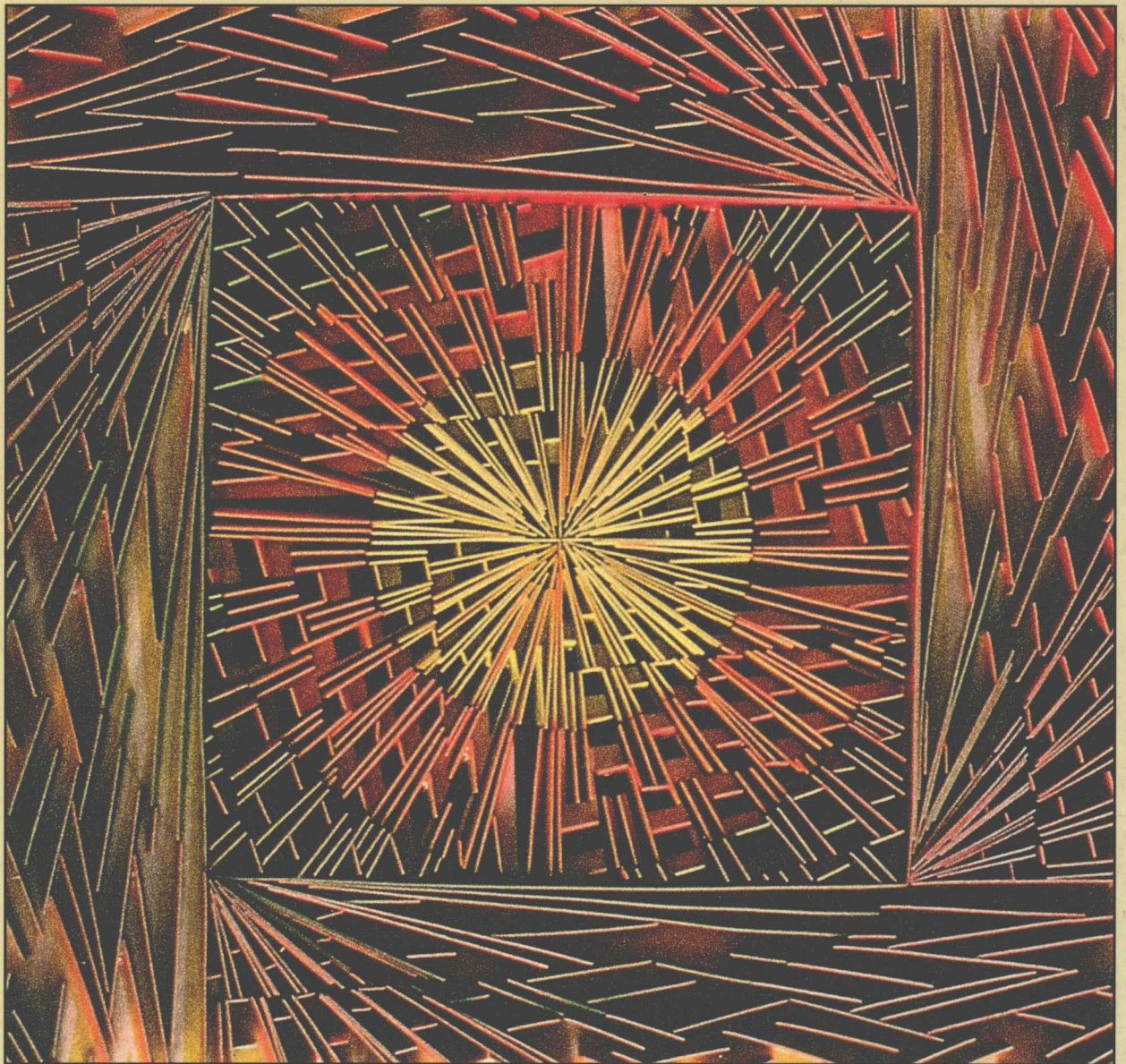


Principles of
MARKETING

SIXTH EDITION



Philip Kotler ■ Gary Armstrong

SIXTH EDITION

Principles of Marketing



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Northwestern University

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University of North Carolina

