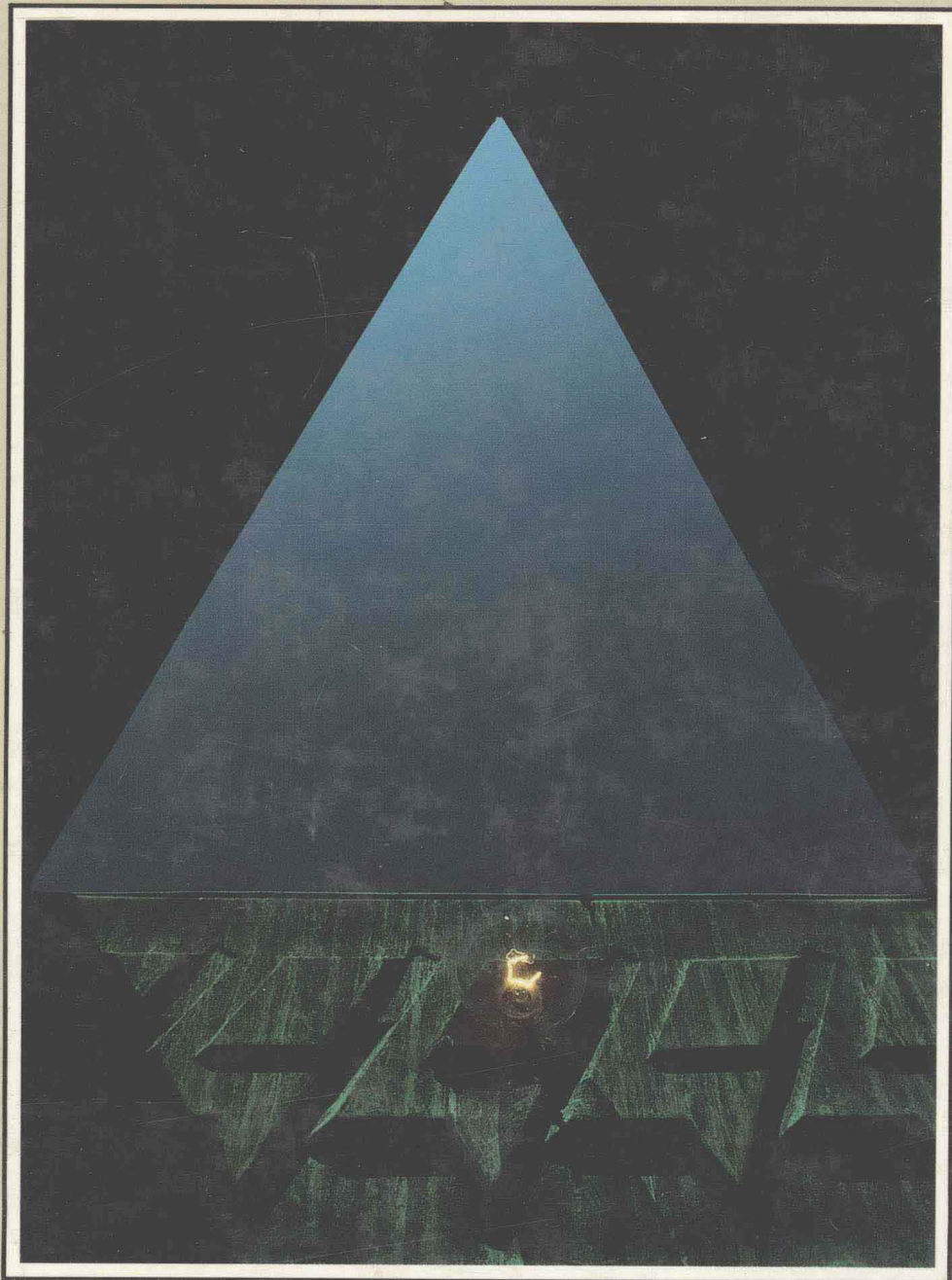


SEVENTH EDITION

# MARKETING MANAGEMENT

ANALYSIS, PLANNING,  
IMPLEMENTATION, & CONTROL



PHILIP KOTLER

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*7<sup>th</sup> edition*

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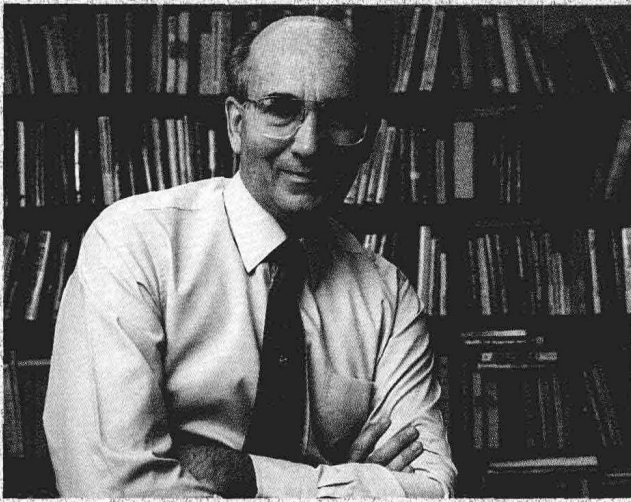
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## *about the author*

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PHILIP KOTLER is one of the world's leading authorities on marketing. He is the S. C. Johnson 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. degree at Massachusetts Institute of Technology, both in economics. He did postdoctoral work in mathematics at Harvard and behavioral science at the University of Chicago.

Dr. Kotler is the author of *Principles of Marketing* and *Marketing: An Introduction*. His *Marketing for Nonprofit Organizations*, now in its third edition, is the best seller in that specialized area. Dr. Kotler's other books include *The New Competition*, *Marketing Professional Services*, *Marketing for Health Care Organizations*, *Strategic Marketing for Educational Institutions*, *High Visibility*, *Social Marketing*, and *Marketing Decision-Making*. In addition, he has written over ninety articles for leading journals, including the *Harvard Business 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 coveted Alpha Kappa Psi award for the best annual article published in the *Journal of Marketing*.

Dr. Kotler has served as chairman of the College on Marketing of the Institute of Management Sciences (TIMS), a director of the American Association, a trustee of the Marketing Science Institute, and a director of The MAC Group. He has been a consultant to many major U.S. and foreign companies—AT&T, Bank of America, General Electric, IBM, Merck, Marriott, and so on—on marketing strategy.

In 1978, Dr. Kotler received the *Paul D. Converse Award* given by the American Marketing Association to honor "outstanding contributions to science in marketing." In 1983, he received the *Steuart Henderson Britt Award* as Marketer of the Year. In 1985, he was named the first recipient of the *Distinguished Marketing Educator Award*, a new award established by the American Marketing Association. In the same year, the Academy for Health Services Marketing established the *Philip Kotler Award for Excellence in Health Care Marketing* and nominated him as the first recipient. He also received the *Prize for Marketing Excellence* awarded by the European Association of Marketing Consultants and Sales Trainers. In 1989, he received the Charles Coolidge Parlin Award, which each year honors an outstanding leader in the field of marketing. He has received honorary degrees from DePaul University and the University of Zurich.

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# *preface*

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The 1990s represent the last decade of the last century before the next millennium. Already sea changes have been taking place in the global economy: the rising power of the Far East in global markets; the development of a European Common Market of 324 million consumers; the disillusionment with state-operated economies and the turn to market-driven economies; the political reforms in Eastern Europe, South Africa, and elsewhere; the giant advances in technology; and so on.

