

armstrong & kotler

MARKETING

AN INTRODUCTION

8E



Marketing: An Introduction

8/e

Gary Armstrong

University of North Carolina

Philip Kotler

Northwestern University



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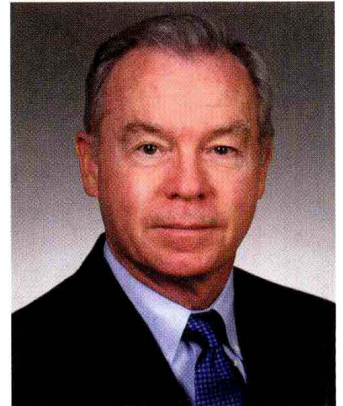
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To Kathy, Betty, Mandy, Matt, K.C., Keri, Delaney, Molly, and Macy;
Nancy, Amy, Melissa, and Jessica

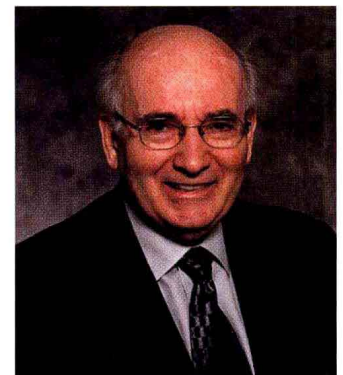
About the Authors

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

Gary Armstrong is Crist W. Blackwell Distinguished Professor of Undergraduate Education in the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill. He holds undergraduate and masters degrees in business from Wayne State University in Detroit, and he received his Ph.D. in marketing from Northwestern University. Dr. Armstrong has contributed numerous articles to leading business journals. As a consultant and researcher, he has worked with many companies on marketing research, sales management, and marketing strategy. But Professor Armstrong's first love is teaching. His Blackwell Distinguished Professorship is the only permanent endowed professorship for distinguished undergraduate teaching at the University of North Carolina at Chapel Hill. He has been very active in the teaching and administration of Kenan-Flagler's undergraduate program. His recent administrative posts include Chair of the Marketing Faculty, Associate Director of the Undergraduate Business Program, Director of the Business Honors Program, and others. He works closely with business student groups and has received several campus-wide and business school teaching awards. He is the only repeat recipient of the school's highly regarded Award for Excellence in Undergraduate Teaching, which he won three times. In 2004, Professor Armstrong received the UNC Board of Governors Award for Excellence in Teaching, the highest teaching honor bestowed at the University of North Carolina at Chapel Hill.



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. He received his master's degree at the University of Chicago and his Ph.D. at MIT, both in economics. Dr. Kotler is author of *Marketing Management*, now in its twelfth edition and the most widely used marketing textbook in graduate schools of business. He has authored more than 20 other successful books and more than one hundred articles in leading journals. He is the only three-time winner of the coveted Alpha Kappa Psi award for the best annual article published in the *Journal of Marketing*. He was named the first recipient of two major awards: the *Distinguished Marketing Educator of the Year Award* given by the American Marketing Association and the *Philip Kotler Award for Excellence in Health Care Marketing* presented by the Academy for Health Care Services Marketing. Other major honors include the 1978 Paul Converse Award of the AMA, honoring his original contribution to marketing, the European Association of Marketing Consultants and Sales Trainers Prize for Marketing Excellence, the 1995 Sales and Marketing Executives International (SMEI) Marketer of the Year award, the 2002 Academy of Marketing Science Distinguished Educator Award, and honorary doctoral degrees 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, and the University of Economics and Business Administration in Vienna. Professor Kotler has been a consultant to many major U.S. and foreign companies in the areas of marketing strategy and planning, marketing organization, and international marketing. He has been 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, a member of the Copernicus Advisory Board, and a member of the Advisory Board of the Drucker Foundation. He has traveled extensively throughout Europe, Asia, and South America, advising and lecturing to many companies about global marketing opportunities.



Welcome to the Eighth Edition!

