mobile apps; some customers rarely see a bank lobby or interact with an employee anymore. The Covid-19 pandemic accelerated the digital transformation of services by forcing many companies to change course and transform their businesses by integrating digital technology to fundamentally change how they deliver value to their customers.

Technology also has great power to make service workers more productive. However, companies must avoid pushing technological efficiency so hard that they reduce perceived quality.[21] Amazon has some of the most innovative technology in online retailing, but it also keeps customers extremely satisfied when a problem arises, even if they don’t actually talk to an Amazon employee. More companies have introduced “live chat” features to blend technology with a human voice. One company that enables enterprises to connect with customers across different touch points—from text messages to emails, phone calls to video, intelligent chatbots and back—is Twilio.

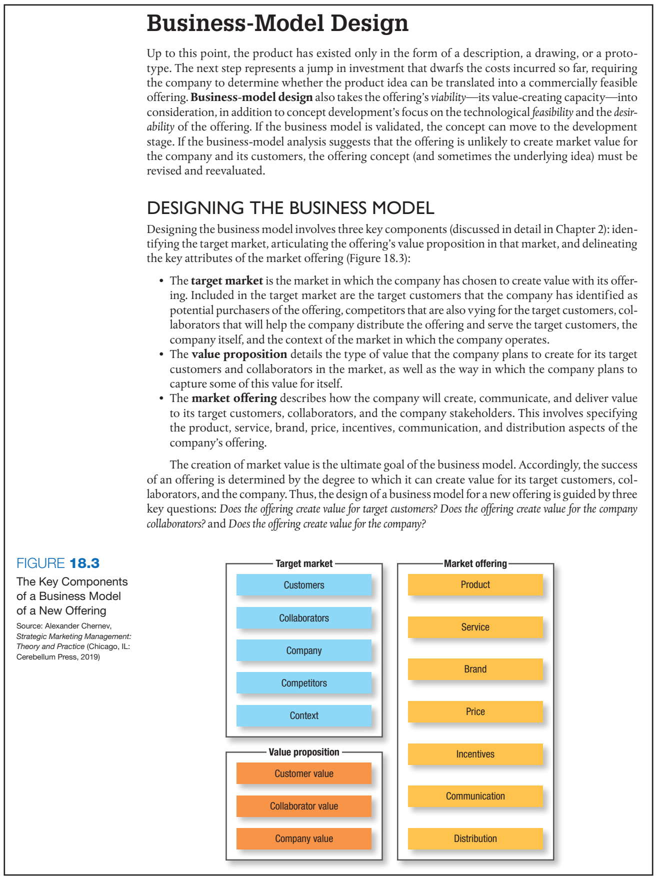
Twilio Twilio, the leading cloud communications platform, is used by millions of developers around the world to “virtualize” the telecommunications infrastructure and improve the human interaction experience. Twilio has over 60,000 business customers, including high-profile clients such as Airbnb, Intuit, Salesforce, Uber, Twitter, eBay, Sony, Yelp, Hulu, and Lyft. Twilio offers its clients a comprehensive, customizable, and easy-to-use platform to automate and streamline communications to customers, collaborators, employees, and coworkers. Coca-Cola uses Twilio to rapidly dispatch service technicians, real estate site Trulia uses Twilio for its click-to-call app that enables potential buyers to connect with an agent, EMC uses Twilio to send texts to

Source: Gabby Jones/Bloomberg/Getty Images

<< To keep both its high-profile business customers and their customers happy, leading cloud communication platform Twilio offers a variety of easy-to-use, customizable services that automate, streamline, and enhance interactions between companies and their customers, collaborators, and employees.

- Chapter 11, "Managing Pricing and Sales Promotions," includes material from Chapters 16 and 20 in the previous edition. The discussion of sales promotions is now a part of the pricing chapter rather than being discussed in the chapter on managing mass communications.

- Part V, "Communicating Value," corresponds to Part VII of the previous edition. Note that the order of Parts VI and VII from the previous edition has been switched so that the topic of communications is introduced before the topic of distribution. This change is made to better align the content with the view of marketing as a process of designing, communicating, and delivering value.
  - Chapter 12, "Managing Marketing Communications," corresponds to Chapter 19 in the previous edition and introduces a streamlined approach to developing a communication campaign that spans different media.
  - Chapter 13, "Designing an Integrated Marketing Campaign in the Digital Age," includes content from Chapters 20 and 21 of the previous edition. This chapter outlines the key decisions involved in managing the media across different communication channels.
  - Chapter 14, "Personal Selling and Direct Marketing," includes substantively revised content from Chapter 22 in the previous edition. The content on personal selling is now organized into three sections: managing the sales process, designing the sales force, and managing the sales force.
- Part VI, "Delivering Value," corresponds to Part VI in the previous edition
  - Chapter 15, "Designing and Managing Distribution Channels," corresponds to Chapter 17 in the previous edition and features new chapter organization and content.
  - Chapter 16, "Managing Retailing," corresponds to Chapter 18 in the previous edition and also includes new coverage on franchising.
- Part VII, "Managing Growth," is a new capstone section that groups growth-related topics covered across different parts of the previous edition.
  - Chapter 17, "Driving Growth in Competitive Markets," offers an updated and streamlined version of the content discussed in Chapter 12 of the previous edition.



Business-Model Design

Up to this point, the product has existed only in the form of a description, a drawing, or a prototype. The next step represents a jump in investment that dwarfs the costs incurred so far, requiring the company to determine whether the product idea can be translated into a commercially feasible offering. **Business-model design** also takes the offering's *viability*—its value-creating capacity—into consideration, in addition to concept development's focus on the technological *feasibility* and the *desirability* of the offering. If the business model is validated, the concept can move to the development stage. If the business-model analysis suggests that the offering is unlikely to create market value for the company and its customers, the offering concept (and sometimes the underlying idea) must be revised and reevaluated.

DESIGNING THE BUSINESS MODEL

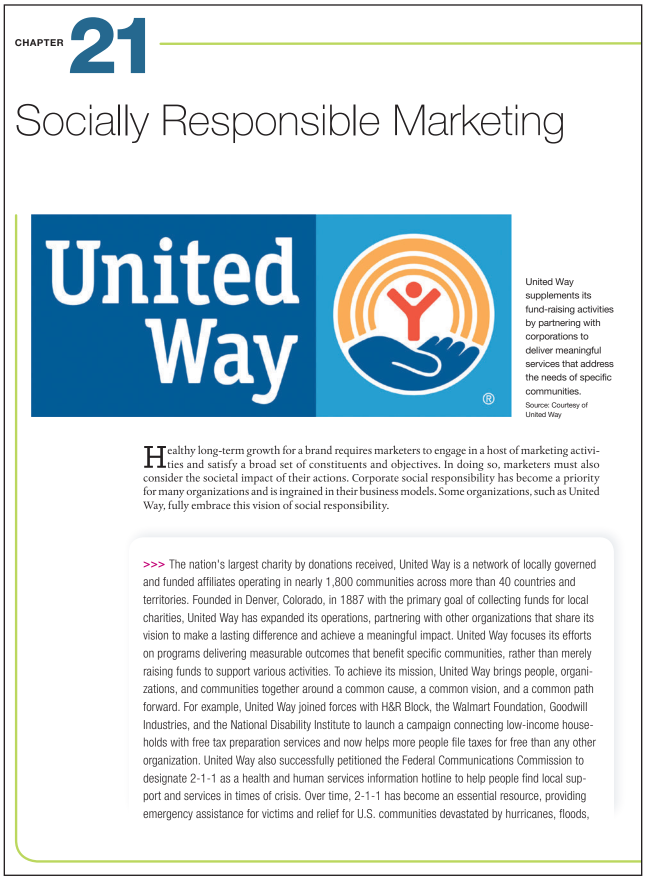
Designing the business model involves three key components (discussed in detail in Chapter 2): identifying the target market, articulating the offering's value proposition in that market, and delineating the key attributes of the market offering (Figure 18.3):

- The **target market** is the market in which the company has chosen to create value with its offering. Included in the target market are the target customers that the company has identified as potential purchasers of the offering, competitors that are also vying for the target customers, collaborators that will help the company distribute the offering and serve the target customers, the company itself, and the context of the market in which the company operates.
- The **value proposition** details the type of value that the company plans to create for its target customers and collaborators in the market, as well as the way in which the company plans to capture some of this value for itself.
- The **market offering** describes how the company will create, communicate, and deliver value to its target customers, collaborators, and the company stakeholders. This involves specifying the product, service, brand, price, incentives, communication, and distribution aspects of the company's offering.

The creation of market value is the ultimate goal of the business model. Accordingly, the success of an offering is determined by the degree to which it can create value for its target customers, collaborators, and the company. Thus, the design of a business model for a new offering is guided by three key questions: *Does the offering create value for target customers? Does the offering create value for the company collaborators?* and *Does the offering create value for the company?*

FIGURE **18.3**
The Key Components of a Business Model of a New Offering
Source: Alexander Chernev, *Strategic Marketing Management: Theory and Practice* (Chicago, IL: Cerebellum Press, 2019)

- Chapter 18, “Developing New Market Offerings,” which was Chapter 15 in the previous edition, is now organized in a way that reflects the key steps of the new-product development process. Specifically, this chapter includes new coverage of idea generation, business model design, implementation of the offering, and market deployment.
- Chapter 19, “Building Customer Loyalty,” covers content discussed in Chapter 5 of the previous edition and focuses on customer relationship management.
- Chapter 20, “Tapping into Global Markets,” covers content discussed in Chapter 8 of the previous edition.
- Chapter 21, “Socially Responsible Marketing,” is a new chapter that reflects the growing importance of corporate social responsibility in marketing management. As more companies are defining their purpose beyond profits, conducting business in a socially responsible manner becomes a key aspect of creating market value.



CHAPTER 21

Socially Responsible Marketing

United Way supplements its fund-raising activities by partnering with corporations to deliver meaningful services that address the needs of specific communities.
Source: Courtesy of United Way

Healthy long-term growth for a brand requires marketers to engage in a host of marketing activities and satisfy a broad set of constituents and objectives. In doing so, marketers must also consider the societal impact of their actions. Corporate social responsibility has become a priority for many organizations and is ingrained in their business models. Some organizations, such as United Way, fully embrace this vision of social responsibility.

>>> The nation's largest charity by donations received, United Way is a network of locally governed and funded affiliates operating in nearly 1,800 communities across more than 40 countries and territories. Founded in Denver, Colorado, in 1887 with the primary goal of collecting funds for local charities, United Way has expanded its operations, partnering with other organizations that share its vision to make a lasting difference and achieve a meaningful impact. United Way focuses its efforts on programs delivering measurable outcomes that benefit specific communities, rather than merely raising funds to support various activities. To achieve its mission, United Way brings people, organizations, and communities together around a common cause, a common vision, and a common path forward. For example, United Way joined forces with H&R Block, the Walmart Foundation, Goodwill Industries, and the National Disability Institute to launch a campaign connecting low-income households with free tax preparation services and now helps more people file taxes for free than any other organization. United Way also successfully petitioned the Federal Communications Commission to designate 2-1-1 as a health and human services information hotline to help people find local support and services in times of crisis. Over time, 2-1-1 has become an essential resource, providing emergency assistance for victims and relief for U.S. communities devastated by hurricanes, floods,

UPDATED CHAPTER FEATURES

In addition to the new core content, all chapters include a number of features—chapter openers, in-text examples, Marketing Insights, and Marketing Spotlights—that aim to illustrate the key concepts and enhance the relevance of the theoretical discussion. Many of these features in the 16th edition are new, and all of those that appeared in the previous edition have been updated to better reflect the current marketing environment. Some of the companies and topics highlighted in features new to the current edition are listed next.

- New chapter openers: Bird (Chapter 1), Slack (Chapter 2), Pantanjali (Chapter 3), Qualtrics (Chapter 5), T-Mobile (Chapter 7), Tesla (Chapter 8), Publix (Chapter 9), Netflix (Chapter 11), Dove (Chapter 12), Net-a-Porter (Chapter 16), Dyson (Chapter 18), SoulCycle (Chapter 19), and United Way (Chapter 20).

CHAPTER 8

PART 4 | DESIGNING VALUE

Designing and Managing Products

Tesla's Model 3 set out to prove that mass-produced, environmentally sound electric cars can successfully and profitably pilfer market share from producers of traditional gasoline-powered vehicles.
Source: imageBROKER/Alamy Stock Photo

At the heart of a great brand is a great product. To achieve market leadership, firms must offer products and services of superior quality that provide unsurpassed customer value. Tesla has conquered the electric car market in the United States, thanks in part to a relentless focus on product innovation and performance.

>>> In March 2016, Tesla revealed the long-awaited Model 3, the vehicle that the company hopes will ultimately take the electric car to the mass consumer. Priced starting at $35,000 (after $8,000 credits and fuel savings were factored in), Model 3 aimed to disrupt the auto industry by proving that mass producing an environmentally friendly vehicle is both feasible and profitable. Tesla's new mass market car created a lot of excitement, generating over half a million pre-orders, 100,000 of which were placed before the Model 3 was revealed. The customer appeal of Model 3 stemmed from several factors. Perhaps the most important was the lack of direct competition. The combination of Tesla's image as a luxury brand and the (relatively) low price point made it the only option for customers who were looking for an all-electric sedan priced around $40,000. To achieve its goal of building 5,000 vehicles a week, Tesla invested close to $1 billion to build its first Gigafactory—a lithium-ion battery and vehicle assembly factory near Reno, Nevada. Tesla's efforts to scale up production of Model 3 paid off: In 2018, it became the best-selling luxury vehicle in the United States, despite the fact that electric cars made up only 1.12% of total vehicle sales. Despite its success, Tesla faces growing competition from other car manufacturers that are revamping their product lines to include an increasing number of all-electric vehicles. Yet Tesla's focus is on gaining share from the traditional car market. "Our true competition is not the small trickle of non-Tesla electric cars being produced," argued Tesla's CEO Elon Musk, "but rather the enormous flood of gasoline cars pouring out of the world's factories every day." In the fall of 2020, Elon Musk laid out a plan for Tesla to build a $25,000 electric car using drastically lower-cost batteries to potentially turn the company into the world's largest car manufacturer.[1]

Marketing planning begins with formulating an offering to meet target customers' needs or wants. The customer will judge the offering's benefits on three basic elements: product, service, and brand. In this chapter we examine product; in Chapter 9, services; and in Chapter 10, brand. All three elements—product, service, and brand—must be fused into a competitively attractive market offering.

Product Differentiation

To successfully compete in the market, products must be differentiated. At one extreme are products that allow little variation: chicken, aspirin, and steel. Yet even here some differentiation is possible: Perdue chickens, Bayer aspirin, and India's Tata Steel have carved out distinct identities in their categories. Procter & Gamble makes Tide, Cheer, and Gain laundry detergents, each with a separate brand identity. At the other extreme are products that lend themselves to high differentiation, such as automobiles, commercial buildings, and furniture. Here the seller faces an abundance of differentiation possibilities.