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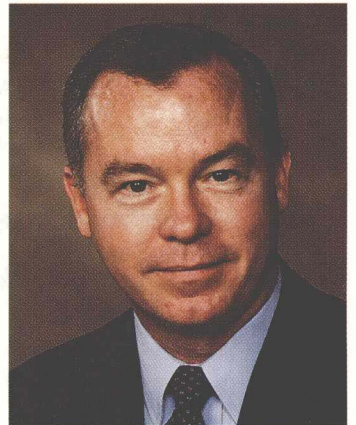
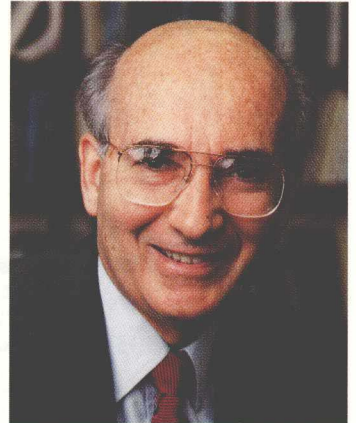
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About the Authors

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

Philip Kotler is S. C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg Graduate School of Management, Northwestern University. He received his master's degree at the University of Chicago and his Ph.D. at M.I.T., both in economics. Dr. Kotler is author of *Marketing Management: Analysis, Planning, Implementation, and Control* (Prentice Hall), now in its eighth edition and the most widely used marketing textbook in graduate schools of business. He has authored several other successful books and he has written over 90 articles for leading journals. He is the only three-time winner of the coveted Alpha Kappa Psi award for the best annual article in the *Journal of Marketing*. Dr. Kotler's numerous major honors include the Paul D. Converse Award given by the American Marketing Association to honor "outstanding contributions to science in marketing" and the Stuart Henderson Britt Award as Marketer of the Year. In 1985, 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. In 1989, he received the Charles Coolidge Parlin Award, which each year honors an outstanding leader in the field of marketing. Dr. Kotler has served as chairman of the College on Marketing of the Institute of Management Sciences (TIMS) and a director of the American Marketing Association. He has consulted with many major U.S. and foreign companies on marketing strategy.

Gary Armstrong is Professor and Chair of Marketing in the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill. He holds undergraduate and master's degrees in business from Wayne State University in Detroit, and he received his Ph.D. in marketing from Northwestern University. Dr. Armstrong has contributed numerous articles to leading business journals. As a consultant and researcher, he has worked with many companies on marketing research, sales management, and marketing strategy. But Professor Armstrong's first love is teaching. He has been very active in the teaching and administration of North Carolina's undergraduate business program. His recent administrative posts include 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 campuswide and Business School teaching awards. He is the only repeat recipient of school's highly regarded Award for Excellence in Undergraduate Teaching, which he won for the third time in 1993.



ABC News/PH Video Library for Principles of Marketing

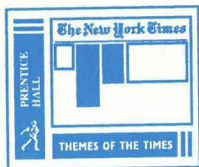


Video is the most dynamic of all the supplements you can use to enhance your class. But the quality of the video material and how well it relates to your course can still make all the difference. For these reasons, Prentice Hall and ABC News have decided to work together to bring you the best and most comprehensive video ancillaries available in the college market.

Through its wide variety of award-winning programs—*Nightline*, *Business World*, *On Business*, *This Week with David Brinkley*, *World News Tonight*, and *The Health Show*—ABC offers a resource for feature and documentary-style videos related to text concepts and applications. The programs have extremely high production quality, present substantial content, and are hosted by well-versed, well-known anchors. Prentice Hall, its authors, and its editors provide the benefit of having selected videos on topics that will work well with this course and text and give the instructor teaching notes on how to use them in the classroom.

The ABC News/PH Video Library for *Principles of Marketing* offers video material for almost every chapter in the text. An excellent video guide that is included in the Instructor's Manual carefully and completely integrates the videos into your lecture.

The New York Times Program



The New York Times and Prentice Hall are sponsoring "Themes of the Times," a program designed to enhance student access to current information of relevance in the classroom.

Through this program, the core subject matter provided in the text is supplemented by a collection of time-sensitive articles from one of the world's most distinguished newspapers, *The New York Times*. These articles demonstrate the vital, ongoing connection between what is learned in the classroom and what is happening in the world around us.