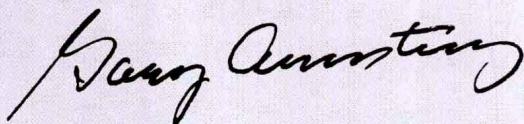
Our goal with the eighth edition of *Marketing: An Introduction* is to create an even more effective text from which to learn about and teach marketing. Most students learning marketing want a broad, complete picture of basic marketing principles and practices. However, they don't want to drown in a sea of details, or to be overwhelmed by marketing's complexities. Instead, they want a text that's complete yet easy to manage and master.

The eighth edition of *Marketing: An Introduction* serves all of these important needs for marketing students. It strikes a careful balance between depth of coverage and ease of learning. Unlike more abbreviated texts, *Marketing: An Introduction* provides a complete overview of marketing. Unlike longer, more complex texts, however, its moderate length makes it easy to cover in a given quarter or semester.

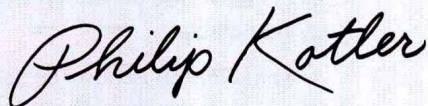
More than ever before, the eighth edition of *Marketing: An Introduction* makes learning and teaching marketing more effective, easier, and more enjoyable. The text's approachable style and design are well suited to the beginning marketing student. "Road to Marketing" aids help students to learn, link, and apply important concepts. The text takes a practical approach—concepts are applied through countless examples of situations in which well-known and little-known companies assess and solve their marketing problems.

Finally, the eighth edition presents the latest marketing thinking. It builds on an innovative and integrative marketing framework, one that positions marketing simply as the art and science of creating value *for* customers in order to capture value *from* customers in return.

In all, the eighth edition of *Marketing: An Introduction* is the best edition yet. So buckle up and let's get rolling down the road to learning marketing!



Gary Armstrong
University of North Carolina at Chapel Hill



Philip Kotler
Northwestern University

Preface

The Road to Marketing: Creating Customer Value and Relationships

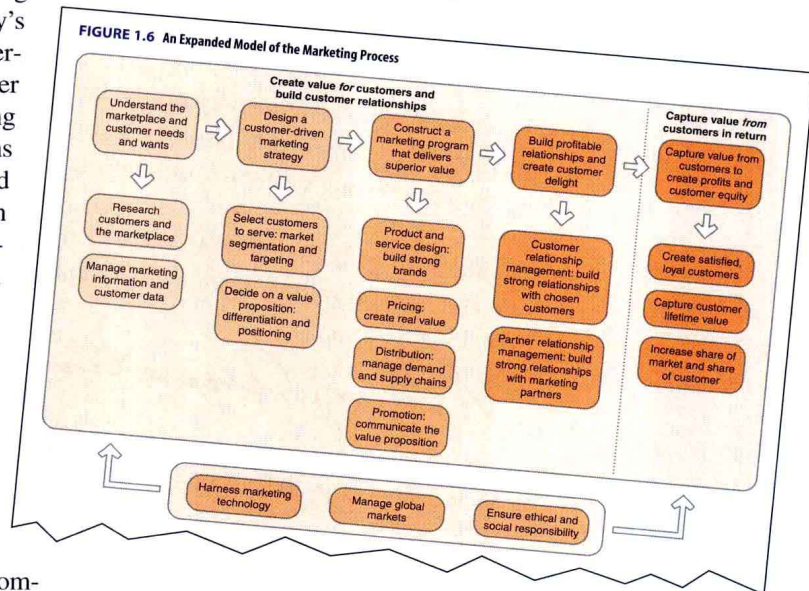
Today's marketing is all about building profitable customer relationships. It starts with understanding consumer needs and wants, deciding which target markets the organization can serve best, and developing a compelling value proposition by which the organization can attract, keep, and grow targeted consumers. If the organization does these things well, it will reap the rewards in terms of market share, profits, and customer equity. From beginning to end, the eighth edition of *Marketing: An Introduction* presents and develops this integrative customer-value/customer-equity framework.