Well-differentiated products can create significant competitive advantages. Crafting a distinctive aura for a product that helps distance it from competitors can involve moves that range from impressive technological advances like Intuitive Surgical's da Vinci robotic system for minimally invasive surgery to simple tweaks like putting a Chiquita sticker on a banana. Some brands, such as DeBeers, differentiate their products by tying them to special occasions. Others, including Tropicana and Tiffany, use packaging to ensure that they stand out from their respective competitors.

Attributes on the basis of which to differentiate include core functionality, features, performance quality, conformance quality, durability, reliability, form, style, and customization.[2] Design has become an increasingly important differentiator, and we discuss it separately later in the chapter.

- **Core functionality.** To create customer value, products must deliver on their core benefit. Products that fail to deliver on their core value proposition will inevitably fail in the market. Consider the plight of one-time highflier Nokia.

Learning Objectives After studying this chapter you should be able to:

- **8.1** Explain how companies use product differentiation to create market value.
- **8.2** Explain the role of product design in differentiating market offerings.
- **8.3** Discuss the key aspects of designing product portfolios and product lines.
- **8.4** Describe the key decisions involved in managing product packaging.
- **8.5** Explain how companies design and manage product guarantees and warranties.

- New in-text examples integrated into various chapters: Geico (Chapter 7), Haagen-Dazs (Chapter 8), Twilio (Chapter 11), Tupperware (Chapter 14), Ambit Energy (Chapter 14), Wegmans (Chapter 19), Starbucks (Chapter 20), Uniqlo (Chapter 20), and Faguo (Chapter 21).
- New Marketing Insights: Behavioral Decision Theory (Chapter 3), Chasing the Long Tail (Chapter 6), Ethical Issues in Prescription Drug Pricing (Chapter 11), Managing the Price Image of a Retailer (Chapter 16), and Understanding the Adoption of Innovations (Chapter 18).
- New Marketing Spotlights: Alibaba (Chapter 4), LEGO (Chapter 5), Chase Sapphire (Chapter 6), Warby Parker (Chapter 7), Priceline (Chapter 11), Uber (Chapter 11), Avon (Chapter 14), Airbnb (Chapter 17,; Honest Tea (Chapter 18), WeChat (Chapter 18), Stitch Fix (Chapter 19), Caesars Entertainment (Chapter 19), Mandarin Oriental (Chapter 20), Ben & Jerry's (Chapter 21), and Tiffany & Co. (Chapter 21).

Solving Learning and Teaching Challenges

Many students who take a marketing management course are creative and have strong communication skills. However, students often have difficulty developing marketing plans that blend time-tested marketing approaches with modern marketing tools to both generate new customers and maintain existing customers. The 16th edition of *Marketing Management* addresses these challenges by reflecting changes in marketing theory and practice and providing relevant examples from a variety of industries.

This edition prepares students to work in today's environment as companies increasingly (1) shift gears from managing product and service portfolios to managing *customer* portfolios; (2) move from stand-alone mass products to integrated and customized service solutions; (3) use data analytics and artificial intelligence to better create and capture customer value; (4) rely on social media rather than traditional advertising to promote their offerings; (5) improve their methods of measuring customer profitability and customer lifetime value; (6) focus on measuring the return on their marketing investment and its impact on shareholder value; and (7) concern themselves with the ethical and social implications of their marketing decisions.

To address all these different shifts, the 16th edition is organized to specifically describe and interpret the following eight functions that constitute modern marketing management in the 21st century.

1. Developing a strategic marketing plan
2. Understanding the market and capturing market insights
3. Crafting winning marketing strategies
4. Designing market value
5. Communicating market value
6. Delivering market value
7. Managing growth in a socially responsible way

As companies change, so does their marketing organization. Marketing is no longer a company department charged with a limited number of tasks; it is a company-wide undertaking. It drives the company's vision, mission, and strategic planning. Marketing includes decisions like deciding whom the company wants as its customers, which customer needs to satisfy, what products and services to offer, what prices to set, what communications to send and receive, what channels of distribution to use, and what partnerships to develop.

PEDAGOGY THAT EMPHASIZES REAL-WORLD, RELEVANT MARKETING EXAMPLES

Effective learning occurs when sound theory is complemented by relevant practical examples. To this end, the 16th edition includes a variety of features—chapter-opening vignettes, in-text examples, Marketing Insights, and Marketing Spotlights—designed to engage students by highlighting the practical application of the concepts covered in each chapter.

- Each chapter opens with a relevant real-world marketing example that engages students and sets the context of the chapter.
- Each chapter includes several in-text features with additional real-world and engaging marketing examples to illustrate key concepts within sections.
- Each chapter includes at least one Marketing Insight feature that addresses a specific marketing topic in greater detail to provide in-depth coverage and foster better understanding of this topic.

marketing INSIGHT **Managing the Price Image of a Retailer**

Price image reflects the general perception that consumers have about the level of prices at a given retailer. For example, Walmart is often regarded as being rather inexpensive, whereas Target is usually considered to be moderately priced. Price image differs from price, which is quantitatively expressed; price image is qualitative in nature. This means that consumers regard a retailer's pricing in categorical terms such as "expensive" or "inexpensive." Price image resides in the minds of the buyers; thus, it is based on consumers' perception of prices at a particular retailer compared to other retailers and may not be an accurate reflection of the actual level of a retailer's prices.

Many managers mistakenly believe that price image is based solely on the prices within a specific store and that managing price image is as simple as adjusting the prices of items the store carries. This results in the theory that a retailer can lower its price image by lowering the prices of items in its assortment.

However, this method of resetting price image has not proved effective. Low or high prices are an important factor in the formation of a retailer's price image, but prices are not the only things that consumers consider when forming a judgment about price image. Figure 16.1 depicts the key drivers of price image and their related impact on consumer behavior.

- *Average price level.* Price image does indeed hinge on the actual prices of the items carried by a particular retailer, although not entirely. A store in which prices are substantially above those of its competitors will find it difficult to convince customers that it is not high priced, regardless of other measures it may take to change its price image.
- *Known-value items.* Consumers typically do not examine all prices at a store; instead, they tend to focus on items whose prices they are familiar with, which are referred to as known-value or signpost items. Because shoppers are aware of the prices for these items at other stores, they use them to determine whether or not a particular price is competitive. Known-value items usually fall into the category of frequently purchased items like milk, soda, and snacks, allowing consumers to readily compare prices across different stores.
- *Price range.* Consumers form an assessment of price image not just from the average level of prices at a retailer, but also from the range of prices within

- Each chapter includes two Marketing Spotlight (formerly Marketing Excellence) features that use a relevant real-world company to illustrate the marketing concepts covered in the chapter. Questions give students an opportunity to confirm their understanding and apply critical thinking. Professors can assign the questions as homework or use them for class discussion.

marketing SPOTLIGHT

Warby Parker

Warby Parker was founded by four Wharton MBA students who wanted to offer consumers designer glasses online at an affordable price. At the time, the eyewear industry was dominated by two companies—Luxottica and Essilor. Luxottica designed, manufactured, and retailed most eyewear frames sold. The company held licenses for many of the most popular brands, such as Ralph Lauren, Ray-Ban, and Oakley, and owned optical retail chains like LensCrafters and Sunglass Hut. Whereas Luxottica specialized in frames, Essilor, the largest optical lens wholesaler in the United States, dominated the lenses portion of the eyewear industry.

Source: Robert K. Chin - Storefronts/Alamy Stock Photo

The preceding features capture many of the significant changes and trends in the marketplace and can greatly enhance comprehension of the material by illustrating the key marketing concepts. In addition, these real-world examples can help to stimulate student interest and engagement with the material.

INSTRUCTOR TEACHING RESOURCES

Detailed information and resources are available at www.pearson.com.

Acknowledgments

The 16th edition of *Marketing Management* bears the imprint of many people.

From Philip Kotler and Kevin Lane Keller: We are thrilled to introduce Professor Alexander Chernev as coauthor of the 16th edition of *Marketing Management*. Alex has contributed to the field of marketing in many ways—as an accomplished researcher, a widely acclaimed teacher, a prolific writer, and a trusted source of expert insight to many firms and organizations. He is that rare marketing scholar who skillfully blends rigor and relevance in all he does. Alex has made a name for himself through his unique ability to develop and disseminate relevant marketing knowledge, and we couldn't be more pleased to have had the opportunity to work with him on this new edition. At the top of this game, he has brought new ideas, new thinking, and new energy that have significantly transformed and improved the book. We thank Alex for his contribution and look forward to working with him on many more editions to come.

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John Gironda, Nova Southeastern University
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Hal Kingsley, Erie County Community College
Jennifer Landis, Wilmington University
Dian O'Leary, Wilmington University
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Surjit Chhabra, DePaul University
Yun Chu, Frostburg State University
Dennis Clayson, University of Northern Iowa
Bob Cline, University of Iowa
Brent Cunningham, Jacksonville State University
Hugh Daubek, Purdue University
John Deighton, University of Chicago
Kathleen Dominick, Rider University
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Barbara Dyer, University of North Carolina at Greensboro
Jackie Eastman, Georgia Southern University
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Alton Erdem, University of Houston at Clear Lake
Elizabeth Evans, Concordia University
Barbara S. Faries, Mission College
William E. Fillner, Hiram College
Barb Finer, Suffolk University
Chic Fojtik, Pepperdine University
Renee Foster, Delta State University
Frank J. Franzak, Virginia Commonwealth University
Ralph Gaedeke, California State University, Sacramento
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David Georgoff, Florida Atlantic University
Rashi Glazer, University of California, Berkeley
Bill Gray, Keller Graduate School of Management
Albert N. Greco, Fordham University
Barbara Gross, California State University at Northridge
Lewis Hershey, Fayetteville State University
Thomas Hewett, Kaplan University
Mary Higby, University of Detroit–Mercy
John A. Hobbs, University of Oklahoma
Arun Jain, State University of New York, Buffalo
Michelle Kunz, Morehead State University
Eric Langer, Johns Hopkins University
Even Lanseng, Norwegian School of Management
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Ron Lennon, Barry University
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Henry Loehr, Pfeiffer University–Charlotte
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H. Lee Matthews, Ohio State University
Paul McDevitt, University of Illinois at Springfield
Mary Ann McGrath, Loyola University, Chicago
John McKeever, University of Houston
Kenneth P. Mead, Central Connecticut State University
Henry Metzner, University of Missouri, Rolla
Robert Mika, Monmouth University
Mark Mitchell, Coastal Carolina University
Francis Mulhern, Northwestern University
Pat Murphy, University of Notre Dame
Jim Murrow, Drury College
Zhou Nan, University of Hong Kong
Nicholas Nugent, Boston College
Nnamdi Osakwe, Bryant & Stratton College
Donald Outland, University of Texas, Austin
Albert Page, University of Illinois, Chicago
Young-Hoon Park, Cornell University
Koen Pauwels, Dartmouth College
Lisa Klein Pearo, Cornell University
Keith Penney, Webster University
Patricia Perry, University of Alabama
Mike Powell, North Georgia College and State University
Hank Pruden, Golden Gate University
Christopher Puto, Arizona State University
Abe Qstin, Lakeland University
Anthony Racka, Oakland Community College
Lopo Rego, University of Iowa
Jamie Ressler, Palm Beach Atlantic University

Richard Rexeisen, University of St. Thomas
William Rice, California State University–Fresno
Scott D. Roberts, Northern Arizona University
Bill Robinson, Purdue University
Robert Roe, University of Wyoming
Jan Napoleon Saykiewicz, Duquesne University
Larry Schramm, Oakland University
James E. Shapiro, University of New Haven
Alex Sharland, Hofstra University
George David Shows, Louisiana Tech University
Dean Siewers, Rochester Institute of Technology
Anusorn Singhapakdi, Old Dominion University
Jim Skertich, Upper Iowa University
Allen Smith, Florida Atlantic University
Joe Spencer, Anderson University
Mark Spriggs, University of St. Thomas
Nancy Stephens, Arizona State University
Michael Swenso, Brigham Young University, Marriott School
Thomas Tellefsen, The College of Staten Island–CUNY
Daniel Turner, University of Washington
Sean Valentine, University of Wyoming
Ann Veeck, West Michigan University
R. Venkatesh, University of Pittsburgh
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Philip Kotler
Professor Emeritus of Marketing
Kellogg School of Management
Northwestern University
Evanston, Illinois

Kevin Lane Keller
E. B. Osborn Professor of Marketing
Tuck School of Business
Dartmouth College
Hanover, New Hampshire

Alexander Chernev
Professor of Marketing
Kellogg School of Management
Northwestern University
Evanston, Illinois

About the Authors

Philip Kotler is one of the world's leading authorities on marketing. He is the S. C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management, Northwestern University (emeritus). He received his master's degree at the University of Chicago and his PhD at MIT, both in economics. He did postdoctoral work in mathematics at Harvard University and in behavioral science at the University of Chicago.

Dr. Kotler is the author or coauthor of *Principles of Marketing; Marketing: An Introduction; Strategic Marketing for Nonprofit Organizations; Marketing Models; The New Competition; Marketing Professional Services; Strategic Marketing for Educational Institutions; Marketing for Health Care Organizations; High Visibility; Social Marketing; Marketing Places; The Marketing of Nations; Marketing for Hospitality and Tourism; Standing Room Only; Museum Strategy and Marketing; Marketing Moves; Kotler on Marketing; Lateral Marketing; Winning at Innovation; Ten Deadly Marketing Sins; Chaotics; Winning Global Markets; Corporate Social Responsibility; Confronting Capitalism; Democracy in Decline; Advancing the Common Good; Social Media Marketing; Brand Activism; Marketing 3.0; Marketing 4.0;* and *My Adventures in Marketing.*

In addition, he has published over 150 articles in leading journals, including *Harvard Business Review, Sloan Management Review, Business Horizons, California Management Review, Journal of Marketing, Journal of Marketing Research, Management Science, Journal of Business Strategy,* and *Futurist*. He is the only three-time winner of the Alpha Kappa Psi award for the best annual article published in the *Journal of Marketing*.

Professor Kotler was the first recipient of the American Marketing Association's (AMA) Distinguished Marketing Educator Award (1985); he was chosen as the Leader in Marketing Thought by academic members of the AMA (1975) and received the Paul Converse Award (1978). Other honors include the Prize for Marketing Excellence from the European Association of Marketing Consultants and Sales Trainers; Sales and Marketing Executives International's (SMEI) Marketer of the Year (1995); the Distinguished Educator Award from the Academy of Marketing Science (2002); the William L. Wilkie "Marketing for a Better World" Award (2013); the Sheth Foundation Medal for Exceptional Contribution to Marketing Scholarship and Practice (2013); and induction into the Marketing Hall of Fame (2014).