To enjoy the wealth of information of *The New York Times* daily, a reduced subscription rate is available. For information, call toll-free: 1-800-631-1222.

Prentice Hall and *The New York Times* are proud to co-sponsor "Themes of the Times." We hope it will make the reading of both textbooks and newspapers a more dynamic, involving process.

Preface

Marketing is the business function that identifies an organization's customer needs and wants, determines which target markets it can serve best, and designs appropriate products, services, and programs to serve these markets. However, marketing is much more than just an isolated business function—it is a philosophy that guides the entire organization. The goal of marketing is to create customer satisfaction profitably by building value-laden relationships with important customers. The marketing department cannot accomplish this goal by itself. It must work closely with other departments in the company, and with other organizations throughout its entire value-delivery system, to provide superior value to customers. Thus, marketing calls upon everyone in the organization to “think customer” and to do all that they can to help create and deliver superior customer value and satisfaction. As Professor Stephen Burnett of Northwestern puts it, “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 consumer.”

Many people see marketing only as advertising or selling. But real marketing does not involve the act of selling what you make so much as knowing *what* to make! Organizations gain market leadership by understanding consumer needs and finding solutions that delight customers through superior value, quality, and service. If customer value and satisfaction are absent, no amount of advertising or selling can compensate.

Marketing is all around us, and we all need to know something about it. Marketing is used not only by manufacturing companies, wholesalers, and retailers but by all kinds of individuals and organizations. Lawyers, accountants, and doctors use marketing to manage demand for their services. So do hospitals, museums, and performing arts groups. No politician can get the needed votes, and no resort the needed tourists, without developing and carrying out marketing plans. *Principles of Marketing* is designed to help students learn about and apply the basic concepts and practices of modern marketing as they are used in a wide variety of settings: in product and service firms, consumer and business markets, profit and nonprofit organizations, domestic and global companies, and small and large businesses.

People throughout these organizations need to know how to define and segment a market and how to position themselves strongly by developing need-satisfying products and services for chosen target segments. They must know how to price their offerings to make them attractive and affordable and how to choose and manage middlemen to make their products available to customers. And they need to know how to advertise and promote products so that customers will know about and want them. Clearly, marketers need a broad range of skills in order to sense, serve, and satisfy consumer needs.

Students also need to know marketing in their roles as consumers and citizens. Someone is always trying to sell us something, so we need to recognize the methods they use. And when students enter the job market, they must do “marketing research” to find the best opportunities and the best ways to “market themselves” to prospective employers. Many will start their careers with marketing jobs in salesforces, in retailing, in advertising, in research, or in one of a dozen other marketing areas.

Approach and Objectives

Principles of Marketing takes a *practical, managerial* approach to marketing. It provides a rich depth of practical examples and applications, showing the major decisions that marketing managers face in their efforts to balance the organization's objectives and resources against needs and opportunities in the global marketplace. Each chapter

opens with a major example describing an actual company situation. Boxed Marketing Highlights, short examples, video cases, company cases, and color illustrations highlight high-interest ideas, stories, and marketing strategies.

Principles of Marketing tells the stories that reveal the drama of modern marketing: Kellogg's abrupt repositioning to meet changing baby-boomer lifestyles; Levi Strauss Co.'s startling success in finding new ways to grow, both in the United States and abroad; Church & Dwight's becoming "king of the (mole)hill" with Arm & Hammer baking soda products; Apple Computer's invasion of Japan; Motorola's quest for customer-driven, "six-sigma" quality; American Airline's struggle to bring sanity to air fares; 3M's legendary emphasis on new product development; Revlon's selling of not just products, but hopes and dreams; Rubbermaid's obsession with customer value and satisfaction; Disney's giving to consumers an America that still works the way it's supposed to; Gerber's difficult social-responsibility decisions following a product-tampering scare. These and dozens of other examples and illustrations throughout each chapter reinforce key concepts and bring marketing to life.

Thus, *Principles of Marketing* gives the marketing student a comprehensive and innovative, managerial and practical introduction to marketing. Its style and extensive use of examples and illustrations make the book straightforward, easy to read, and enjoyable.