Marketing is much more than just an isolated business function—it is a philosophy that guides the entire organization. The marketing department cannot build profitable customer relationships by itself. Marketing is a company-wide undertaking. It must drive the company's vision, mission, and strategic planning. It involves broad decisions about who the company wants as its customers, which needs to satisfy, what products and services to offer, what prices to set, what communications to send and receive, and what partnerships to develop. Thus, marketing must work closely with other departments in the company and with other organizations throughout its entire value-delivery system to create superior customer value and satisfaction.

How Do We Get You Moving?

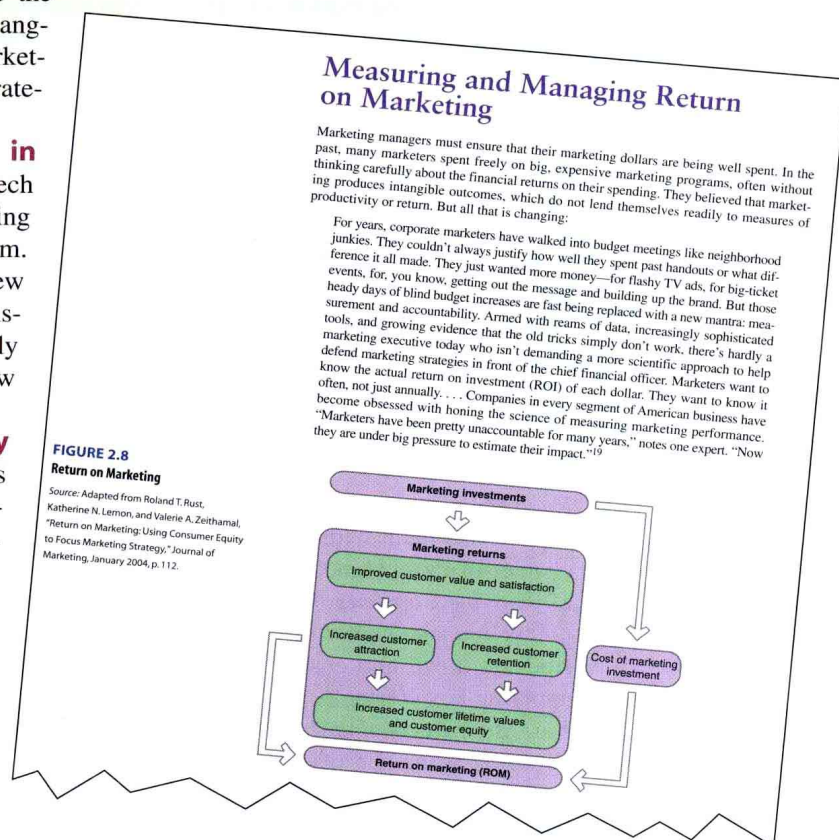
The eighth edition of *Marketing: An Introduction* builds on five major themes:

1. Creating Value for Customers in Order to Capture Value from Customers in Return Today's marketers must be good at *creating customer value* and *managing customer relationships*. They must attract targeted customers with strong value propositions. Then, they must keep and grow customers by delivering superior customer value and effectively managing the company-customer interface. Today's outstanding marketing companies understand the marketplace and customer needs, design value-creating marketing strategies, develop marketing programs that deliver value and satisfaction, and build strong customer relationships. In return, they capture value from customers in the form of sales, profits, and customer equity.



Marketers must also be good at *partner relationship management*. They must work closely with partners inside and outside the company to jointly build profitable customer relationships. Successful marketers are now partnering effectively with other company departments to build strong company value chains. And they are joining with outside partners to build effective demand and supply chains and effective customer-focused alliances.

2. **Building and Managing Strong Brands to Create Brand Equity** Well-positioned brands with strong brand equity provide the basis upon which to build profitable customer relationships. Today's marketers must be good at positioning their brands powerfully and managing them well.
3. **Measuring and Managing Return on Marketing** Marketing managers must ensure that their marketing dollars are being well spent. In the past, many marketers spent freely on big, expensive marketing programs, often without thinking carefully about the financial returns on their spending. But all that is changing rapidly. Measuring and managing return on marketing investments has become an important part of strategic marketing decision making.
4. **Harnessing New Marketing Technologies in this Digital Age** New digital and other high-tech marketing developments are dramatically changing both buyers and the marketers who serve them. Today's marketers must know how to leverage new computer, information, communication, and transportation technologies to connect more effectively with customers and marketing partners in this new digital age.
5. **Marketing in a Socially Responsible Way Around the Globe** As technological developments make the world an increasingly smaller place, marketers must be good at marketing their brands globally and in socially responsible ways.