He has received 22 honorary doctoral degrees, among them from Stockholm University, the University of Zurich, Athens University of Economics and Business, DePaul University, the Cracow School of Business and Economics, Groupe H.E.C. in Paris, the Budapest School of Economic Science and Public Administration, the University of Economics and Business Administration in Vienna, and Plekhanov Russian Academy of Economics.

Professor Kotler has been a consultant to many major U.S. and foreign companies, including IBM, General Electric, AT&T, Honeywell, Bank of America, Merck, SAS Airlines, and Michelin. In addition, he has served as chairman of the College of Marketing of the Institute of Management Sciences, a director of the American Marketing Association, a trustee of the Marketing Science Institute, a director of the MAC Group, a member of the Yankelovich Advisory Board, and a member of the Copernicus Advisory Board. He was a member of the Board of Governors of the School of the Art Institute of Chicago and a member of the Advisory Board of the Drucker Foundation. He has traveled extensively throughout Europe, Asia, and South America, advising many companies about global marketing opportunities.

Kevin Lane Keller is the E. B. Osborn Professor of Marketing and Senior Associate Dean for Marketing and Communications at the Tuck School of Business at Dartmouth College. Professor Keller has an AB degree in math and economics from Cornell University, an MBA from Carnegie-Mellon, and a PhD in marketing from Duke University. At Dartmouth, he teaches MBA courses on strategic brand management and lectures in executive programs on those topics.

Previously, Professor Keller was on the faculty at Stanford University, where he also served as head of the marketing group. Additionally, he has been on the faculty at the University of California at Berkeley and the University of North Carolina at Chapel Hill, was a visiting professor at Duke University and the Australian Graduate School of Management, and has two years of industry experience as marketing consultant for Bank of America.

Professor Keller's general area of expertise is in understanding how theories and concepts related to consumer psychology can improve branding and marketing strategies. His research has been published numerous times in each of the four of the major marketing journals: the *Journal of Marketing*, *Journal of Marketing Research*, *Journal of Consumer Research,* and *Marketing Science*. With over 120 published papers, he is also one of the most heavily cited of all marketing academics, and he has received numerous awards for his research accomplishments.

Actively involved with industry, Professor Keller has worked on a host of different types of marketing projects. He has served as a consultant and advisor to marketers for some of the world's most successful brands, including Accenture, American Express, Disney, Ford, Intel, Levi Strauss, L.L. Bean, Nike, Procter & Gamble, and Samsung. He is a popular and highly sought-after speaker and has given keynote speeches and conducted workshops with top executives in a wide variety of forums. He has lectured all over the world, from Seoul to Johannesburg, from Sydney to Stockholm, and from Sao Paulo to Mumbai.

Professor Keller is currently conducting a variety of research studies that address strategies to build, measure, and manage brand equity. His text on those subjects, *Strategic Brand Management*, added coauthor Vanitha Swaminathan for its 5th edition. It has been adopted at top business schools and leading firms around the world and has been heralded as the "bible of branding." He has also served as an academic trustee, executive director, and executive committee member for the Marketing Science Institute.

An avid sports, music, and film enthusiast in his so-called spare time, Professor Keller has helped to manage, market, and serve as executive producer for one of Australia's great rock and roll treasures, The Church, as well as American power-pop legends Tommy Keene and Dwight Twilley. He currently serves on the Board of Directors for the Lebanon Opera House and the Doug Flutie, Jr. Foundation for Autism. He lives in Etna, New Hampshire, with his wife Punam (also a Tuck marketing professor) and two daughters, Carolyn and Allison.

Alexander Chernev is a professor of marketing at the Kellogg School of Management, Northwestern University. He holds an MA and a PhD in psychology from Sofia University and a PhD in business administration from Duke University. He is an academic thought leader, speaker, and advisor in the area of marketing strategy, brand management, consumer decision making, and behavioral economics.

Professor Chernev has written numerous articles focused on business strategy, brand management, consumer behavior, and market planning. His research has been published in the leading marketing journals and has been frequently quoted in the business and popular press, including the *Wall Street Journal*, the *Financial Times*, the *New York Times*, the *Washington Post*, *Harvard Business Review*, *Scientific American*, the *Associated Press*, *Forbes*, and *Bloomberg Businessweek*. He was ranked among the top ten most prolific scholars in the leading marketing journals by the *Journal of Marketing* and among the top five marketing faculty in the area of consumer behavior by a global survey of marketing faculty published by the *Journal of Marketing Education*.

In addition to academic and managerial articles, Professor Chernev has published a number of impactful books—*Strategic Marketing Management: Theory and Practice*, *Strategic Marketing Management: The Framework, Strategic Brand Management*, *The Marketing Plan Handbook*, and *The Business Model: How to Develop New Products, Create Market Value, and Make the Competition Irrelevant*—that have been translated into multiple languages and are used in top business schools around the world.

Professor Chernev has served as an area editor for the *Journal of Marketing* and the *Journal of Consumer Psychology* and on the editorial boards of leading research journals, including the *Journal of Marketing Research*, *Journal of Consumer Research*, *International Journal of Research in Marketing*, *Journal of the Academy of Marketing Science*, and *Journal of Marketing Behavior*.

At the Kellogg School of Management, Professor Chernev teaches marketing strategy, brand management, and behavioral decision theory in MBA, PhD, and executive education programs. He has also taught in executive programs at INSEAD in France and Singapore, at the Institute for Management Development (IMD) in Switzerland, and at Hong Kong University of Science and Technology. He has received numerous teaching awards, including the Core Course Teaching Award, the Kellogg Faculty Impact Award, and the Kellogg Executive MBA Program's Top Professor Award, which he has received 13 times.

In addition to research and teaching, Professor Chernev has served as an academic trustee, and is currently a fellow, of the *Marketing Science Institute.* He has served as an expert on numerous legal cases dealing with issues pertaining to intellectual property, consumer behavior, and marketing strategy. A consummate educator and presenter, Professor Chernev has keynoted presentations at conferences and corporate events around the globe. He advises companies worldwide—from Fortune 500 firms to start-ups—on issues of marketing strategy, brand management, strategic planning, and new-product development, as well as on ways to craft their business models, build strong brands, uncover market opportunities, develop new products and services, and gain competitive advantage.

Marketing Management

CHAPTER 1

Defining Marketing for the New Realities

Riders in global markets can access an affordable, non-polluting Bird e-scooter via smart phone (or have it brought to their home or business), wisk across town, and drop it off at a public space.

Source: Alexander Chernev

Formally and informally, people and organizations engage in a vast number of activities that we call marketing. In the face of the digital revolution and other major changes in the business environment, effective marketing today is both increasingly vital and radically new. Consider the rapid market success of the start-up Bird.

>>> Bird is an electric-scooter-sharing company dedicated to offering affordable, environmentally friendly commuter transportation. It aims to give riders looking to take a short journey across town, or from the subway or bus to their destination, a convenient mode of transportation that does not pollute the air or add to traffic. Founded in September 2017 and headquartered in Venice, California, Bird provides a fleet of shared electric scooters that can be accessed via smartphone. Rather than requiring dedicated docking areas, Bird scooters can be picked up and dropped off on sidewalks throughout the city. The company's business model has proved immensely popular; in its first year of operation its scooters were available in over 100 cities throughout North America, Europe, and Asia, and they logged 10 million rides. Facing growing competition from other dockless scooter-sharing

start-ups, such as Lime and Spin, Bird's business model has constantly evolved. It introduced Bird Delivery service, which enables consumers to request a Bird to be delivered to their home or business early in the morning to ensure that they have guaranteed transportation throughout the day. To speed up adoption, Bird also introduced Bird Platform, a suite of products and services that gives entrepreneurs the opportunity to become independent operators and manage a fleet of shared e-scooters in their community. Independent operators have the option to add their own logo to Bird scooters and are given logistical support to charge, maintain, and distribute the e-scooters each day.[1]

Good marketing is no accident. It is both an art and a science, and it results from careful planning and execution using state-of-the-art tools and techniques. Skillful marketers are continually updating classic practices and inventing new ones to find creative, practical ways to adapt to new marketing realities. In this chapter, we lay the foundation for sound marketing practices by reviewing important marketing concepts, tools, frameworks, and issues.

The Scope of Marketing

To be a successful marketer, one must have a clear understanding of the essence of marketing, what can be marketed, and how marketing works. We discuss these three aspects of marketing next.

WHAT IS MARKETING?

Marketing is about identifying and meeting human and social needs in a way that harmonizes with the goals of the organization. When Google recognized that people needed to more effectively and efficiently access information on the internet, it created a powerful search engine that organized and prioritized queries. When IKEA noticed that people wanted good furnishings at substantially lower prices, it created knockdown furniture. These two firms demonstrated marketing savvy and turned a private or social need into a profitable business opportunity.[2]

The American Marketing Association offers the following formal definition: *Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.*[3] Coping with these exchange processes calls for a considerable amount of work and skill. Marketing management takes place when at least one party to a potential exchange thinks about the means of achieving desired responses from other parties. Thus **marketing management** *is the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value.*

We can also distinguish between social and managerial definition of marketing. A social definition of marketing shows the role marketing plays in society; for example, one marketer has said that marketing's role is to "deliver a higher standard of living." Our social definition of marketing: *Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others.* Co-creation of value among consumers and with

Learning Objectives After studying this chapter you should be able to:

1.1 Define the scope of marketing.

1.2 Describe the new marketing realities.

1.3 Explain the role of marketing in the organization.

1.4 Illustrate how to organize and manage a modern marketing department.

1.5 Explain how to build a customer-centric organization.

businesses, and the importance of value creation and sharing, have become important themes in the development of modern marketing thought.[4]

Managers sometimes think of marketing as "the art of selling products," and many people are surprised when they hear that selling is *not* the most important part of marketing. Selling is only the tip of the marketing iceberg. Peter Drucker, famed management theorist, put it this way:

> There will always, one can assume, be need for some selling. But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available.[5]

When Nintendo released its Wii game system, when Apple launched its iPad tablet computer, and when Toyota introduced its Prius hybrid automobile, these manufacturers were swamped with orders. Their success cannot be attributed merely to the great selling skills of retailers. Rather, their runaway success stemmed from the fact that they had designed the right product, based on careful marketing homework about consumers, competition, and all the external factors that affect cost and demand.

WHAT IS MARKETED?

Marketing is ubiquitous—it permeates all aspects of the society. Specifically, marketing typically involves 10 different domains: goods, services, events, experiences, persons, places, properties, organizations, information, and ideas. Let's take a quick look at these categories.

- **Goods.** Physical goods constitute the bulk of most countries' production and marketing efforts. Each year U.S. companies market billions of fresh, canned, bagged, and frozen food products and millions of cars, refrigerators, televisions, machines, and other mainstays of a modern economy.
- **Services.** As economies advance, a growing proportion of their activities focus on the production of services. The U.S. economy today produces a services-to-goods mix of roughly two-thirds to one-third. Services include the offerings of airlines, hotels, car rental firms, barbers and beauticians, maintenance and repair people, accountants, bankers, lawyers, engineers, doctors, software programmers, and management consultants. Many market offerings mix goods and services, such as a fast-food meal.
- **Events.** Marketers promote time-based events, including major trade shows, artistic performances, and company anniversaries. Global sporting events such as the Olympics and the World Cup are promoted aggressively to companies and fans. Local events include craft fairs, bookstore readings, and farmers' markets.
- **Experiences.** By orchestrating several services and goods, a firm can create, stage, and market experiences. Walt Disney World's Magic Kingdom lets customers visit a fairy kingdom, a pirate ship, or a haunted house. Customized experiences include a week at a baseball camp with retired baseball greats, a four-day rock-and-roll fantasy camp, and a climb up Mount Everest.
- **Persons.** Artists, musicians, CEOs, physicians, high-profile lawyers and financiers, and other professionals often get help from marketers.[6] Many athletes and entertainers have done a masterful job of marketing themselves—former NFL quarterback Peyton Manning, talk show veteran Oprah Winfrey, and rock-and-roll legends The Rolling Stones. Management consultant Tom Peters, himself a master at self-branding, has advised each person to become a "brand."
- **Places.** Cities, states, regions, and whole nations compete to attract tourists, residents, factories, and company headquarters.[7] Place marketers include economic development specialists, real estate agents, commercial banks, local business associations, and advertising and public relations agencies. The Las Vegas Convention & Visitors Authority has met with much success with its provocative ad campaign "What Happens Here, Stays Here," portraying Las Vegas as "an adult playground."
- **Properties.** Properties involve intangible rights of ownership to either real property (real estate) or financial property (stocks and bonds). They are bought and sold, and these exchanges require marketing. Real estate agents work for property owners and sellers, or they buy and sell residential and commercial real estate. Investment companies and banks market securities to both institutional and individual investors.
- **Organizations.** Museums, performing-arts organizations, corporations, and nonprofits all use marketing to boost their public image and compete for audiences and funds. Some universities

have created chief marketing officer (CMO) positions to better manage their school identity and image, encompassing everything from admission brochures and Twitter feeds to brand strategy.

- **Information.** Information is disseminated knowledge. It is produced, marketed, and distributed by TV and radio news, newspapers, the internet, think tanks, government and business entities, and schools and universities. Firms make business decisions using information supplied by organizations such as Nielsen, R.R. Donnelley & Sons, comscore, Gartner, J.D. Power and Associates, GfK, and Ipsos.
- **Ideas.** Social marketers promote such ideas as "Friends Don't Let Friends Drive Drunk" and "A Mind Is a Terrible Thing to Waste." Political parties promote social causes such as gun control, tax reform, and affordable health care. As part of their corporate social responsibility activities, many organizations promote causes focused on issues such as poverty, climate change, civil rights, social justice, racial discrimination, gender inequality, health care availability, and childhood obesity.

THE MARKETING EXCHANGE

A marketer is someone who seeks a response—attention, a purchase, a vote, a donation—from another party. Marketers are skilled at stimulating demand for their products; however, that's a limited view of what they do. They also seek to influence the level, timing, and composition of demand to meet the organization's objectives.

Traditionally, a "market" was a physical place where buyers and sellers gathered to buy and sell goods. Economists describe a market as a collection of buyers and sellers who negotiate transactions that involve a particular product or product class (such as the housing market or the grain market).

There are five basic markets: resource markets, manufacturer markets, consumer markets, intermediary markets, and government markets. The five basic markets and their connecting flows of goods, services, and money are shown in Figure 1.1. Manufacturers go to resource markets (raw material markets, labor markets, money markets), buy resources and turn them into goods and services, and sell finished products to intermediaries, who sell them to consumers. Consumers sell their labor and receive money with which they pay for the goods and services they purchase. The government collects tax revenues to buy goods from resource, manufacturer, and intermediary markets and uses these goods and services to provide public services. Every nation's economy, and the global economy itself, all consist of interacting sets of markets linked through exchange processes.