All this means that old business road maps cannot be trusted. Companies are learning that it is hard to build a reputation and easy to lose it. Companies that focus inward become blind to seismic changes in markets, competition, distribution, media, and technology that are occurring outside. Mass markets are fragmenting into micromarkets; multiple channels of distribution are replacing single channels; customers are buying direct through catalogs and telemarketing; price discounting and sales promotion are eroding brand loyalty; conventional advertising media are delivering less and costing more. These and other changes mean that companies must reexamine and sometimes reverse the very premises on which they built their business.

In the end, the companies that best satisfy their customers will be the winners. It is the special responsibility of marketers to understand the needs and wants of the marketplace and to help their companies translate them into solutions that win customers' approval. Today's smart companies are not merely looking for sales; they are investing in long-term, mutually satisfying customer relationships based on delivering quality, service, and value.

Marketing is the business function that identifies unfulfilled needs and wants, defines and measures their magnitude, determines which target markets the organization can best serve, decides on appropriate products, services, and programs to serve these markets, and calls upon everyone in the organization to "think and serve the customer." From a societal point of view, marketing is the force that harnesses a nation's industrial capacity to meet the society's material wants.

Marketing must not be seen narrowly as the task of finding clever ways to sell the company's products. Many people confuse marketing with some of its subfunctions, such as advertising and selling. Authentic marketing is not the art of selling what you make but knowing what to make! It is the art of identifying and understanding customer needs and creating solutions that deliver satisfaction to the customers, profits to the producers, and benefits for the stakeholders. Market leadership is gained by creating customer satisfaction through product innovation, product quality, and customer service. If these are absent, no amount of advertising, sales promotion, or salesmanship can compensate.

William Davidow observed: "While great devices are invented in the laboratory, great products are invented in the marketing department." There is a wide chasm between an invention and an innovation. Too many wonderful laboratory products are greeted with yawns or laughs. The job of marketers is to "think customer" and

to guide companies and nonprofit organizations into developing offers that are meaningful and attractive to target customers.

## The Current Marketing Environment

Market-oriented thinking is a necessity in today's competitive world. In many places, there are too many goods chasing too few customers. There are global gluts of steel, agricultural produce, automobiles, and many other products and services. Some companies are trying to expand the size of the market, but most are competing to enlarge their share of the existing market. As a result, there are winners and losers. The losers are those who bring nothing special to the market. We believe that if you can't bring something special to a market, you don't belong in it. The winners are those who carefully analyze needs, identify opportunities, and create value-laden offers for target customer groups that competitors can't match.

These are hard times for many companies. The United States foreign trade deficit is running at over \$100 billion a year. Many U.S. companies are losing to foreign competitors who offer better products and/or lower prices. The U.S. no longer holds a competitive lead in low, medium, or high-tech industries. Service industries are growing but cannot alone sustain rising incomes indefinitely.

Company marketers face several tough market challenges:

1. The low economic growth rates throughout the world with many major industries in the mature or decline stage of the product life cycle
2. The growing power of global competitors from Europe and the Far East who are capable of making high-quality products at lower costs
3. An international market that is moving toward greater protectionism in some industries and geographical areas
4. Foreign companies that receive subsidies from their government and use them to win business through lower prices
5. Many nations that are so debt-ridden and/or politically unstable that it is risky to do business with them
6. A great amount of price cutting and discounting in all industries, resulting in an increasing number of buyers who "shop" for prices
7. Too much short-term focus by management and a fixation on buying other businesses rather than on building their existing businesses
8. Growing power of distributors to dictate terms to manufacturers
9. The splintering of the mass market into many micromarkets requiring tailored marketing
10. Increasing marketing costs owing to the declining effectiveness of mass media and the rising costs of personal selling

Problems, properly analyzed, are also opportunities. Companies such as McDonald's, Procter & Gamble, Campbell's, and IBM have shown a capacity to adapt by staying close to their markets and reading the signs. They know that the marketplace, not the factory, ultimately determines which companies will succeed. Too many of our major auto companies, steel companies, electronics companies, and others didn't have their ears to the market and paid dearly—along with the rest of us—for their "marketing myopia." Marketing thinking obviously isn't easy, or it would be applied more successfully. Although it takes only a semester to learn marketing, it takes a lifetime to master it. Marketing problems, it turns out, do not exhibit the neat quantitative properties of many problems in the production, accounting, and finance areas. Psychological forces play a large role; marketing expenditures affect demand and costs simultaneously; marketing plans shape and interact with other business-function plans. Marketing decisions must be made in the face of insufficient information about processes that are dynamic, lagged, stochastic, interactive, and downright difficult. However, this is not an argument for intuitive decision making. Rather it is an argument for improved strategic theory and sharper tools of analysis.