Important Improvements and Additions

The eighth edition of *Marketing: An Introduction* has been thoroughly revised to reflect the major trends and forces that are impacting marketing in this age of customer value and relationships. This new edition **strengthens and extends the customer value framework** built in previous editions. The **revised marketing communications chapter** details major shifts in the ways that marketers now communicate customer value through a wide array of new, more targeted, more personalized media. The completely **restructured pricing chapter** focuses on understanding and capturing customer value as the basis for setting sound prices. And new sections in several chapters highlight the topics of marketing accountability and **measuring return on marketing investment**.

The eighth edition includes new and expanded material on a wide range of other topics, including managing customer relationships, brand strategy and positioning, supplier satisfaction and partnering, supply chain management, data mining and data networks, buzz marketing and experiential marketing, "Madison & Vine" communications approaches, value-based pricing, dynamic pricing, marketing channel developments, environmental sustainability, cause-related marketing, marketing and diversity, socially responsible marketing, new marketing technologies, global marketing strategies, and much, much more.

The eighth edition contains other important changes. Many new chapter-opening examples and "Marketing at Work" exhibits illustrate important new concepts with actual business applications. Countless new examples have been added within the running text. All tables, figures, examples, and references throughout the text have been thoroughly updated. The eighth edition of *Marketing: An Introduction* contains mostly new photos and advertisements that illustrate key points and make the text more effective and appealing. The new video cases located in the video appendix bring the real world directly into the classroom. We don't think you'll find a fresher, more current, or more approachable text anywhere.

Marketing: An Introduction— A Learning Approach

Marketing: An Introduction, eighth edition, guides new marketing students down the intriguing, discovery-laden road to learning marketing. Its goal is to help students master the basic concepts and practices of modern marketing in an enjoyable and practical way. Achieving this goal involves a constant search for the best balance among the “three pillars” that support the text—theories and concepts, practices and applications, and pedagogy. *Marketing: An Introduction* provides complete and up-to-date coverage of marketing concepts, brings the concepts to life with real examples of marketing practices, and presents both theory and practice in a way that makes them easy and enjoyable to learn.

In the eighth edition, we continue to focus on pedagogy as an effective teaching and learning tool. To help students learn, link, and apply important marketing concepts more effectively, *Marketing: An Introduction* is filled with “Road Map” learning tools throughout each chapter. These pedagogical guides help students by challenging them to stop and think at important junctures in their journey, previewing chapter material, reviewing and linking key chapter concepts, and providing practical marketing-application exercises through which students apply newly-learned marketing concepts in realistic situations.

The following innovative chapter-opening, within-chapter, and end-of-chapter “Road to Marketing” learning devices help students to learn, link, and apply major concepts as they progress along their journey toward learning marketing:

- **Road Map: Previewing the Concepts** A section at the beginning of each chapter briefly previews chapter concepts, links them with previous chapter concepts, outlines chapter learning objectives, and introduces the chapter-opening vignette.
- **Linking the Concepts** “Concept Checks” inserted at key points in each chapter serve as “speed bumps” to slow students down and ensure that they are grasping and applying key concepts.
- **Rest Stop: Reviewing the Concepts** A summary of key concepts at the end of each chapter.
- **Navigating the Key Terms** A list of the chapter’s key terms.
- **Travel Log** “Discussing the Issues” and “Applications Questions” help students to keep track of and apply chapter concepts.
- **Under the Hood: Focus on Technology** Application exercises provide discussion on important and emerging marketing technologies in this digital age.
- **Focus on Ethics** Situation descriptions and questions highlight important issues in marketing ethics.