Marketers view *industry* as a group of sellers and use the term *market* to describe customer groups. There are need markets (the diet-seeking market), product markets (the shoe market), demographic markets (the "Millennium" youth market), and geographic markets (the Chinese market), as well as voter markets, labor markets, and donor markets.

Figure 1.2 shows how sellers and buyers are connected by four flows. Sellers send goods and services and communications such as ads and direct mail to the market; in return, they receive money and information such as data on customer attitudes and sales. The inner loop shows an exchange of money for goods and services; the outer loop shows an exchange of information.

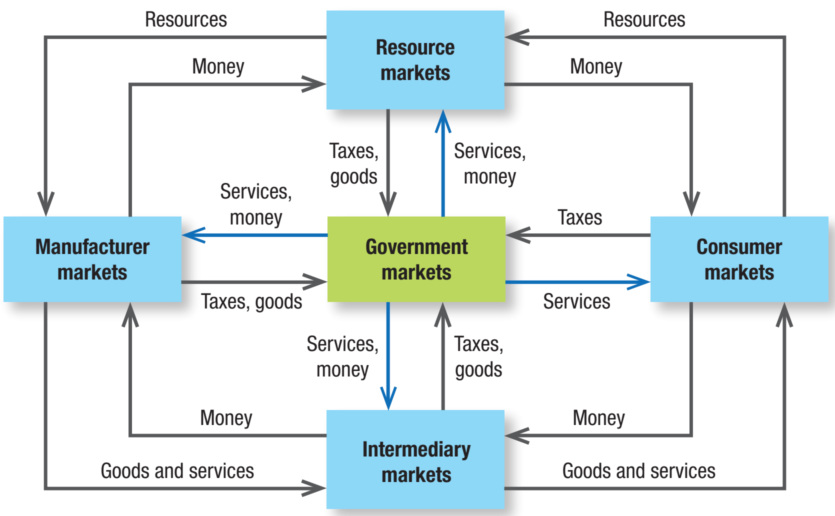
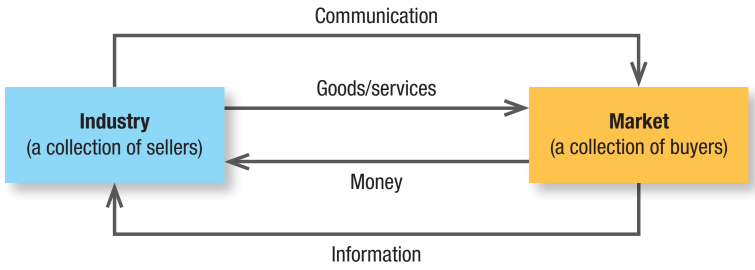


FIGURE **1.1**
Structure of Goods, Services, and Money Flows in a Modern Exchange Economy

FIGURE **1.2**

A Simple Marketing System



Finance, operations, accounting, and other business functions won't really matter without sufficient demand for products and services that enable a firm to make a profit. In other words, there must be an effective top line for there to be a healthy bottom line. Thus, financial success often depends on marketing ability. Marketing's value extends to society as a whole. It has helped introduce new or enhanced products that ease or enrich people's lives. Successful marketing builds demand for products and services, which, in turn, creates jobs. By contributing to the bottom line, successful marketing also allows firms to more fully engage in socially responsible activities.[8]

In an online- and mobile-fueled environment where consumers, competition, technology, and economic forces change rapidly and consequences quickly multiply, marketers must choose features, prices, and markets and decide how much to spend on advertising, sales, and online and mobile marketing.

There is little margin for error in marketing. Just a short time ago, MySpace, Yahoo!, Blockbuster, and Barnes & Noble were admired leaders in their industries. What a difference a few years can make! All of these brands have been completely overtaken by upstart challengers—Facebook, Google, Netflix, and Amazon, respectively—and they now struggle, sometimes unsuccessfully, for mere survival. Firms must constantly move forward. At greatest risk are those companies that fail to carefully monitor their customers and competitors and thus fail to continually improve their value offerings and marketing strategies, in the process satisfying their employees, stockholders, suppliers, and channel partners.

Innovation in marketing is critical. Imaginative ideas on strategy exist in many places within a company. Senior management should identify and encourage fresh ideas from three generally underrepresented groups: employees with youthful or diverse perspectives, employees far removed from company headquarters, and employees new to the industry. Each group can challenge company orthodoxy and stimulate new ideas.

British-based RB (formerly Reckitt Benckiser) has been an innovator in the staid household cleaning products industry by generating 35 percent of sales from products under three years old. Its multinational staff is encouraged to dig deeply into consumer habits and is well rewarded for excellent performance.

The New Marketing Realities

The marketplace is dramatically different from even 10 years ago, with new marketing behaviors, opportunities, and challenges emerging.[9] The new market realities can be divided into three main categories: the market forces that shape the relationships among the different market entities, the market outcomes that stem from the interplay of these forces, and the emergence of holistic marketing as an essential approach to succeeding in the rapidly evolving market.

Figure 1.3 summarizes the four major market forces, three key market outcomes, and four fundamental pillars of holistic marketing that help to capture the new marketing realities. With these concepts in place, we can identify a specific set of tasks that make up successful marketing management and marketing leadership.

THE FOUR MAJOR MARKET FORCES

The business environment today has been profoundly influenced by four main forces: technology, globalization, the physical environment, and social responsibility. We discuss these four transformative forces in more detail next.

Technology. The pace of change and the scale of technological achievement can be staggering. The rapid rise of e-commerce, online and mobile communication, and artificial intelligence has offered marketers increasing capabilities. Massive amounts of information and data about almost everything are now available to both consumers and marketers.

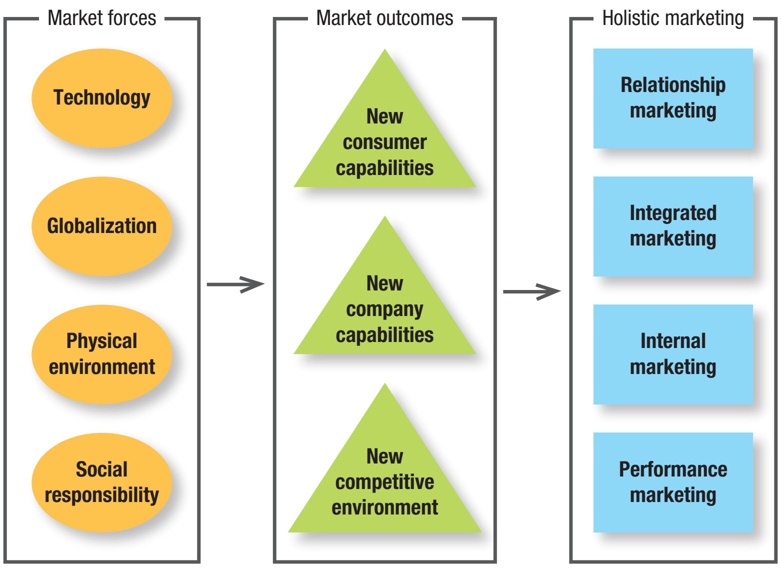


FIGURE **1.3**
The New Marketing Realities

Technological developments have given birth to new business models that take advantage of the new capabilities stemming from these technologies. Companies like Netflix, Amazon, Airbnb, and Uber that have embraced the new technologies have disrupted markets and become major players in the industries in which they compete.

Advances in data analytics, machine learning, and artificial intelligence have enabled companies not only to better understand their customers but also to tailor their offerings to consumers' needs Exponentially increasing computing power—coupled with complex data analysis algorithms that include natural language processing, object recognition, and affective computing—have provided marketers with unprecedented knowledge about their customers and enabled them to interact with these customers on a one-to-one basis. The growth of data analytics and artificial intelligence platforms have democratized these technologies by making them available to smaller companies that typically would not have had the resources to implement these technologies on their own.

Even traditional marketing activities have been profoundly affected by technology. To improve sales force effectiveness, drug maker Roche issued iPads to its entire sales team. Though the company had previously used a sophisticated customer relationship management software system, it still depended on sales reps to input data accurately and in a timely fashion, which, unfortunately, did not always happen. With iPads, however, sales teams can do real-time data entry, improving the quality of the data entered while freeing up time for other tasks.

Globalization. The world has become a level playing field that offers competitors across the globe an equal opportunity to succeed. Geographic and political barriers have been eroded as advanced telecommunication technologies and workflow platforms that enable all types of computers to work together continue to create almost limitless opportunities for communication, collaboration, and data mining. The notion that the world has become a smaller place connecting businesses and customers across the globe is well captured by the phase "The World Is Flat" coined by Thomas Friedman in his book of that name.[10]

Friedman illustrates the impact of globalization with the following example: The person taking your order at a McDonald's in Missouri might be working at a call center 900 miles away in Colorado Springs. She then zaps your order back to the McDonald's so that it's ready minutes later as you drive to the pickup window. Friedman warns of the consequences of ignoring the rapid pace of global advances that will necessitate changes in the way companies do business, including the loss of American jobs to skilled employees who will work for less. In order to succeed in this "flattened" world, the U.S. workforce must continually update its specialized skills and create superior products.

Globalization has made countries increasingly multicultural. U.S. minorities have expanding economic clout, with their buying power growing faster than that of the general population. Demographic trends favor developing markets with populations whose median age is below 25. In terms of growth of the middle class, the vast majority of the next billion people who join the middle class are likely to be Asian.[11]

Globalization changes innovation and product development as companies take ideas and lessons from one country and apply them to another. After years of little success with its premium ultrasound scanners in the Chinese market, GE successfully developed a portable, ultra-low-cost version that addressed the country's unique market needs. Later, it began to successfully sell the product throughout the developed world for use in ambulances and operating rooms where existing models were too big.[12]

Physical Environment. The physical environment in which companies operate has changed dramatically during the past decade. Two particularly far-ranging changes in the physical environment deserve special attention: climate change and changes in global health conditions.

Climate change—a term referring to lasting changes in Earth's global climate as well as changes in regional climates—can have a significant impact on a company's business activities. Climate change is not limited to global warming; it can also involve lower rather than rising temperatures (global cooling). In addition, the effects of climate change go beyond lasting changes in the temperature to trigger more frequent and more extreme weather events, fluctuations in humidity and rainfall, and rising sea levels resulting from thermal expansion of ocean waters and unprecedented melting of glaciers and the polar ice caps.

Climate change can have a profound effect on the business models of virtually all companies regardless of their size or the industry in which they operate. For example, an increase in the average annual temperature can lead to lower yields of fruits and vegetables that are accustomed to cooler temperatures and to higher yields of warm-climate vegetation. As the warm season lengthens, warm-weather activities tend to grow, whereas winter sports tend to suffer. Rising sea levels are creating major disruptions in global commerce as well as in people's daily lives. As a result of rising seas and extreme weather caused by climate change, Indonesia's government announced plans to move its endangered national capital from Jakarta to a new location on the island of Borneo. The impact of rising sea levels not only entails frequent flooding; it also means higher rates of erosion, greater damage from storms, and saltwater contamination of drinking water.

Health conditions range from short-term illnesses that are confined to a particular geographic area to pandemics that spread across the globe. Changes in health conditions can influence not only the operations of pharmaceutical, biotechnology, and health management companies but also companies that are not directly related to health care. Pandemics, such as avian influenza and swine flu, can have a profound effect on all areas of business, including food, tourism, hospitality, and transportation. A truly global pandemic such as COVID-19 could effectively paralyze most, if not all, business transactions, leading to a virtual standstill of global commerce. Because the process of globalization and the related increase in global travel have magnified the probability of localized diseases becoming pandemics, managers must be prepared to adapt their business models to account for changing health conditions that threaten their customers, employees, and the company's bottom line.

Social Responsibility. Poverty, pollution, water shortages, climate change, social injustice, and wealth concentration demand our attention. The private sector is taking some responsibility for improving living conditions, and firms all over the world have elevated the role of corporate social responsibility.

Because marketing's effects extend to society as a whole, marketers must consider the ethical, environmental, legal, and social context of their activities.[13] The organization's task is thus to determine the needs, wants, and interests of target markets and satisfy them more effectively and efficiently than competitors, while preserving or enhancing consumers' and society's long-term well-being.

As goods have become more commoditized and consumers have grown more socially conscious, some companies—including The Body Shop, Timberland, and Patagonia—have incorporated social responsibility as a way to differentiate themselves from competitors, build consumer preference, and achieve notable sales and profits.[14]

In making these shifts in marketing and business practices, firms also face ethical dilemmas and perplexing trade-offs. Consumers may value convenience but find it difficult to justify disposable products or elaborate packaging in a world trying to minimize waste. Increasing material aspirations can defy the need for sustainability. Smart companies are creatively designing with energy efficiency, carbon footprints, toxicity, and disposability in mind.

Source: ZUMA Press, Inc./Alamy Stock Photo

<< A powerful electric motor combined with a quick changeover to gas lets the Prius get over 50 mpg both in the city and on highways. It also allows owners to display their concern for the environment.

Toyota Prius Some auto experts scoffed when Toyota predicted sales of 300,000 cars within five years of launching its gas-and-electric Prius hybrid sedan in 2001. But by 2004, the Prius had a six-month waiting list. Toyota's winning formula consists of a powerful electric motor and the ability to quickly switch power sources—resulting in 55 miles per gallon for city and highway driving. It also offers the roominess and power of a family sedan and an eco-friendly design and look at a starting price of a little more than $20,000. Some consumers also appreciate that the Prius's distinctive design allows them to make a visible statement about their commitment to the environment. The lesson? Functionally successful products that consumers see as also being good for the environment can offer enticing options.[15]

Now more than ever, marketers must think holistically and craft creative win–win solutions to balance conflicting demands. They must develop fully integrated marketing programs and meaningful relationships with a range of constituents.[16] Besides doing all the right things inside their company, they need to consider the broader consequences in the marketplace, topics we turn to next.

THE THREE KEY MARKETING OUTCOMES

The four major forces shaping today's markets—technology, globalization, the physical environment, and social responsibility—are fundamentally changing the ways consumers and companies interact with each other. These forces provide both consumers and companies with new capabilities, while at the same time promoting a competitive market environment. We discuss these three market outcomes in more detail next.

New Consumer Capabilities. Consumers today have more power at their fingertips than they have ever had in the past. Expanded information, communication, and mobility enable customers to make better choices and share their preferences and opinions with others around the world. The new consumer capabilities involve several key aspects:

- **Consumers can use online resources as a powerful information and purchasing aid.** From home, office, or mobile phone, they can compare product prices and features, consult user reviews, and order goods online from anywhere in the world 24 hours a day, seven days a week, bypassing limited local offerings and realizing significant price savings. They can also engage in "showrooming": comparing products in stores but buying online. Because consumers and other constituents can fact track down virtually any kind of company information, firms now realize that transparency in corporate words and actions is of paramount importance.