## The Nature of This Book

*Marketing Management* has several major features:

1. *A managerial orientation.* This book focuses on the major decisions that marketing managers and top management face in their efforts to harmonize the objectives and resources of the organization with the needs and opportunities in the marketplace.
2. *An analytical approach.* This book presents a framework for analyzing recurrent problems in marketing management. Real company cases are introduced throughout the text to illustrate the marketing principles.
3. *A basic disciplines perspective.* This book draws on economics, behavioral science, and mathematics. *Economics* provides fundamental concepts and tools for seeking optimal results in the use of scarce resources. *Behavioral science* provides fundamental concept and tools for understanding consumer and organizational buying behavior. *Mathematics* provides an exact language for expressing relationships among important variables.
4. *A universal approach.* This book applies marketing thinking to products and services, consumer and industrial markets, profit and nonprofit organizations, domestic and foreign companies, small and large firms, manufacturing and middlemen businesses, and low-tech and high-tech industries.
5. *Comprehensive and balanced coverage.* This book covers all the topics that an informed marketing manager needs to know. It covers the main issues faced in strategic, tactical, and administrative marketing.

**MARKETING MANAGEMENT** ■ This seventh edition, is organized into six parts. *Part I* develops the societal, managerial, and strategic underpinnings of marketing theory and practice. *Part II* presents concepts and tools for analyzing any market and marketing environment to discern opportunities. *Part III* presents principles for measuring and forecasting markets and carrying out segmenting and targeting. *Part IV* examines issues in designing marketing strategies for companies in different market positions, global positions, and stages in the product life cycle. *Part V* deals with tactical marketing and how companies handle, or should handle, each element of the marketing mix—product, price, place, and promotion. Finally, *Part VI* examines the administrative side of marketing, namely, how firms organize, implement, and control marketing efforts.

## Changes in the Seventh Edition

The seventh edition has the following objectives:

1. To update the statistics and analyze new trends and developments in the environment
2. To strengthen the discussion of strategic marketing
3. To introduce recent company examples of creative market-focused and customer-driven thinking
4. To describe new developments in marketing planning, organization, implementation, and control
5. To describe the growing use of computers, telecommunications, and other new technologies in improving marketing planning and performance

These objectives led to the following distinctive features:

1. A new Chapter 11, “Differentiating and Positioning the Market Offer.”
2. A whole new section on direct marketing introduced into Chapter 23.
3. A reordering of chapters in Part IV. Specifically, new-product development is introduced earlier, because this problem involves many strategic issues. The chapter is followed naturally by the product-life-cycle chapter, because new strategies are called for as the product matures.

4. Theoretical material has been removed in some chapters and transferred to appendices so as not to encumber the basic message.
5. New exhibits have been added, and all exhibits have been classified and color-coded into four groups: Marketing Strategies, Marketing Concepts and Tools, Marketing Environment and Trends, and Companies and Industries.
6. Writing has been made smoother and tighter.
7. Several parts of chapters have been substantially revised.
8. New and expanded material has been added on local marketing, global marketing, turbo marketing, customized marketing, telemarketing, service-marketing theory, category management, customer value analysis, geodemographic analysis, maximarketing, marketing decision support systems, direct product profitability, total-quality-improvement programs, relationship marketing, offer differentiation, benefit positioning, multi-channel conflict, trade shows, sales contests, specialty advertising, cause-related marketing, and building a marketing culture.