Marketing: An Introduction takes a practical marketing-management approach, providing countless real-life examples that bring life to the marketing journey. Carefully constructed chapter-opening vignettes and “Marketing at Work” highlight stories that reveal the drama of modern marketing, showing how:

- **NASCAR** creates avidly loyal fans by selling not just stock car racing but a high-octane, totally involving experience.
- **Best Buy** builds the right relationships with the right customers by targeting profitable “angel” customers while exorcizing unprofitable “demon” customers.

Linking the Concepts

Stop here for a moment and stretch your legs. What have you learned so far about marketing? For the moment, set aside the more formal definitions we’ve examined and try to develop your own understanding of marketing.

- In your own words, what is marketing? Write down your definition. Does your definition include such key concepts as customer value and relationships?
- What does marketing mean to you? How does it affect your life on a daily basis?
- What brand of athletic shoes did you purchase last? Describe your relationship with Nike, New Balance, Reebok, Adidas, or whatever company made the shoes you purchased.

Focus on Ethics

The marketing concept focuses on satisfying customer’s needs and wants, but what if doing so places the consumer at risk? Although marketed and sold legally, the health impacts of tobacco and alcohol are well known. In addition, the impact of poor nutrition has recently come into the national spotlight. More specifically, the Food and Drug Administration (FDA) has issued warnings about the level of trans-fat acids present in some food products. In response, companies including McDonald’s, Kraft Foods, and Frito-lay, have recently been re-evaluating their products and making changes. For example, McDonald’s now offers either french fries or a bag of sliced fruit with each Happy Meal.

1. What ethical responsibilities do companies producing products that have potentially adverse health effects have to consumers?
2. Can a company truly consider the long-term welfare of the consumer and of society while also maximizing profits?
3. Break into small groups. Divide into teams within each group and debate whether or not marketing potentially unhealthy products is ethical.

- **Nike's** "Just do it!" strategy has matured as this venerable market leader has moved from maverick to mainstream.
- How tiny nicher **Jones Soda** has learned that small can be beautiful—and very profitable.
- **Toyota's Scion** brand targets Gen Y without shouting "Buy This Car."
- **Lexus** leads the luxury car market with the philosophy that if you "delight the customer, and continue to delight the customer, you will have a customer for life."
- **FIJI Water** brings you more than just a liquid you drink to wash down a sandwich—it gives you "The Taste of Paradise!"
- **Apple** Computer founder Steve Jobs used dazzling customer-driven innovation to first start the company and then to remake it again 20 years later.
- **Toys "R" Us** taught the toy industry a low-pricing lesson, then got a bitter dose of its own medicine in return.
- **Little Whole Foods Market** thrives by carving out its own turf in colossus Wal-Mart's shadow.
- Award-winning ad agency **CP+B** has become the agency of the moment by preaching that "anything and everything is an ad."
- **Google** succeeds despite the dot-com meltdown by focusing on simplifying users' Web experiences.

MARKETING AT WORK

Jones Soda: Staying True to Your Niche

2.2



Every great product has a secret formula. Coca-Cola's legendary recipe is locked deep within the vaults beneath its Atlanta headquarters. KFC mixes different parts of its 11 herbs and spices at three separate facilities to safeguard the Colonel's secret blend. And McDonald's hunted down its original special-sauce mix for Big Macs last year as part of its turnaround effort.

Jones Soda, the small Seattle soft drink maker, has its own secret ingredient—one that has created buzz, produced 30 percent yearly revenue growth in a flat beverage market, drawn major distribution partners such as Starbucks and Target, and brought in \$30 million in annual revenue. That ingredient: a small but growing following of devout customers. These are not just any customers—Jones Soda knows its niche. It targets young buyers—12- to 24-year-olds—who appreciate the brand's wacky, irreverent attitude. By focusing in on these customers, listening to them, and giving them what they want, Jones Soda is thriving in the shadows of the soft drink giants.

Virtually everything about a Jones Soda, from labels to flavors, comes from its carefully targeted customers. That's important because "the reality is that consumers don't need our s____," founder and CEO Peter van Stolk says unapologetically. The world isn't necessarily clamoring for another soda, even if it tastes like bubble gum. So how does Jones Soda stay in the market?

quotes found on the Web site and underneath bottle caps ("It's not broken, it just needs duct tape")—come straight from Jones enthusiasts.