Changes in the Sixth Edition

The sixth edition of *Principles of Marketing* offers important improvements in organization, content, and style. The former Chapters 2 and 20 have been combined to create a single, more streamlined Chapter 2, Strategic Planning and the Marketing Process, which provides an early framework for marketing thinking and sets the stage for the remainder of the text. A new Chapter 19, Building Customer Satisfaction Through Quality, Value, and Service, helps students to integrate what they've learned about marketing strategy and tactics around the key concepts of customer value and satisfaction.

The text's coverage of international marketing topics has been increased substantially. In addition to an already comprehensive chapter on international marketing, the sixth edition contains major new international coverage integrated into the text on a chapter-by-chapter basis. New chapter sections summarize the special challenges and opportunities that international marketers face in conducting international marketing research, attempting to understand global buyer behavior, segmenting international markets, and making decisions about global products, pricing, distribution, and promotion. New in-text examples and Marketing Highlights provide real examples of well-known companies—Levi Strauss Co., McDonald's, Apple Computer, Federal Express, Procter & Gamble, Pepsi Co, and dozens of others—competing in the global marketplace.

The sixth edition of *Principles of Marketing* also contains important new material on marketing ethics and social responsibility. New chapter sections outline general principles and explore specific examples of ethics and public policy issues in marketing research, target marketing, packaging and the environment, pricing, distribution, direct marketing, advertising and personal selling, and many other areas. These individual chapter discussions are brought together forcefully in the final chapter, Marketing and Society: Social Responsibility and Marketing Ethics.

The sixth edition includes substantial new or improved material on a wide range of other subjects: competitive advantage and differentiating the marketing offer, customer-driven marketing and developing a marketing culture, customer value and satisfaction, total quality management of marketing products and processes, relationship marketing, changing consumer values and lifestyles, changes in brand and category management, product design, direct marketing and single-source data systems, retailing strategy, services marketing strategy, global marketing strategy, marketing ethics and social responsibility, and the new environmentalism.

Finally, the sixth edition of *Principles of Marketing* contains dozens of new photographs and advertisements that illustrate key points and make the text more effective and appealing. Many new chapter-opening examples and Marketing Highlight exhibits illustrate important concepts with actual business applications. All tables, figures, examples, and references throughout the text have been thoroughly updated. Dozens of new examples have been added within the running text material. Most of the real-life company cases and video cases in the sixth edition are new or revised. These exciting new cases, and the quality videos that accompany them, help to bring the real world directly into the classroom.

Learning Aids

Many aids are provided within this book to help students learn about marketing. The main ones are:

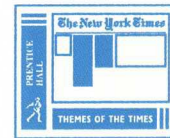
- **Chapter Previews.** Each chapter begins with a preview that outlines the flow of concepts in the chapter.
- **Opening Examples.** Each chapter starts with a dramatic marketing story that introduces the chapter material and arouses student interest.
- **Full-Color Figures, Photographs, Advertisements, and Illustrations.** Throughout each chapter, key concepts and applications are illustrated with strong, full-color visual materials.
- **Marketing Highlights.** Additional examples and important information are highlighted in Marketing Highlight exhibits throughout the text.
- **Summaries.** Each chapter ends with a summary that wraps up the main points and concepts.
- **Review Questions.** Each chapter contains a set of “discussing the issues” questions covering the main chapter points, and “applying the concepts” exercises that build individual and group process and leadership skills.
- **Key Terms.** Key terms are highlighted within the text and listed at the end of each chapter with page references.
- **Building Case.** An evolving case, *Small World Communications, Inc.*, builds through new episodes at the end of each chapter. This case allows students to apply and integrate concepts from each chapter within a larger business context.
- **Company Cases.** Company cases for class or written discussion are provided at the end of each chapter, with integrative comprehensive cases following each major part of the text. These cases challenge students to apply marketing principles to real companies in real situations.
- **Video Cases.** Written video cases are provided at the end of each chapter, supported by the ABC News/PH Video Library for Marketing described in the next section. The videos and cases help to bring key marketing concepts and issues to life in the classroom.
- **Appendixes.** Two appendixes, “Marketing Arithmetic” and “Careers in Marketing,” provide additional practical information for students.
- **Glossary.** At the end of the book, an extensive glossary provides quick reference to the key terms found in the book.
- **Indexes.** Subject, company, and author indexes reference all information and examples in the book.