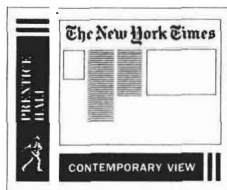
## Improved Pedagogical Aids

Pedagogical Aids for this edition of *Marketing Management* include:

1. A comprehensive, extensively revised Instructor's Manual which contains teaching formats, suggested syllabi, and transparency masters, as well as a complete section on integrating supplementary material into the course such as cases, casebooks, readings, videos, and computer based material. It is available to adopters on request.
2. A Test Item File containing over 2,000 questions; a computerized version in IBM PC and compatible formats is also available. Both are available to adopters on request.
3. TRANSPARENCY ACETATES. New to the Seventh Edition, these 50 full-color transparency acetates highlight important concepts in *Marketing Management*.
4. ABC NEWS/PH VIDEO LIBRARY FOR *MARKETING MANAGEMENT*, Seventh Edition. 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 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 editors provide the benefit of having selected videos on topics which will work well with this course and text and give you teaching notes on how to use them in the classroom.



5. *The New York Times* and Prentice Hall offer **A Contemporary View**, 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.

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Prentice Hall and *The New York Times* are proud to co-sponsor **A Contemporary View**. We hope it will make the reading of both this text and *The Times* a more dynamic, involving process.

## Acknowledgments

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- Peter Fitzroy and Robin Shaw—Monash University (Australia)
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My overriding debt is to my wife, Nancy, who provided me with the time, support, and inspiration needed to prepare this edition. It is truly our book.

**Philip Kotler**

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# *contents*

---

PREFACE

xxii

---

## Part I UNDERSTANDING MARKETING MANAGEMENT

---

### **1** UNDERSTANDING THE CRITICAL ROLE OF MARKETING IN ORGANIZATIONS AND SOCIETY **1**

THE CORE CONCEPTS OF MARKETING 4

Needs, Wants, and Demands 4 Products 5 Value, Cost, and Satisfaction 6  
Exchange, Transactions, and Relationships 6 Markets 8 Marketing and  
Marketers 10

MARKETING MANAGEMENT 11

Marketing Concepts and Tools: Demand States and Marketing Tasks 12

COMPANY ORIENTATIONS TOWARD THE MARKETPLACE 12

The Production Concept 12 The Product Concept 14 The Selling  
Concept 15 The Marketing Concept 16 Marketing Strategies 1-1: The Secret  
of L. L. Bean's Profitability—Customer Satisfaction 19 Marketing Strategies  
1-2: How Jan Carlzon "Marketized" SAS 23 The Societal Marketing  
Concept 25 Companies and Industries: Five Stages in the Slow Learning of  
Bank Marketing 26

THE RAPID ADOPTION OF MARKETING MANAGEMENT 28

In the Business Sector 28 In the Nonprofit Sector 28 In the International Sector 29

SUMMARY 29

### **2** LAYING THE GROUNDWORK THROUGH STRATEGIC PLANNING **32**

CORPORATE STRATEGIC PLANNING 35

Corporate Mission 35 Strategic Business Unit Identification 37 Evaluating  
the Current Business Portfolio 39 Corporate New-Business Plan 44

BUSINESS STRATEGIC PLANNING 47

Business Mission 47 External Environment Analysis (Opportunity and Threat  
Analysis) 48 Marketing Strategies: Which Company Should Produce an Electric  
Car? 49 Internal Environment Analysis (Strengths/Weaknesses Analysis) 50

Marketing Concepts and Tools 2-1: Assessing Interdepartmental Strengths and  
Weaknesses 52 Goal Formulation 53 Strategy Formulation 54 Program  
Formulation 55 Implementation 55 Marketing Concepts and Tools 2-2:

Strategic Groups in the Truck-Manufacturing Industry 56 Feedback and Control 57  
SUMMARY 58