Van Stolk also encouraged customers to submit photos, and the eccentric and strangely captivating images on Jones's stark black-and-white bottle labels have come largely from fans. And as the site became flooded with hundreds of thousands of cute, but useless, baby snapshots, he launched myJones to offer customers 12-packs of soda with custom-made labels for \$34.95. myJones has since blossomed into one of the cornerstones of the Jones Soda brand.

Jones also stays close to its 12- to 24-year-old customers with a pair of roving RVs. The two flame-festooned vehicles spend nine months out of the year visiting Jones-friendly sites, from small skate parks in the middle of nowhere to major extreme-games competitions such as the X Games in places like the

up to being in sync with target customers. "It's the difference between being real and saying you're real," van Stolk says, taking a not-so-subtle swig at a certain "real Th_____."

■ Jones Soda sticks closely to its niche—virtually everything about a targeted customer.

ADDITIONAL LEARNING AIDS

Video cases Every chapter is supplemented with a written case and accompanying video to bring chapter material to life. Video cases are located in Appendix 1.

Marketing Plan A sample marketing plan located in Appendix 2 helps students apply and understand important marketing planning concepts.

Glossary and Indexes At the end of the book, an extensive glossary provides quick reference to the key terms found in the book. Subject, company, and author indexes reference all information and examples in the book.

More than ever before, the eighth edition of *Marketing: An Introduction* makes teaching and learning marketing easier, more effective, more practical, and more enjoyable.

Appendix 2 Marketing Plan

The Marketing Plan: An Introduction

As a marketer, you'll need a good marketing plan to provide direction and focus for your brand, product, or company. With a detailed plan, any business will be better prepared to launch a new product or build sales for existing products. Nonprofit organizations also use marketing plans to guide their fundraising and outreach efforts. Even government agencies put together marketing plans for initiatives such as building public awareness of proper nutrition and stimulating area tourism.

THE PURPOSE AND CONTENT OF A MARKETING PLAN

Unlike a business plan, which offers a broad overview of the entire organization's mission, objectives, strategy, and resource allocation, a marketing plan has a more limited scope. It serves to document how the organization's strategic objectives will be achieved through specific marketing strategies and tactics, with the customer as the starting point. It is also linked to the plans of other departments within the organization. Suppose a marketing plan calls for selling 200,000 units annually. The production department must gear up to make that many units, the finance department must have funding available to cover the expenses, staff, and so on. Without the appropriate level of organizational support and resources, no marketing plan can succeed.

Although the exact length and layout will vary from company to company, a marketing plan usually contains the sections described in Chapter 2. Smaller businesses may create shorter or less formal marketing plans, whereas corporations frequently require highly structured marketing plans. To guide implementation efforts, even the plan must be described.

THE ROLE OF RELATIONSHIPS

The marketing plan shows how the company will establish and maintain profitable customer relationships. In the process, however, it also shapes a number of internal and external relationships. First, it affects how marketing personnel work with each other and with other departments to deliver value and satisfy customers. Second, it affects how the company works with suppliers, distributors, and strategic alliance partners to achieve the objectives listed in the plan. Third, it influences the company's dealings with other stakeholders, including government regulators, the media, and the community at large. All of these relationships are important to the organization's success, so they should be considered when a marketing plan is being developed.

FROM MARKETING PLAN TO MARKETING ACTION

Companies generally create yearly marketing plans, although some plans cover a longer period. Marketers start planning well in advance of the implementation date to allow time for marketing research, thorough analysis, management review, and coordination between departments. Then, after each action program begins, marketers monitor ongoing results, compare them

A Total Teaching and Learning Package

A successful marketing course requires more than a well-written book. Today's classroom requires a dedicated teacher and a fully-integrated teaching system. A total package of teaching and learning supplements extends this edition's emphasis on effective teaching and learning. The following aids support *Marketing: An Introduction*.