Supplements

A successful marketing course requires more than a well-written book. Today’s classroom requires a dedicated teacher and a fully-integrated teaching system. *Principles of Marketing* is supported by an extensive system of supplemental learning and teaching aids:

- **Annotated Instructor’s Edition.** Prepared especially for the instructor by Richard G. Starr, Jr., this volume is an innovative teaching resource. It combines the student text with useful page-by-page annotations that provide teaching tips and real-world examples for use in class.
- **The Instructor’s Resource Manual.** This helpful teaching resource, prepared by Lewis B. Hershey, contains chapter overviews, annotated outlines, class exercises, relevant stories and examples to help in class preparation, discussion notes for in-text company and video cases, and answers to end-of-chapter questions and exercises. A computerized version of this manual is also available.
- **Student Learning Guide.** Prepared by Thomas J. Paczkowski, this comprehensive study guide gives students an overview of the material, summarizes the major topics and concepts, and strengthens understanding through situational exercises, involving cases, chapter highlights, and quizzes. A new section of lecture notes reproduces the transparencies with the chapter outline for easy in-class note taking.
- **ATLAS (Academic Testing and Learning System) Test Item File.** The Test Item File, prepared by Lewis Hershey, has been extensively revised. It contains more than 3,700 items, including multiple-choice, true-false, and essay questions. The questions are available in the Test Item File booklet, on computer disk through the Prentice Hall TestManager testing system, or through the Prentice Hall Computerized Testing Service.

- **Full-Color Transparencies.** The transparencies package, also created by Lewis Hershey, includes more than 150 full-color transparencies of tables, figures, photographs, and advertisements painstakingly prepared to ensure clear classroom presentation. A full-page of teaching notes accompanies each transparency. Electronic color transparencies are also available on PowerPoint for IBM and Macintosh computers.
- **ABC News/Prentice Hall Video Library for Marketing.** Prentice Hall and ABC News have worked together to provide this video library, integrated throughout *Principles of Marketing* by specially written video cases for each chapter. The video Library pulls features and documentary-style footage from "World News Tonight," "American Agenda," "Nightline," "Business World," "On Business," and "This Week with David Brinkley." Hosted by well-known anchors, the programs are very well produced and contain high quality content that complements and enhances the text.
- **The New York Times Prentice Hall Themes of the Times Program.** Comprised of articles that have appeared in recent issues of *The New York Times*, this innovative program enhances student access to information relevant to the world of marketing.
- **Prentice Hall Images in Marketing Video Disk.** Images of Marketing presents images from both within the text and outside sources, including graphs, diagrams, ads, and other illustrations, as well as video segments taken from the acclaimed VideoArts video *Philip Kotler on Competitive Marketing*.
- **Personal Computer Applications Software.** BRANDS, a computer simulation by Randy Chapman, provides opportunities for students to apply their marketing knowledge and skills in realistic exercises and situations.



Acknowledgments

No book is the work only of its authors. We owe much to the pioneers of marketing who first identified its major issues and developed its concepts and techniques. Our thanks also go to our colleagues at the J. L. Kellogg Graduate School of Management, Northwestern University, and at the Kenan-Flagler Business School, University of North Carolina at Chapel Hill, for ideas and suggestions. We owe special thanks to Rick Starr, of UNC-Chapel Hill, who prepared the *Annotated Instructor's Edition* and the *Small World Communications, Inc.*, case. We also thank Lew Brown and Martha McEnally, both of the University of North Carolina, Greensboro, for their valuable work in preparing high-quality company cases and video cases, respectively. We also want to acknowledge Lewis Hershey, Tom Paczkowski, and Mike Fields for their work in preparing the *Test Item File*, *Color Transparencies Package*, and *Instructor's Resource Manual*; *Student Learning Guide*; and *Images in Marketing Video Disk*—respectively. Additional thanks go to Alan Shao for his help in preparing international examples, and to Leslye Givarz and Betsey Christian for their editing assistance.

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*Philip Kotler
 Gary Armstrong*

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