### **3 MANAGING THE MARKETING PROCESS AND MARKETING PLANNING 61**

THE MARKETING PROCESS 62  
Analyzing Market Opportunities 64 Researching and Selecting Target Markets and Positioning the Offer 65 Designing Marketing Strategies 66 Planning Marketing Programs 68 Organizing, Implementing, and Controlling the Marketing Effort 70  
THE NATURE AND CONTENTS OF A MARKETING PLAN 72  
Executive Summary 73 Current Marketing Situation 73 Opportunity and Issue Analysis 75 Objectives 76 Marketing Strategy 77 Action Programs 78 Projected Profit-and-Loss Statement 79 Controls 79  
SUMMARY 79

### **APPENDIX: THE THEORY OF EFFECTIVE MARKETING-RESOURCE ALLOCATION 82**

## **Part II ANALYZING MARKETING OPPORTUNITIES**

---

### **4 MARKETING INFORMATION SYSTEMS AND MARKETING RESEARCH 94**

CONCEPT AND COMPONENTS OF A MARKETING INFORMATION SYSTEM 96  
INTERNAL RECORDS SYSTEM 97  
The Order-Shipping-Billing Cycle 97 The System of Sales Reporting 97  
Designing a User-Oriented Reports System 97  
MARKETING INTELLIGENCE SYSTEM 98  
MARKETING RESEARCH SYSTEM 99  
Marketing Strategies 4-1: A New Answer to Information Needs—Information Centers 100 Suppliers of Marketing Research 100 The Scope of Marketing Research 101 The Marketing Research Process 102 Marketing Concepts and Tools 4-1: A “Questionable” Questionnaire 107 Marketing Concepts and Tools 4-2: The Marketer’s Dream—Measuring Consumer Response to Ads 112  
Characteristics of Good Marketing Research 112 Management’s Use of Marketing Research 113  
MARKETING DECISION SUPPORT SYSTEM 114  
Marketing Strategies 4-2: The 1990s Marketing Manager Uses Information Power 115  
SUMMARY 115

### **APPENDIX: MARKETING DECISION SUPPORT SYSTEMS 118**

<b>5</b>	<b>ANALYZING THE MARKETING ENVIRONMENT</b>	<b>127</b>
	ACTORS IN THE COMPANY'S MICROENVIRONMENT 129	
	Company 129 Suppliers 130 Marketing Intermediaries 131	
	Customers 132 Competitors 133 Publics 134	
	FORCES IN THE COMPANY'S MACROENVIRONMENT 135	
	Demographic Environment 135 Marketing Environment and Trends 5-1:	
	Impact of Consumerism on Marketing Practices 136 Marketing Environment	
	and Trends 5-2: Age-Group Growth Trends and Their Marketing Implications 138	
	Economic Environment 140 Natural Environment 142 Marketing	
	Environment and Trends 5-3: Impact of Environmentalism on Marketing Decision	
	Making 143 Technological Environment 144	
	Political Environment 146 Cultural Environment 149 Marketing Environment and	
	Trends 5-4: Ten "Megatrends" of Great Import to Marketers 152	
	SUMMARY 152	

	<b>APPENDIX: MAPPING A COMPANY'S MARKETING ENVIRONMENT, MARKETING SYSTEM, AND MARKETING STRATEGY</b>	<b>155</b>
--	--	------------

<b>6</b>	<b>ANALYZING CONSUMER MARKETS AND BUYER BEHAVIOR</b>	<b>161</b>
	Marketing Environment and Trends 6-1: Three Market Segments—Hispanic, Black, and Older Consumers 162	
	A MODEL OF CONSUMER BEHAVIOR 163	
	MAJOR FACTORS INFLUENCING CONSUMER BEHAVIOR 164	
	Cultural Factors 165 Social Factors 166 Marketing Environment and Trends	
	6-2: Women Become a More Important Market for Car Buying 169 Personal	
	Factors 170 Marketing Concepts and Tools: How Lifestyles Are Identified 172	
	Psychological Factors 174	
	THE BUYING DECISION PROCESS 178	
	Buying Roles 178 Types of Buying Behavior 179 Researching the Buying	
	Decision Process 181 Stages in the Buying Decision Process 182	
	SUMMARY 189	