SUPPLEMENTS FOR INSTRUCTORS

The following supplements are available to adopting instructors.

Annotated Instructor's Edition (ISBN: 0-13-168715-8)

The new *Annotated Instructor's Edition* includes an insert at the front of each chapter, which serves as a quick reference for the entire supplements package. Suggestions for using materials from the Instructor's Manual, PowerPoint slides, Test Item File, Video Library, and online material are offered for each section within every chapter. This edition also includes Video Teaching Notes.

Instructor's Manual in Print with Video Guide (ISBN: 0-13-186595-1)

The instructor's handbook for this text provides suggestions for using features and elements of the text. This *Instructor's Manual with Video Case Notes* includes a chapter overview, objectives, outlines, detailed lecture outline (incorporating key terms, text art, chapter objectives and references), review questions with answers, and support for end-of-chapter material. Also included is a **new** "Great Ideas" section that has student projects/assignments, classroom management strategies, and more, to provide a springboard for innovative learning experiences in the classroom. The Instructor's Manual also features the following elements:

- Support for end-of-chapter material, along with additional student projects and "Outside Examples" assignments, offering instructors additional lecture material. The examples may be a further development of a concept or company briefly mentioned in the chapter, or perhaps new material that helps to further develop a concept in the text.
- "Professors on the Go!" serves to bring key material upfront in the manual, where an instructor who is short on time can take a quick look and find key points and assignments to incorporate into the lecture, without having to page through all the material provided for each chapter.

Test Item File (ISBN: 0-13-186596-X)

Featuring more than two thousand new questions, 100+ questions per chapter, this Test Item File has been written specifically for the eighth edition. Questions range from multiple choice and true/false to essay and application. All essay questions are organized by level of difficulty and include page references.

Instructor's Resource Center

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Need help? Our dedicated technical support team is ready to assist instructors with questions about the media supplements that accompany this text. Visit: <http://247.prenhall.com/> for answers to frequently asked questions and toll-free user support phone numbers.

All instructor resources in one place. It's your choice. Available via a password-protected site at www.prenhall.com/armstrong or on CD-ROM (0-13-186797-8). Resources include:

- *Instructor's Manual*: chapter-by-chapter or download the entire manual as a .zip file.
- *Test Item File*: View chapter-by-chapter or download the entire test item file as a .zip file.
- *TestGen EQ for PC/Mac*: Download this easy-to-use software; it's preloaded with the eighth edition test questions and a user's manual.

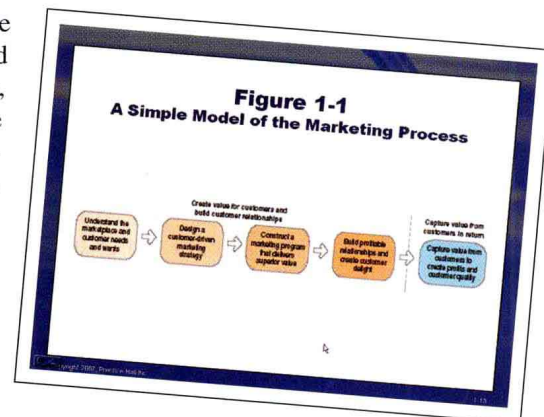
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Custom Videos

The video library features 16 exciting segments, *all new* to this edition. All segments are available online (www.prenhall.com/armstrongvideo), on VHS (ISBN: 0-13-186599-4), and on DVD (ISBN: 0-13-186600-1). Here are just a few of the videos filmed in 2004 and 2005:

- Harley-Davidson and how brand image is managed through global marketing strategies
- American Express and the modern marketing environment
- The NFL and the importance of social responsibility
- Song Airlines and pricing strategies
- Eaton's approach to B2B issues, including buyer behavior
- Hasbro's views on distribution channels and logistics management
- Reebok's retailing and wholesaling policies
- Wild Planet's strategies in the consumer markets



Transparencies (ISBN: 0-13-186598-6)

Features 15 to 20 color acetates per chapter selected from the media rich set of PowerPoints, which includes images from text.

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