- **Consumers can use mobile connectivity to search, communicate, and purchase on the go.** Consumers increasingly integrate smart phones and tablets into their daily lives. Smart device owners use their mobile phones and tablets to research products, shop for everything from groceries to gifts, contribute to social causes and disaster relief, explore insurance options, send and receive money via online banking platforms, and conduct virtual consultations between doctors and patients and among health care teams in far-flung locations. There is one cell phone for every two people on the planet—and each day10 times more cell phones are produced globally than babies are born. Telecommunications is one of the world's trillion-dollar industries, along with tourism, military, food, and automobiles.
- **Consumers can tap into social media to share opinions and express loyalty.** Social media is an explosive worldwide phenomenon that has changed the way people conduct their everyday lives. Consumers use social media such as Facebook, Twitter, Snapchat, and LinkedIn to keep in touch with family, friends, and business colleagues; tout products and services; and even engage in politics. Personal connections and user-generated content thrive on social media such as Facebook, Instagram, Wikipedia, and YouTube. Sites like Dogster for dog lovers, TripAdvisor for travelers, and Moterus for bikers bring together consumers with a common interest. At Bimmerfest, Bimmerpost, and BMW Links, auto enthusiasts talk about chrome rims, the latest BMW model, and where to find a great local mechanic.
- **Consumers can actively interact with companies.** Consumers see their favorite companies as workshops from which to draw out the offerings they want. By opting to be put on lists, they can receive marketing and sales-related communications, discounts, coupons, and other special deals. With smart phones, they can scan barcodes and QR codes to access a brand's website and other information. Many companies have developed apps that allow them to interact with customers more effectively.
- **Consumers can reject marketing they find inappropriate or annoying.** Some customers today may see fewer product differences and feel less brand loyalty. Others may become more price- and quality-sensitive in their search for value. Almost two-thirds of consumers in one survey reported that they disliked advertising. For these and other reasons, consumers can be less tolerant of undesired marketing. They can choose to screen out online messages, skip commercials, and avoid marketing appeals through the mail or over the phone.
- **Consumers can extract more value from what they already own.** Consumers share bikes, cars, clothes, couches, apartments, tools, and skills. As one sharing-related entrepreneur noted, "We're moving from a world where we're organized around ownership to one organized around access to assets." In a sharing economy, someone can be both a consumer and a producer, reaping the benefits of both roles.[17]

New Company Capabilities. In addition to enabling consumers, globalization, social responsibility, and technology have also generated a new set of capabilities to help companies create value for their customers, collaborators, and stakeholders. The key company capabilities are as follows:

- **Companies can use the internet as a powerful information and sales channel, including for individually differentiated goods.** A website can list products and services, history, business philosophy, job opportunities, and other information of interest to consumers worldwide. Solo Cup marketers note that linking the company's storefronts to its website and Facebook page makes it easier for consumers to buy Solo paper cups and plates while engaging with the brand online.[18] Thanks to advances in factory customization, computer technology, and database marketing software, companies can allow customers to buy M&M candies bearing their names, Wheaties boxes or Jones soda cans with their pictures on the front, and Heinz ketchup bottles with customized messages.
- **Companies can collect fuller and richer information about markets, customers, prospects, and competitors.** Marketers can conduct fresh marketing research by using the internet to arrange focus groups, send out questionnaires, and gather primary data in several other ways. They can assemble information about individual customer purchases, preferences, demographics, and profitability. Many retailers such as CVS, Target, and Albertsons use loyalty-card data to better understand what consumers purchase, the frequency of store visits, and other buying preferences. Recommendation engines help marketers develop purchase suggestions tailored to a user's past

online behavior. Companies like Netflix, Amazon, Alibaba, and Google have created effective algorithms based on purchase and viewing data, search terms, product feedback, and location to fuel their recommendation engines for individual customers. A large share of Amazon purchases is derived from product recommendations.

- **Companies can reach consumers quickly and efficiently via social media and mobile marketing, sending targeted ads, coupons, and information.** GPS technology can pinpoint consumers' exact location, letting marketers send them messages at the mall with wish-list reminders and coupons or offers good only that day. Location-based advertising is attractive because it reaches consumers closer to the point of sale. Social media and buzz are also powerful. For example, a word-of-mouth marketing agency recruits consumers who voluntarily join promotional programs for products and services they deem worth talking about.
- **Companies can improve purchasing, recruiting, training, and internal and external communications.** Firms can recruit new employees online, and many have internet training products for their employees, dealers, and agents. Blogging has waned as companies embrace social media. "We want to be where our customers are," said Bank of America after dropping its blog in favor of Facebook and Twitter.[19] Farmers Insurance uses specialized software to help its agents nationwide maintain their own Facebook pages. Via intranets and databases, employees can query one another, seek advice, and exchange information. Popular hybrid Twitter- and Facebook-type products designed especially for business employees have been introduced by Salesforce.com, IBM, and numerous start-ups. The Houston Zoo uses the "I want to" button on its intranet to quickly accomplish mundane tasks such as ordering business cards and uniforms or communicating with the IT department, leaving employees more time for animal care. The Team Sites tab on Maxxam Analytics' intranet allows team members in different locations to exchange ideas for improving efficiency and customer service, which serves to advance both team and company goals.
- **Companies can improve their cost efficiency.** Corporate buyers can achieve substantial savings by using the internet to compare sellers' prices and purchase materials at auction or by posting their own terms in reverse auctions. Companies can improve logistics and operations to reap substantial cost savings while improving accuracy and service quality. Small businesses can especially unleash the power of the internet. Physicians maintaining a small practice can use Facebook-like services such as Doximity to connect with referring physicians and specialists.

New Competitive Environment. The new market forces have not only changed consumer and company capabilities; they have also dramatically changed the dynamics of the competition and the nature of the competitive landscape. Some of the key changes in the competitive environment are as follows:

- **Deregulation.** Many countries have deregulated industries to create greater competition and growth opportunities. In the United States, laws restricting financial services, telecommunications, and electric utilities have all been loosened in the spirit of greater competition.
- **Privatization.** Many countries have converted public companies to private ownership and management to increase their efficiency. The telecommunications industry has seen much privatization in countries such as Australia, France, Germany, Italy, Turkey, and Japan.
- **Retail transformation.** Store-based retailers face competition from catalog houses; direct-mail firms; newspaper, magazine, and TV direct-to-customer ads; home-shopping TV networks; and e-commerce. In response, customer-centric companies such as Amazon, Best Buy, and Target are building entertainment into their stores with coffee bars, demonstrations, and performances—marketing an "experience" rather than a product assortment.
- **Disintermediation.** Early dot-coms such as Amazon.com and E*TRADE successfully created *disintermediation* in the delivery of products and services by intervening in the traditional flow of goods. In response, traditional companies engaged in *reintermediation* and became "brick-and-click" retailers, adding online services to their offerings. Some with plentiful resources and established brand names became stronger contenders than pure-click firms.
- **Private labels.** Brand manufacturers are further buffeted by powerful retailers that market their own store brands, increasingly indistinguishable from any other type of brand.
- **Mega-brands.** Many strong brands have become mega-brands and extended into related product categories, including new opportunities at the intersection of two or more industries. Computing, telecommunications, and consumer electronics are converging, with Apple and Samsung releasing a stream of state-of-the-art mobile phones, tablets, and wearable devices.

THE CONCEPT OF HOLISTIC MARKETING

Holistic marketing recognizes and reconciles the scope and complexities of marketing activities and offers an integrated approach to managing strategy and tactics. Figure 1.4 provides a schematic overview of four broad components characterizing holistic marketing: relationship marketing, integrated marketing, internal marketing, and performance marketing. We'll examine these major themes throughout this text.

To succeed, marketing must be more holistic and less departmental. Marketers must achieve wider influence in the company, continuously create new ideas, and strive to gather and use customer insight. They must build their brands more through performance than promotion. They must go electronic and build superior information and communication systems.

The market value concept calls for a holistic approach to marketing that is focused on building relationships, rather than on generating transactions; on integrated marketing that is both automated and creative, rather than on manually managed piecemeal marketing actions; on internal marketing that reflects a strong corporate culture rather than disengaged employees; and on performance-focused marketing that is driven by science rather than intuition.

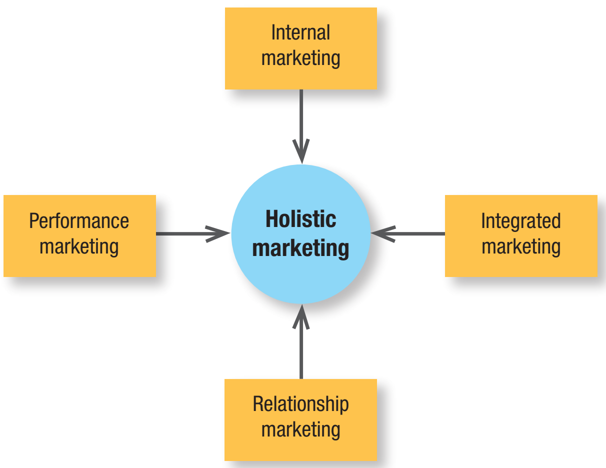
Relationship Marketing. Increasingly, a key goal of marketing is to develop deep, enduring relationships with people and organizations that directly or indirectly affect the success of the firm's marketing activities. **Relationship marketing** aims to build mutually satisfying long-term relationships with key constituents in order to earn and retain their business.

Four key constituents in relationship marketing are customers, employees, marketing partners (channels, suppliers, distributors, dealers, agencies), and members of the financial community (shareholders, investors, analysts). Marketers must create prosperity among all these constituents and balance the returns for all key stakeholders. Forging strong relationships with constituents requires understanding their capabilities and their resources, needs, goals, and desires.

The ultimate outcome of relationship marketing is a unique company asset called a **marketing network**, which consists of the company and its supporting stakeholders—customers, employees, suppliers, distributors, retailers, and others—with whom it has built mutually profitable business relationships. The operating principle is simple: Build an effective network of relationships with key stakeholders, and profits will follow. Thus, more companies are choosing to own brands rather than physical assets and are subcontracting activities to firms that can do them better and more cheaply, while retaining core activities. Nike is a prime example: The sportswear giant's "Just Do It" marketing activities emanate from its Oregon headquarters, but it outsources all production to overseas locations. China is the largest manufacturer of its footwear and clothing, but other plants are located in Thailand, India, South Korea, and Vietnam.

Companies are also shaping separate offers, services, and messages to *individual customers* based on information about their past transactions, demographics, psychographics, and media and distribution preferences. By focusing on their most profitable customers, products, and channels, these firms hope to achieve profitable growth and capture a larger share of each customer's expenditures by building

FIGURE **1.4**
The Concept of Holistic Marketing



strong customer loyalty. They estimate individual customers' lifetime value and design their market offerings and prices to make a profit over this lifetime.

The Marriott chain provides an excellent example of cultivating customer loyalty. Frequent guests at its hotels and resorts can climb a tiered rewards ladder from the basic Marriott Rewards member rung to accrue an increasing number of perks and bonus points with Lifetime Silver, Lifetime Gold, and three Lifetime Platinum levels. After Lifetime status is achieved, it can never be revoked or expire, ensuring that committed customers receive the benefits of Silver, Gold, or Platinum status with each visit.

Marketing must skillfully manage not only customer relationships but partner relationships as well. Companies are deepening their partnering arrangements with key suppliers and distributors, regarding them as allies in delivering value to end customers so that everybody benefits. IBM has learned the value of strong customer bonds.

IBM Established over a century ago, in 1911, IBM is a remarkable survivor that has maintained market position for decades in the challenging technology industry. The company has managed to evolve and seamlessly update the focus of its products and services numerous times in its history—from mainframes to PCs to its current emphasis on cloud computing, "Big Data," and IT services. Part of the reason is that IBM's sales force and service organization offer real value to customers by staying close to them in order to understand their requirements. IBM often even co-creates products with customers—for example, working with the state of New York to develop a method for detecting tax evasion that reportedly saved taxpayers more than $1.5 billion over a seven-year period. As famed Harvard Business School professor Rosabeth Moss Kanter has noted, "IBM is not a technology company but a company solving problems using technology."[20]

Integrated Marketing. **Integrated marketing** coordinates all marketing activities and marketing programs and directs them toward creating, communicating, and delivering consistent value and a consistent message for consumers, such that "the whole is greater than the sum of its parts." This requires that marketers design and implement each marketing activity with all other activities in mind. When a hospital buys an MRI machine from General Electric's Medical Systems division, for instance, it expects good installation, maintenance, and training services to go with the purchase.

An integrated channel strategy should assess each channel option for its direct effect on product sales and brand equity, as well as its indirect effect on interactions with other channel options. All company communications also must be integrated to reinforce and complement one another. A marketer

Source: dpa picture alliance/Alamy Stock Photo

<< IBM has managed to rise to the challenges in the technology field by pivoting its strategic focus to address the needs of the changing environment and by carefully listening to and working closely with its customers.

might selectively employ television, radio, and print advertising, public relations events, and PR and website communications so that each contributes on its own and improves the effectiveness of the others. Each must also deliver a consistent brand message at every contact. Consider this award-winning campaign for Iceland.

Iceland Already reeling from some of the biggest losses in the global financial crisis of 2008, Iceland faced more misfortune when dormant volcano Eyjafjallajökull unexpectedly erupted in April 2010. Its enormous plumes of ash created the largest air-travel disruption since World War II, resulting in a wave of negative press and bad feelings throughout Europe and elsewhere. With tourism generating around 20 percent of the country's foreign exchange, and with bookings plummeting, government and tourism officials decided to launch "Inspired by Iceland." This campaign was based on the insight that 80 percent of visitors to Iceland recommend the destination to friends and family. The country's own citizens were recruited to tell their stories and encourage others to join in via a website or Twitter, Facebook, and Vimeo. Celebrities such as Yoko Ono and Eric Clapton shared their experiences, and live concerts generated positive PR. Real-time Webcams across the country showed that it was not ash-covered but green. The campaign was wildly successful—over 22 million stories were created by people all over the world—and ensuing bookings were dramatically above forecasts.[21]

Increasingly, marketing is *not* relegated only to the marketing department; every employee has an impact on the customer. Marketers now must properly manage all possible touch points: store layouts, package designs, product functions, employee training, and shipping and logistics. Creating a strong marketing organization means that marketers must think like executives in other departments, and executives in other departments must think more like marketers. Interdepartmental teamwork that includes marketers is necessary to manage key processes like production innovation, new-business development, customer acquisition and retention, and order fulfillment.

Internal Marketing. **Internal marketing**, an element of holistic marketing, is the task of hiring, training, and motivating able employees who want to serve customers well. Smart marketers recognize that marketing activities within the company can be as important as—or even more important than—those directed outside the company. It makes no sense to promise excellent service unless the company's staff is ready to provide it.