	<b>APPENDIX: SOME ALTERNATIVE DECISION PROCESSES USED BY CONSUMERS TO EVALUATE ALTERNATIVE BRANDS</b>	<b>193</b>
--	---	------------

<b>7</b>	<b>ANALYZING BUSINESS MARKETS AND ORGANIZATIONAL BUYING BEHAVIOR</b>	<b>195</b>
----------	--	------------

	THE INDUSTRIAL MARKET 196	
	Who Is in the Industrial Market? 196 What Buying Decisions Do Industrial	
	Buyers Make? 198 Who Participates in the Industrial Buying Process? 200	
	What Are the Major Influences on Industrial Buyers? 201 Marketing Strategies	

7-1: Just-in-Time Production Changes the Face of Organizational Buying	204
How Do Industrial Buyers Make Their Buying Decisions?	204
THE RESELLER MARKET	210
Who Is in the Reseller Market?	210
Marketing Strategies 7-2: Adapting Marketing Strategy to the Type of Industrial Buyer Segment—The Case of Microprocessors	210
What Buying Decisions Do Resellers Make?	211
Who Participates in the Reseller Buying Process?	211
What Are the Major Influences on Reseller Buyers?	212
How Do Resellers Make Their Buying Decisions?	212
Marketing Concepts and Tools: A New Tool for Resellers—Direct Product Profitability (DPP)	213
THE GOVERNMENT MARKET	214
Who Is in the Government Market?	214
What Buying Decisions Do Government Buyers Make?	214
Who Participates in the Government Buying Process?	214
Companies and Industries: The Institutional Market	215
What Are the Major Influences on Government Buyers?	215
How Do Government Buyers Make Their Buying Decisions?	215
SUMMARY	216

## 8 ANALYZING COMPETITORS 220

IDENTIFYING THE COMPANY'S COMPETITORS	221
Industry Concept of Competition	222
Marketing Concept and Tools 8-1: Five Industry Structure Types	224
Market Concept of Competition	225
IDENTIFYING THE COMPETITORS' STRATEGIES	226
DETERMINING THE COMPETITORS' OBJECTIVES	227
ASSESSING THE COMPETITORS' STRENGTHS AND WEAKNESSES	229
Marketing Concepts and Tools 8-2: Du Pont Profitability Chart	231
ESTIMATING THE COMPETITORS' REACTION PATTERNS	231
DESIGNING THE COMPETITIVE INTELLIGENCE SYSTEM	232
Marketing Concepts and Tools 8-3: Intelligence Gathering—Snooping on Competitors	233
SELECTING COMPETITORS TO ATTACK AND AVOID	234
Marketing Concepts and Tools 8-4: Customer Value Analysis—The Key to Competitive Advantage	235
BALANCING CUSTOMER AND COMPETITOR ORIENTATIONS	236
SUMMARY	237

## Part III RESEARCHING AND SELECTING TARGET MARKETS

---

## 9 MEASURING AND FORECASTING MARKET DEMANDS 240

MAJOR CONCEPTS IN DEMAND MEASUREMENT	241
A Multitude of Measures of Market Demand	241
Which Market to Measure?	241
A Vocabulary for Demand Measure	243
ESTIMATING CURRENT DEMAND	246
Total Market Potential	246
Area Market Potential	247
Marketing Concepts and Tools 9-1: Geodemographic Analysis—A New Tool for Identifying Market Targets	250
Estimating Industry Sales and Market Shares	251
ESTIMATING FUTURE DEMAND	251
Marketing Concepts and Tools 9-2: Methods of Environmental Forecasting	252
Survey of Buyers' Intentions	252
Composite of Salesforce Opinions	254