>> The "Inspired by Iceland" campaign harnessed the social media power of citizens, visitors, and celebrities to overcome the negative publicity caused by a volcanic eruption that decimated both air travel and Iceland's image.

Source: travellinglight/Alamy Stock Photo

Marketing succeeds only when all departments work together to achieve customer goals: when engineering designs the right products, finance furnishes the right amount of funding, purchasing buys the right materials, production makes the right products in the right time horizon, and accounting measures profitability in the right ways. Such interdepartmental harmony can truly coalesce, however, only when senior management clearly communicates a vision of how the company's marketing orientation and philosophy serve customers. The following hypothetical example highlights some of the potential challenges in integrating marketing.

The marketing vice president of a major European airline wants to increase the airline's traffic share. Her strategy is to build customer satisfaction by providing better food, cleaner cabins, better-trained cabin crews, and lower fares, yet she has no authority in these matters. The catering department chooses food that keeps food costs down; the maintenance department uses inexpensive cleaning services; the human resources department hires people without regard to whether they are naturally friendly and service oriented; the finance department sets the fares. Because these departments generally take a cost or production point of view, the vice president of marketing is stymied in his efforts to create an integrated marketing program.

Internal marketing requires vertical alignment with senior management and horizontal alignment with other departments so everyone understands, appreciates, and supports the marketing effort. For example, the frustrated airline marketing VP might first enlist the help of senior management and department heads by illustrating how mounting a coordinated company effort to enhance the company's image will make a difference in its bottom line. This might be accomplished by making data on competitors available, as well as by compiling customer reviews of their experiences with the airline.

Management's engagement will be central in this integrated marketing effort, which must involve and motivate all employees—from reservations clerks and maintenance workers to catering department employees and cabin crews—by engaging them in a team effort to reinvigorate the airline's mission to provide excellent service. In addition to ongoing employee training that emphasizes customer service, regular internal communications to keep everyone abreast of the company's actions and single out employees who provide outstanding ideas or service can be part of the effort to get the entire company involved.

Performance Marketing. **Performance marketing** requires understanding the financial and nonfinancial returns to business and society from marketing activities and programs. As noted previously, top marketers increasingly go beyond sales revenue to examine the marketing scorecard and interpret what is happening with market share, customer loss rate, customer satisfaction, product quality, and other measures. They are also considering the legal, ethical, social, and environmental effects of marketing activities and programs.

When they founded Ben & Jerry's, Ben Cohen and Jerry Greenfield embraced the performance marketing concept by dividing the traditional financial bottom line into a "double bottom line" that also measured the environmental impact of their products and processes. That later expanded into a "triple bottom line" to represent the social impact, negative and positive, of the firm's entire range of business activities.

> **Patagonia** As one of a small number of benefit (B) corporations in the United States that must each year explain how their mission is benefiting both stakeholders and society, Patagonia aims to combine environmental consciousness with maximizing shareholder returns. True to its mission and corporate culture, Patagonia not only helped develop a natural rubber material for its wetsuits (to replace petroleum-based neoprene) but also encouraged other companies to use this bio-rubber product for wetsuits and other products such as yoga mats and sneakers.[22] The company seems to have found a winning combination. According to climber, surfer, self-taught blacksmith, and Patagonia founder Yvon Chouinard, every decision he's made that was right for the environment has in the long run made the company money.

Many firms have failed to live up to their legal and ethical responsibilities, and consumers are demanding more responsible behavior.[23] One research study reported that at least one-third of consumers around the world believe that banks, insurance providers, and packaged-food companies should be subject to stricter regulation.[24] Given the new marketing realities, organizations are challenging their marketers to find the best balance of old and new and to provide demonstrable evidence of success.

>> From its inception, Patagonia has striven to successfully balance an acute societal commitment to preserve the environment with its goal of ensuring ongoing benefits for company shareholders.

Source: Sundry Photography/Alamy Stock Photo

Marketers are increasingly asked to justify their investments in financial and profitability terms, as well as in terms of building the brand and growing the customer base.[25] Organizations recognize that much of their market value comes from intangible assets, especially brands, the customer base, employees, distributor and supplier relations, and intellectual capital. They are thus applying more metrics—brand equity, customer lifetime value, return on marketing investment—to understand and measure their marketing and business performance and are employing a broader variety of financial measures to assess the direct and indirect value their marketing efforts create.[26]

The Role of Marketing in the Organization

A key task for any business is defining the role that marketing will play in the organization. A company must decide what overarching philosophy will guide a company's marketing efforts, determine how to organize and manage the marketing department, and, ultimately, find the best means to build a customer-centric organization that can deliver value to company stakeholders.[27]

What philosophy should guide a company's marketing efforts? Let's first review the evolution of marketing philosophies.

- The **production concept** is one of the oldest concepts in business. It holds that consumers prefer products that are widely available and inexpensive. Managers of production-oriented businesses concentrate on achieving high production efficiency, low costs, and mass distribution. This orientation has made sense in developing countries such as China, where the largest PC manufacturer, Legend (principal owner of Lenovo Group), and domestic appliances giant Haier have taken advantage of the country's huge and inexpensive labor pool to dominate the market. Marketers also use the production concept when they want to expand the market.
- The **product concept** proposes that consumers favor products offering the highest quality, the best performance, or innovative features. However, managers are sometimes caught in a love affair with their products. They might succumb to the "better-mousetrap" fallacy, believing a better product will by itself lead people to beat a path to their door. As many start-ups have learned the hard way, a new or improved product will not necessarily be successful unless it is priced, distributed, advertised, and sold properly.
- The **selling concept** holds that consumers and businesses, if left alone, won't buy enough of the organization's products. It is practiced most aggressively with unsought goods—goods buyers don't normally think of buying, such as insurance and cemetery plots—and when firms with overcapacity aim to sell what they make rather than make what the market wants. Marketing based

TABLE 1.1 Product-Oriented versus Market-Value-Oriented Definitions of a Business

Company	Product Definition	Market-Value Definition
Union Pacific Railroad	We run a railroad.	We move people and goods.
Xerox	We make copying equipment.	We help improve office productivity.
Hess Corporation	We sell gasoline.	We supply energy.
Paramount Pictures	We make movies.	We market entertainment.
Encyclopedia Britannica	We sell encyclopedias online.	We distribute information.
Carrier	We make air conditioners and furnaces.	We provide climate control in the home.

on hard selling is risky. It assumes that customers who are coaxed into buying a product not only won't return or bad-mouth it or complain to consumer organizations, but might even buy it again.

- The **marketing concept** emerged in the mid-1950s as a customer-centered, sense-and-respond philosophy. The job of marketing is not to find the right customers for your products but to develop the right products for your customers. Dell doesn't prepare a PC or laptop for its target market. Rather, it provides product platforms on which each person customizes the features she desires in the machine. The marketing concept holds that the key to achieving organizational goals is being more effective than competitors in creating, delivering, and communicating superior customer value to your target markets. Harvard's Theodore Levitt drew a perceptive contrast between the selling and marketing concepts:[28] *Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering, and finally consuming it.*
- The **market-value concept** is based on the development, design, and implementation of marketing programs, processes, and activities that recognize their breadth and interdependencies. The value-based view of marketing acknowledges that everything matters in marketing—and that a broad, integrated perspective is often necessary. Traditionally, marketers played the role of intermediary, charged with understanding customers' needs and transmitting their voice to various functional areas.[29] In contrast, the market-value concept implies that *every* functional area should be actively focused on creating value for customers, the company, and its collaborators.

The market-value concept implies that companies should define their business as a customer-satisfying process rather than in terms of their products or industries. Products are transient; basic needs and customer groups endure forever. Transportation is a need; the horse and carriage, automobile, railroad, airline, ship, and truck are products that meet that need. Viewing businesses in terms of customer needs can suggest additional growth opportunities. Table 1.1 lists companies that have moved from a product definition to a market-value definition of their business.

The market-value view of a company's activities can redefine the market in which a company competes. For example, if Pepsi adopted a product-focused view of its business, it would define its target market as everyone who drinks carbonated soft drinks, and its competitors would therefore be other carbonated soft drink companies. However, if Pepsi adopted a market-value view, it would define its market in much broader terms, targeting everyone who might drink something to quench his or her thirst. Thus, its competition would also include companies that market noncarbonated soft drinks, bottled water, fruit juices, tea, and coffee.

Organizing and Managing the Marketing Department

The structure of the marketing department plays a major role in a company's ability to create market value. Company success is determined not only by the skills of the individual marketers but also, and to a large degree, by the way the marketers are organized to create a high-performing marketing team. In this context, organizing and managing the marketing department are of utmost importance in creating a modern marketing organization.

ORGANIZING THE MARKETING DEPARTMENT

Modern marketing departments can be organized in a number of different, sometimes overlapping ways: functionally, geographically, by product or brand, by market, or in a matrix.

Functional Organization. In the most common form of marketing organization, functional specialists report to a chief marketing officer who coordinates their activities. Figure 1.5 shows seven specialists. Other specialists might include a marketing planning manager, a market logistics manager, a direct marketing manager, a social media manager, and a digital marketing manager.

The main advantage of a functional marketing organization is its administrative simplicity. However, it can be quite a challenge for the departments to develop smooth working relationships, which can result in inadequate planning as the number of products and markets increases and the functional groups vie for budget and status. The marketing vice president constantly weighs competing claims and faces a difficult coordination problem.

Geographic Organization. A company selling in a national market often organizes its sales force (and sometimes its marketing) along geographic lines. The national sales manager may supervise four regional sales managers, who each supervise six zone managers, each of whom supervises eight district sales managers, who supervise 10 salespeople apiece.

Some companies are adding *area market specialists* (regional or local marketing managers) to support sales efforts in high-volume markets. To illustrate, consider how one such market might work in Miami–Dade County, Florida, where almost two-thirds of households are Hispanic and Latinos. The Miami specialist would know Miami's customer and trade makeup, help marketing managers at headquarters adjust their marketing mix for Miami, and prepare local annual and long-range plans for selling all the company's products there. Some companies must develop different marketing programs in different parts of the country, because geography substantially alters their brand development activities.

Product or Brand Organization. Companies producing a variety of products and brands often establish a product- or brand-management organization. This does not replace the functional organization but serves as another layer of management. A group product manager supervises product category managers, who in turn supervise specific product and brand managers.

A product-management organization makes sense if the company's products are quite different or if there are more products than a functional organization can handle. This form is sometimes characterized as a hub-and-spoke system. The brand or product manager is figuratively at the center, with spokes leading to various departments representing working relationships (see Figure 1.6).

A manager's functions involve developing a long-range and competitive strategy for the offering; preparing an annual marketing plan and sales forecast; working with advertising, digital, and merchandising agencies to develop copy, programs, and campaigns; managing support of the product among the sales force and distributors; gathering continuous intelligence about the product's performance, customer and dealer attitudes, and new problems and opportunities; and initiating product improvements to meet changing market needs.

The product-management organization lets the product manager concentrate on developing a cost-effective marketing program and react more quickly to new products in the marketplace; it also

FIGURE **1.5**
Functional Organization

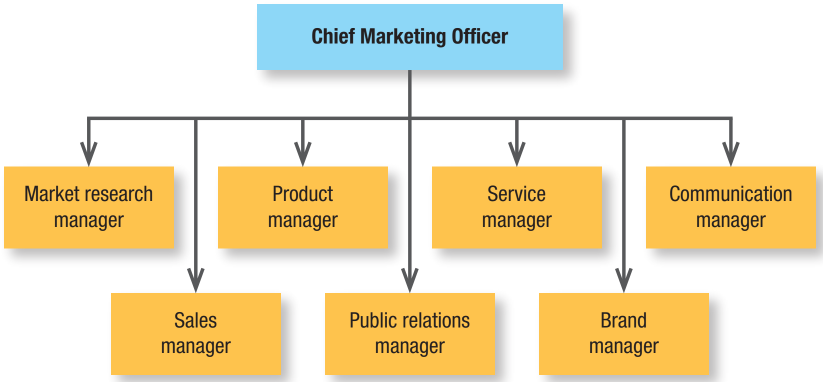


FIGURE **1.6**

The Product Manager's Interactions

gives the company's smaller brands a product advocate. But it has disadvantages, too. Product and brand managers may lack authority to carry out their responsibilities. They often become experts in their product area but rarely achieve functional expertise. Another challenge is that brand managers normally manage a brand for only a short time. Short-term involvement leads to short-term planning and fails to build long-term strengths. The fragmentation of markets makes it harder to develop a national strategy. Brand managers must please regional and local sales groups, transferring power from marketing to sales. Another important consideration is that product and brand managers focus the company on building market share rather than customer relationships.

The product-management organization can be structured around the company's products or, alternatively, a company can focus on product categories to manage its brands. Procter & Gamble, a pioneer of the brand-management system, and other top packaged-goods firms have made a major shift to category management, as have firms outside the grocery channel. Diageo's shift to category management was seen as a means to better manage the development of premium brands. It also helped the firm address the plight of under-performing brands.

Procter & Gamble cited a number of advantages of its shift to category management. The traditional brand-management system had created strong incentives to excel but also internal competition for resources and a lack of coordination. The new scheme was designed to ensure adequate resources for all categories. Another rationale for category management is the increasing power of the retail trade, which has thought of profitability in terms of product categories. P&G felt it only made sense to deal along similar lines. Mass market retailers and regional grocery chains such as Walmart and Wegmans embrace category management as a means to define a particular product category's strategic role within the store and to address logistics, the role of private-label products, and the trade-offs between product variety and inefficient duplication.[30] In fact, in some packaged-goods firms, category management has evolved into aisle management and encompasses multiple related categories typically found in the same sections of supermarkets and grocery stores. General Mills' Yoplait Yogurt has served as category advisor to the dairy aisle for 24 major retailers, boosting the yogurt base footprint four to eight feet at a time and increasing yogurt sales by 9 percent and dairy category sales by 13 percent nationwide.[31]

Market Organization. Companies often develop diverse products and services to target distinct target markets. For example, Canon sells printers to consumer, business, and government markets. Nippon Steel sells to the railroad, construction, and public utility industries. When customers fall into different user groups with distinct buying preferences and practices, a market-management organization is desirable. Market managers supervise several market-development managers, market specialists, or industry specialists and draw on functional services as needed. Market managers of important markets might even have functional specialists reporting to them.

Market managers are staff (not line) people, with duties like those of product managers. They develop long-range and annual plans for their markets and are judged by their market's growth and profitability. Because this system organizes marketing activity to meet the needs of distinct customer groups, it shares many of the advantages and disadvantages of product-management systems. Many companies are reorganizing along market lines and becoming market-centered organizations. Xerox converted from geographic selling to selling by industry, as did IBM and Hewlett-Packard.

When a close relationship is advantageous, such as when customers have diverse and complex requirements and buy an integrated bundle of products and services, a customer-management organization that deals with individual customers, rather than with the mass market or even market segments, should prevail.[32] One study showed that companies organized by customer groups reported much higher accountability for the overall quality of relationships and greater employee freedom to take actions to satisfy individual customers.[33]

Matrix Organization. Companies that produce many products for many markets may adopt a matrix structure employing both product and market managers. The rub is that this choice is costly and often creates conflicts. There's the cost of supporting all the managers and the issue of resolving questions about where authority and responsibility for marketing activities should reside—at headquarters or in the division.[34] Some corporate marketing groups assist top management with overall opportunity evaluation, provide divisions with consulting assistance on request, help divisions that have little or no marketing, and promote the marketing concept throughout the company.

Many companies have reengineered their work flows and have built cross-functional teams that are responsible for each process.[35] AT&T, LexisNexis, and Pratt & Whitney have reorganized their employees into cross-functional teams. Cross-functional teams operate in nonprofit and government organizations as well.[36]

One of the key disadvantages of the matrix structure is the potential lack of clear focus and accountability.

MANAGING THE MARKETING DEPARTMENT

As David Packard of Hewlett-Packard observed, "Marketing is far too important to leave to the marketing department . . . . In a truly great marketing organization, you can't tell who's in the marketing department. Everyone in the organization has to make decisions based on the impact on the customer." Although marketing activities should not be relegated to a single department, many enterprises can benefit from having an organizational unit that is in charge of all company marketing activities and manages day-to-day operations.

The Role of the CEO and CMO. Only a select group of companies have historically stood out as master marketers. These companies focus on the customer and are organized to respond effectively to changing needs. They all have well-staffed marketing departments, and their other departments accept that the customer is king. They also often have strong marketing leadership in the form of a successful CEO and CMO.

CEOs recognize that marketing builds strong brands and a loyal customer base, intangible assets that contribute heavily to the value of a firm. Many firms, including service and nonprofit firms, now have a chief marketing officer to put marketing on a more equal footing with other C-level executives such as the chief financial officer and the chief information officer.[37]

What steps can a CEO take to create a market- and customer-focused company? To create a true marketing organization, the CEO must convince senior management of the importance of being customer focused. It is also important that the CEO be able to hire strong marketing talent. Most companies need a skilled chief marketing officer who not only manages the marketing department but also has the respect of, and influence with, the other C-level executives.

Given the rapidly evolving nature of today's markets, the CEO must facilitate the creation of strong in-house marketing training programs to sharpen the company's marketing skills. Many companies, such as McDonald's, Unilever, and Accenture, have centralized training facilities to run such programs. The CEO should also ensure that the company's reward system is aligned with its strategic goal of creating market value by developing a satisfied, loyal customer base. The CEO should personally exemplify strong customer commitment and reward those in the organization who do likewise.[38]

A major responsibility of the CEO is to appoint a chief marketing officer who is ultimately responsible for marketing activities in the organization. The CMO is a member of the C-suite and typically reports to the CEO. The senior marketing managers responsible for various parts of the marketing strategy typically report to the CMO. The CMO leads all marketing functions in the organization, including product development, brand management, communication, market research and data analytics, sales, promotion, distribution management, pricing, and customer service.

In the 21st century, the advancement of digital, online, and mobile marketing has changed the role of the CMO. To effectively manage the marketing functions of the organization, the CMO must also be able to handle digital technologies. The challenge CMOs face is that success factors are many and varied. CMOs must have strong quantitative *and* qualitative skills; they must have an independent, entrepreneurial attitude but work closely with other departments; and they must capture the "voice" of consumers yet have a keen bottom-line understanding of how marketing creates value. Two-thirds of top CMOs think return on marketing investment will be the primary measure of their effectiveness in the next decade.

Marketing experts George Day and Robert Malcolm believe that three driving forces will change the role of the CMO in the coming years: (1) predictable marketplace trends, (2) the changing role of the C-suite, and (3) uncertainty about the economy and organizational design. They identify five priorities for any successful CMO: act as the visionary for the future of the company, build adaptive marketing capabilities, win the war for marketing talent, tighten the alignment with sales, and take accountability for returns on marketing spending.[39]

Perhaps the most important role for any CMO is to infuse a customer perspective in business decisions affecting any customer *touch point* (where a customer directly or indirectly interacts with the company). Increasingly, these customer insights must have a global focus. As the leader of one top executive search firm has said, "Tomorrow's CMO will have to have global and international experience. You can do it without living abroad, ... but you have to get exposure to those markets. It opens your eyes to new ways of doing business, increases cultural sensitivity and increases flexibility."[40]

Relationships with Other Departments. The firm's success depends not only on how well each department performs its work, but also on how well the company coordinates departmental activities to conduct core business processes. Under the marketing concept, all departments need to "think customer" and work together to satisfy customer needs and expectations. Yet departments define company problems and goals from their own viewpoints, so conflicts of interest and communication problems are unavoidable. The marketing vice president or the CMO must usually work through persuasion, rather than through authority, to coordinate the company's internal marketing activities and coordinate marketing with finance, operations, and other company functions to serve the customer.[41]

Many companies now focus on key processes rather than on departments because departmental organization can be a barrier to smooth performance. They appoint process leaders who manage cross-disciplinary teams that include marketing and salespeople. Marketers thus may have a solid-line responsibility to their teams and a dotted-line responsibility to the marketing department.[42]

Given the goal of providing positive customer experiences from start to finish, all areas of the organization need to work effectively together. In particular, because of the growing importance of understanding the needs of individual customers, marketers must work closely with the customer insights and data analytics teams. Furthermore, to be able to reach consumers in an effective and cost-efficient manner, marketers must work closely with different communication agencies—from traditional advertising agencies to social media, publicity, and event-management companies. Finally, to be able to deliver the company's offerings to the right place at the right time, marketers must work closely with a company's channel partners, both in the brick-and-mortar space and in the e-commerce space.

Building a Customer-Oriented Organization

Creating a superior customer experience has become a priority for companies in nearly every industry.[43] The proliferation of products, services, and brands; increased consumer knowledge about market offerings; and consumers' ability to influence public opinion about companies and their offerings—all have underscored the importance of building a customer-oriented organization. Most companies now realize that the path to creating stakeholder value begins with re-envisioning the organization as focused on creating long-term customer value.[44] In his letter to shareholders, Jeff Bezos defines Amazon's customer-centricity as follows.

> One advantage—perhaps a somewhat subtle one—of a customer-driven focus is that it aids a certain type of proactivity. When we're at our best, we don't wait for external pressures. We are internally driven to improve our services, adding benefits and features, before we have to. We lower prices and increase value for customers before we have to. We invent before we have to. These investments are motivated by customer focus rather than by reaction to competition. We think this approach earns more trust with customers and drives rapid improvements in customer experience—importantly—even in those areas where we are already the leader.

Managers who believe the customer is the company's only true "profit center" consider the traditional organization chart in Figure 1.7(a)—a pyramid with the president at the top, management in the middle, and frontline people and customers at the bottom—to be obsolete.[45]

Successful marketing companies transform the traditional organization-hierarchy chart to look like the chart in Figure 1.7(b). A company's top priority are customers; next in importance are the frontline people who meet, serve, and satisfy these customers; then come service managers, whose job is to support the frontline people so they can serve customers well; and finally, there is the top management, whose job is to hire and support good service managers. The key to developing a customer-oriented company is that managers at every level must be personally engaged in understanding, meeting, and serving customers. Table 1.2 lists the main characteristics of a customer-centric organization.

Some companies have been founded on a customer-focused business model, and customer advocacy has been their strategy—and competitive advantage—all along. With the rise of digital technologies, increasingly informed consumers expect companies to do more than connect with, satisfy, and even delight them. They expect companies to *listen* and *respond* to them.

Traditionally, marketers played the role of intermediary, charged with understanding customers' needs and transmitting their voice to various functional areas of the company.[46] But in a networked enterprise, *every* functional area can interact directly with customers. Marketing no longer has sole ownership of customer interactions; it now must integrate all customer-involving processes so that customers see a single face and hear a single voice when they interact with the firm.[47]

Many companies realize they're not yet really market and customer driven; rather, they are product and sales driven. Transforming into a true market-driven company requires (among other actions) developing a company-wide passion for customers, organizing around customer segments instead of products, and understanding customers through qualitative and quantitative research.[48]

Although it's *necessary* to be customer oriented, it's not *enough*. The organization must also be creative.[49] Companies today copy one another's advantages and strategies with increasing speed, making differentiation harder to achieve and lowering margins as firms become more alike. The best answer to this dilemma is to build capability in strategic innovation and imagination. This capability comes from assembling tools, processes, skills, and measures that let the firm generate more and better new ideas than its competitors.[50] To encourage such capability, companies should strive to put together inspiring work spaces that help stimulate new ideas and foster imagination.

FIGURE 1.7
Traditional Organization versus Modern Customer-Oriented Company Organization

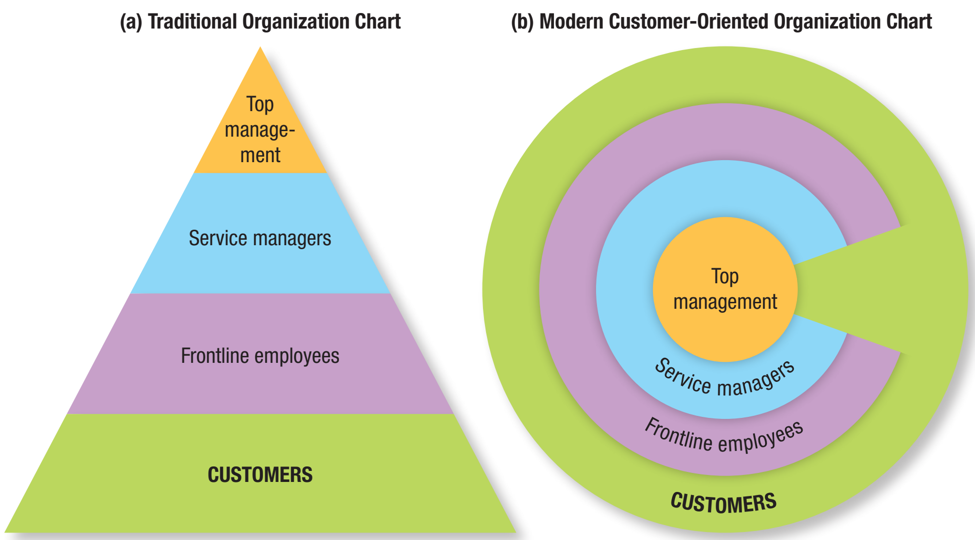


TABLE 1.2 Characteristics of a Customer-Centric Organization

Low Customer-Centricity	High Customer-Centricity
Product driven	Market driven
Mass market focused	Customer focused
Process oriented	Outcome oriented
Reacting to competitors	Making competitors irrelevant
Price driven	Value driven
Hierarchical organization	Teamwork

Companies must be alert to trends and stand ready to capitalize on them. Nestlé was late seeing the trend toward coffeehouses, which paved the way for chains such as Starbucks. Coca-Cola was slow to pick up on beverage trends toward fruit-flavored drinks such as Snapple, energy drinks such as Gatorade, and designer water brands. Market leaders can miss trends when they are risk averse, obsessed about protecting their existing markets and physical resources, and more interested in efficiency and profit than innovation.[51]

marketing INSIGHT — The 10 Deadly Marketing Sins

Focused on their day-to-day activities, many marketers ignore the big picture: designing, communicating, and delivering offerings that create superior market value for their customers, collaborators, and stakeholders. Exhibiting a number of "deadly sins" signals that the marketing program is in trouble. Here are 10 deadly sins, the telltale signs, and some solutions.

Deadly Sin #1: The company is not sufficiently market focused and customer driven.

Signs: There is evidence of poor identification and poor prioritization of market segments. There are no market segment managers, no employees who think it is the job of marketing and sales to serve customers, no training program to create a customer culture, and no incentives to treat the customer especially well.

Solutions: Use more advanced segmentation techniques, prioritize segments, specialize the sales force to serve each market segment, develop a clear statement of company values, foster more "customer consciousness" in employees and company agents, make it easy for customers to reach the company, and respond quickly to any customer communication.

Deadly Sin #2: The company does not fully understand its target customers.

Signs: The latest study of customers is three years old, customers are not buying your product like they once did, competitors' products are selling better, and there is a high level of customer returns and complaints.

Solutions: Conduct more sophisticated consumer research, use more analytical techniques, establish customer and dealer panels, use customer relationship software, and engage in data mining.

Deadly Sin #3: The company needs to better define and monitor its competitors.

Signs: The company focuses on near competitors, misses distant competitors and disruptive technologies, and has no system for gathering and distributing competitive intelligence.

Solutions: Establish an office to collect competitive intelligence, hire competitors' employees, watch for technology that might affect the company, and prepare offerings like those of competitors.

Deadly Sin #4: The company does not properly manage relationships with stakeholders.

Signs: Employees, dealers, and investors are not happy, and good suppliers are reluctant to partner with the company.

Solutions: Move from zero-sum thinking to positive-sum thinking, and do a better job of managing employees, supplier relations, distributors, dealers, and investors.

Deadly Sin #5: The company is not good at finding new opportunities.

Signs: The company has not identified any exciting new opportunities for years, and the new ideas the company has launched have largely failed.

(*continued*)

marketing insight *(continued)*

Solutions: Set up a system for stimulating the flow of new ideas.

Deadly Sin #6: The company's marketing planning process is deficient.

Signs: The marketing plan format does not have the right components, there is no way to estimate the financial implications of different strategies, and there is no contingency planning.

Solutions: Establish a standard format including situational analysis, SWOT, major issues, objectives, strategy, tactics, budgets, and controls; ask marketers what changes they would make if they were given 20 percent more or less budget; and run an annual marketing awards program with prizes for best plans and performance.

Deadly Sin #7: Product and service policies need tightening.

Signs: There are too many products, and many are losing money, the company is giving away too many services, and the company is poor at cross-selling products and services.

Solutions: Establish a system to track weak products and fix or drop them, offer and price services at different levels, and improve processes for cross-selling and up-selling.

Deadly Sin #8: The company's brand-building and communication skills are weak.

Signs: The target market does not know much about the company, the brand is not seen as distinctive, the company allocates its budget to the same marketing tools in much the same proportion each year, and there is little evaluation of the ROI impact of marketing communications and activities.

Solutions: Improve brand-building strategies and measurement of results, shift money into effective marketing instruments, and require marketers to estimate the ROI impact in advance of funding requests.

Deadly Sin #9: The company is not organized for effective and efficient marketing.

Signs: Staff lacks 21st-century marketing skills, and there are bad vibes between marketing/sales and other departments.

Solutions: Appoint a strong leader to build new skills in the marketing department, and improve relationships between marketing and other departments.

Deadly Sin #10: The company has not made maximum use of technology.

Signs: There is evidence of minimal use of the internet, the sales automation system is outdated, and there are no market automation, no decision-support models, and no marketing dashboards.

Solutions: Use the internet more, improve the sales automation system, apply market automation to routine decisions, and develop formal marketing decision models and marketing dashboards.[52]

summary

1. Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the company, its customers, and its collaborators. Marketing management is the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value.
2. Companies aim to create value by marketing goods, services, events, experiences, persons, places, properties, organizations, information, and ideas. They also operate in five basic markets: resource markets, manufacturer markets, consumer markets, intermediary markets, and government markets.
3. Today's marketplace is fundamentally different as a result of major market forces. In particular, technology, globalization, and social responsibility have created new opportunities and challenges and have significantly changed marketing management. Companies seek the right balance of tried-and-true methods and breakthrough new approaches to achieve marketing excellence.
4. Four major market forces—technology, globalization, the physical environment, and social responsibility—have forged new consumer and company capabilities and have dramatically altered the competitive landscape. These changes require companies to re-evaluate their current business models and adapt the way they create market value to the new environment.
5. The holistic marketing concept is based on the development, design, and implementation of marketing programs, processes, and activities that are based on breadth and interdependencies. Holistic marketing recognizes that everything matters in marketing and that a broad, integrated perspective is often necessary. Four components of holistic marketing are relationship marketing, integrated marketing, internal marketing, and performance marketing.

6. There are five competing concepts under which organizations can choose to conduct their business: the production concept, the product concept, the selling concept, the marketing concept, and the market-value concept. The more sophisticated a company's understanding of the market, the more likely that it will adopt the market-value concept as an overarching philosophy of doing business.
7. Companies use different approaches to organize the marketing department: functional, geographic, product/brand, market, and a matrix structure. The choice of a particular approach depends on the market in which a company operates, its organizational structure, and its strategic goals.
8. Marketing is not conducted by the marketing department alone. To create a strong marketing organization, marketers must think like executives in other departments, and executives in other departments must think more like marketers.
9. A customer-centric company must be market driven rather than product driven, it must aim to cater to individual customer needs rather than mass market needs, and it must strive to make the competition irrelevant rather than merely reacting to competitors' actions. To succeed, a company should focus on delivering superior value to target customers in a way that benefits the company and its collaborators.

marketing SPOTLIGHT

Source: Wisanu Boonrawd/ Alamy Stock Photo

Nike

When Phil Knight, a former college track athlete, and his former coach, Bill Bowerman, started a shoe company in 1962, they couldn't have known that they would ultimately create one of the world's most valuable brands. Originally known as Blue Ribbon Sports, the company started out as a distributor for the Japanese shoe maker that today is known as Asics. It wasn't until 1971 that Blue Ribbon changed its name to Nike, after the Greek goddess of victory, and started designing its own shoes.

Nike focused on providing affordable, high-quality running shoes designed for athletes by athletes. To keep the cost of the shoes competitive, the company outsourced its production to lower-cost manufacturers in Asia. Through this combination of innovative design, a commitment to serious athletes, and competitive prices, Nike built a cult following among U.S. consumers.

Although Nike had a great product on its hands, the company knew that deft management was vital to the growth of the brand. Central to the company's branding was its belief in a "pyramid of influence," with the preferences of a small group of top athletes influencing the product and brand choices of consumers. Following through with the theme of victory embedded in its name, Nike in 1972 signed Olympic track star Steve Prefontaine as its first spokesperson—the beginning of a long line of accomplished athletes who have touted the company's products.

One of Nike's greatest successes with this approach came in 1985 with the signing of rookie basketball player Michael Jordan as a spokesperson. Jordan was still an up-and-comer, but he personified superior performance. Thanks to Jordan's meteoric rise over the next few years, Nike's bet paid off as consumers clamored for the Air Jordan line of basketball shoes with the distinctive Nike swoosh. As one reporter stated, "Few marketers have so reliably been able to identify and sign athletes who transcend their sports to such great effect."

In addition to associating itself with the best athletes, Nike also showed a talent for creating iconic advertising campaigns. In 1988, Nike aired the first ads in its influential "Just Do It" ad campaign, which subtly challenged a generation of athletic enthusiasts to chase their goals. The slogan was a natural offshoot of Nike's attitude of self-empowerment through sports.

While expanding overseas, Nike adapted its marketing to face new challenges. The company quickly learned that its U.S.-style ads were too aggressive for consumers in Europe, Asia, and South America and adjusted its tone. Furthermore, it needed to tailor its marketing for different countries so consumers would feel that the brand was authentic. To this end, Nike focused on promoting soccer (called football outside the United States), becoming an active supporter of youth leagues, local clubs, and national teams around the world. It also searched for opportunities to sponsor soccer teams and leagues in an attempt to replicate the company's earlier success with U.S. sponsorships.

In the late 1990s, Nike moved into soccer in a big way. It secured marketing rights for several major soccer federations, including those in powerhouse countries like Brazil and Italy. It also started pouring money into marketing campaigns focused on the World Cup. Nike's heavy investment in soccer helped propel the brand's growth internationally as its image morphed from that of a sneaker company into a brand that represented emotion, allegiance, and identification. In 2003, overseas revenues surpassed U.S. revenues for the first time, and in 2007 Nike acquired Umbro, a British maker of soccer-related footwear, apparel, and equipment. The acquisition made Nike the sole supplier to more than 100 professional

(continued)

soccer teams around the world and boosted Nike's international presence and authenticity in soccer.

As Nike's global brand continued to grow, its managers realized that, across countries, players and fans of a given sport have a lot in common. Thus, the company began to focus its marketing efforts more on categories than on geographic location. With this principle in mind, Nike has successfully expanded its brand into many sports and athletic categories and increased its presence across the globe.

Nike continues to partner with high-profile and influential athletes, coaches, teams, and leagues to build credibility with consumers as it expands into more categories. It has sponsored tennis stars like Maria Sharapova, Roger Federer, and Rafael Nadal to push its line of tennis clothing and gear. In golf, Nike's swoosh gained prominence when Tiger Woods won tournament after tournament while wearing the company's products. In the years since Nike first partnered with Woods, Nike Golf has grown into a multi-million-dollar business and changed the way golfers dress. Of course, Nike hasn't forgotten its roots. To promote its line of basketball shoes and apparel, Nike has partnered with generations of basketball superstars like Kobe Bryant and LeBron James. Today, Nike is the biggest sponsor of athletes in the world, spending hundreds of millions of dollars a year on athletic endorsements.

While Nike's athletic endorsements help attract and inspire consumers, its recent innovations in technology have resulted in more loyal and emotionally connected customers. Delving into wearable technology, Nike has developed a running application and community called NIKE+ that allows runners to engage in the ultimate running experience. By linking a Nike+ kit to a smartphone app, runners can view their real-time pace, distance, route, and coaching tips, which they can then share online. Nike has expanded NIKE+ to areas like basketball and general exercise tracking. It has also co-branded with Apple to create the Apple Watch Nike+ edition, which gives users access to special watch faces and bands unavailable to other Apple Watch purchasers.

In addition to its foray into technology, Nike, like many companies, is trying to make its company and products more eco-friendly. Unlike many companies, though, it does not promote these efforts. As one brand consultant explained, "Nike has always been about winning. How is sustainability relevant to its brand?" Nike executives agree that promoting an eco-friendly message would distract from its slick high-tech image, so efforts such as recycling old shoes are kept quiet.

Thanks to its successful expansion across product categories and geographic markets, Nike is the top athletic apparel and footwear manufacturer in the world. Swooshes abound on everything from wristwatches to skateboards to swimming caps. Looking to the future, Nike sees some challenges ahead. Nike has traditionally thrived in brick-and-mortar retail channels, but increasing numbers of consumers are shopping online. Nike is searching for a winning strategy for promoting its brand in a digital age dominated by websites like Amazon. Despite its focus on new forms of promotion and distribution, the firm's long-term strategy remains the same: to produce innovative, high-quality products that help athletes win.[53]

Questions

1. What are the key components of Nike's marketing strategy?
2. What are Nike's strengths and weaknesses?
3. If you were Adidas, how would you compete with Nike?

marketing
SPOTLIGHT

Disney

Source: D. Hurst/Alamy Stock Photo

Few companies have been able to connect with their audience as well as Disney has. Since its founding in 1923, the Disney brand has been synonymous with quality entertainment for the entire family. The company, originally founded by brothers Walt and Roy Disney, stretched the boundaries of entertainment during the 20th century to bring classic and memorable family entertainment around the world. Walt Disney once stated, "I am interested in entertaining people, in bringing pleasure, particularly laughter, to others, rather than being concerned with 'expressing' myself with obscure creative impressions." Beginning with simple black-and-white animated cartoons, the company grew into the worldwide phenomenon that today includes theme parks, feature films, television networks, theatre productions, consumer products, and a growing online presence.

In its first two decades, Walt Disney Productions was a struggling cartoon studio that introduced its most famous character, Mickey Mouse, to the world. Few believed in Disney's vision at the time, but the smashing success of cartoons with sound and the first-ever full-length animated film, *Snow White and the Seven Dwarfs*, in 1937, led to other animated classics throughout the 1940s, 1950s, and 1960s, including *Pinocchio*, *Bambi, Cinderella,* and *Peter Pan*, live action films such as *Mary Poppins* and *The Love Bug,* and television series like *Davy Crockett*.

When Walt Disney died in 1966, he was considered the best-known person in the world. Walt had expanded the Disney brand into film, television, consumer products, and Disneyland in southern California—its first theme park, where families could experience the magic of Disney in real life. After Walt's death, Roy Disney took over as CEO and realized his brother's dream of opening the 24,000-acre Walt Disney World theme park in Florida. Roy died in 1971, but the two brothers left behind a brand that stood for trust, fun, and entertainment and resonated with children, families, and adults, and some of the most moving and iconic characters, stories, and memories of all time.

The Walt Disney Company stumbled for several years without the leadership of its two founding brothers. It wasn't until the late 1980s that the company reconnected with its audience and restored trust and interest in the Disney brand. It all started with the release of *The Little Mermaid*, which turned an old fairy tale into a magical animated Broadway-style movie that won two Oscars. Between the late 1980s and 2000, Disney entered an era known as the Disney Renaissance, as it released ground-breaking animated films such as *Beauty and the Beast* (1991), *Aladdin* (1992), *The Lion King* (1994), *Toy Story* (with Pixar, 1995), and *Mulan* (1998). In addition, the company thought of creative new ways to target its core family-oriented consumers and expand into areas that would reach an older audience. Disney launched the Disney Channel, Touchstone Pictures, and Touchstone Television. The company made its classic films available on *The Disney Sunday Night Movie* and sold them on video at extremely low prices, reaching a whole new generation of children. Disney tapped into publishing, international theme parks, and theatrical productions that helped reach a variety of audiences around the world.

Today, Disney comprises four business units: (1) *Media Networks* encompasses a vast array of broadcast, cable, radio, publishing, and digital businesses across two divisions—the Disney/ABC Television Group and ESPN Inc. (2) *Parks, Experiences and Consumer Products* brings Disney's stories, characters, and franchises to life through parks and resorts, toys, apps, apparel, books, and stores. (3) *Studio Entertainment* brings movies, music, and stage plays to consumers around the world through the company's core business unit, The Walt Disney Studios, along with Marvel Studios, Pixar Animation Studios, and LucasFilm. (4) The *Direct-To-Consumer & International* division includes digital subscription streaming services and international holdings.

Disney's greatest challenge today is keeping its 90-year-old brand relevant and current, while retaining its core audience and staying true to its heritage and fundamental brand values. Disney's CEO Bob Iger explained, "As a brand that people seek out and trust, it opens doors to new platforms and markets, and hence to new consumers. When you deal with a company that has a great legacy, you deal with decisions and conflicts that arise from the clash of heritage versus innovation versus relevance. I'm a big believer in respect for heritage, but I'm also a big believer in the need to innovate and the need to balance that respect for heritage with a need to be relevant."

Internally, Disney has focused on the value-creation dynamic that sets it apart from its competitors. The *Disney Difference,* based on high standards of quality and recognition, stems from one of Walt Disney's most recognizable quotations: "Whatever you do, do it well. Do it so well that when people see you do it they will want to come back and see you do it again and they will want to bring others and show them how well you do what you do."

Disney works hard to connect with its customers on a multitude of levels and through every single detail. For example, when visiting Disney World, employee "cast members" are trained to be "assertively friendly" and greet visitors by waving big Mickey Mouse hands, giving maps to adults and stickers to kids, and cleaning up the park so diligently that it's difficult to find a piece of garbage anywhere. Every little magical detail matters to Disney, right down to the custodial workers who are trained by Disney's animators to take their broom and bucket of water and quietly "paint" a Goofy or Mickey Mouse in water on the pavement. It's a moment of magic for the guests that lasts just a minute before it evaporates in the hot sun.

With so many brands, characters, and businesses, Disney uses technology to ensure that a customer's experience is consistent across every platform. Disney connects with its consumers in innovative ways through e-mail, blogs, and its website to provide insight into movie trailers, television clips, Broadway shows, and virtual theme park experiences. Disney was one of the first companies to begin regular podcasts of its television shows and to release ongoing news about its products and interviews with Disney's employees, staff, and park officials. The My Disney Experience app enables users to order food remotely from fast-food restaurants and pay in advance, allowing consumers to avoid lines when visiting Disney Parks and Resorts.

A key aspect of Disney's business model and culture is adherence to high standards of corporate social responsibility. Disney is committed to always act ethically, create content and products responsibly, maintain respectful workplaces, invest in communities, and be good stewards of the environment. The company's commitment to doing well by doing good has made it one of the world's most admired companies.[54]

Questions

1. How does Disney create value for its customers?
2. What are the core strengths of the Disney brand?
3. What are the risks and benefits of expanding the Disney brand to new products and services?

CHAPTER 2

Marketing Planning and Management

Stressing speed, function, and an easy-to-use interface, the Slack platform lets employees message one another individually or in groups.

Source: imageBROKER/Alamy Stock Photo

Developing the right marketing strategies over time requires a blend of discipline and flexibility. Firms must stick to a strategy but also constantly improve it. In today's fast-changing marketing world, identifying the best long-term strategies is crucial. At the core of any successful marketing strategy is the development of an enduring value proposition that addresses a real customer need. One company that has developed a distinct offering designed to address an unmet customer need is Slack.

>>> Slack, launched in 2013, is a communications platform that lets team members message one another, one-on-one or in groups. Slack has a flexible architecture that offers an unstructured environment—similar to an open-plan office space—where employees can share, collaborate, and see what everyone else is working on. It makes conversation threads easy to search, and customized notifications let users concentrate on the task at hand without missing something relevant. The distinct features that set Slack apart from similar apps are its speed, functionality, and user-friendly interface. Slack comes in a free version with limited storage and features but also offers several tiers of expanded plans, priced per active user. Employers like Slack because it decreases the burden of e-mailing and helps streamline work-related communication. More important, Slack integrates the