Expert Opinion 254 Market-Test Method 254 Time-Series Analysis 255  
Statistical-Demand Analysis 256  
SUMMARY 257

**APPENDIX: DETERMINANTS OF COMPANY  
MARKET SHARE 259**

**10 IDENTIFYING MARKET SEGMENTS  
AND SELECTING TARGET MARKETS 261**

MARKET SEGMENTATION 263  
The General Approach to Segmenting a Market 263 Markets and Niches 264  
Patterns of Market Segmentation 264 Marketing Strategies: Customized  
Marketing—It’s Coming Back 265 Market-Segmentation Procedure 266  
Bases for Segmenting Consumer Markets 268 Bases for Segmenting Industrial  
Markets 276 Developing the Customer-Segment Profile 277 Requirements  
for Effective Segmentation 278  
MARKET TARGETING 279  
Evaluating the Market Segments 279 Selecting the Market Segments 281  
Other Considerations in Evaluating and Selecting Segments 284  
SUMMARY 286

**Part IV DESIGNING MARKETING STRATEGIES**

---

**11 MARKETING STRATEGIES FOR DIFFERENTIATING  
AND POSITIONING THE MARKETING OFFER 288**

HOW BUYERS DEFINE VALUE AND CHOOSE SUPPLIERS 289  
IDENTIFYING POTENTIAL COMPETITIVE ADVANTAGES THROUGH  
VALUE-CHAIN ANALYSIS 292  
TOOLS FOR COMPETITIVE DIFFERENTIATION 293  
Product Differentiation 293 Services Differentiation 297 Marketing  
Strategies 11-1: Turbomarketing—Using Quick Response Time as a Competitive  
Tool 298 Personnel Differentiation 300 Image Differentiation 300  
DEVELOPING A POSITIONING STRATEGY 301  
How Many Differences to Promote? 303 Marketing Concepts and Tools:  
Positioning Theme Parks 304 Which Differences to Promote? 304 Marketing  
Strategies 11-2: “Positioning” According to Ries and Trout 306  
COMMUNICATING THE COMPANY’S POSITIONING 307  
SUMMARY 308

**12 DEVELOPING, TESTING, AND LAUNCHING  
NEW PRODUCTS AND SERVICES 310**

THE NEW-PRODUCT-DEVELOPMENT DILEMMA 312  
EFFECTIVE ORGANIZATIONAL ARRANGEMENTS 313  
Marketing Concepts and Tools 12-1: Key Findings on New-Product-Management  
Activity 314 Companies and Industries: 3M’s Approach to Innovation 316

IDEA GENERATION	317
Sources of New-Product Ideas	317
Idea-Generating Techniques	318
IDEA SCREENING	320
Product-Idea Rating Devices	321
CONCEPT DEVELOPMENT AND TESTING	323
Concept Development	323
Concept Testing	324
MARKETING-STRATEGY DEVELOPMENT	325
Marketing Concepts and Tools 12-2: Measuring Consumer Preferences	326
BUSINESS ANALYSIS	328
Estimating Sales	328
Estimating Costs and Profits	329
Marketing Concepts and Tools 12-3: Estimating First-Time Purchases of New Products	331
PRODUCT DEVELOPMENT	332
Marketing Concepts and Tools 12-4: Methods for Measuring Consumer Preferences	333
MARKET TESTING	333
Consumer-Goods Market Testing	334
Marketing Concepts and Tools 12-5: Decisions Facing Management in Setting Up Test Markets	336
Marketing Strategies: Not “Whether to Test” But “How to Test”—The Case of New Coke	337
Industrial-Goods Market Testing	338
COMMERCIALIZATION	338
When (Timing)	339
Where (Geographical Strategy)	339
To Whom (Target-Market Prospects)	340
How (Introductory Market Strategy)	340
THE CONSUMER-ADOPTION PROCESS	340
Concepts in Innovation, Diffusion, and Adoption	342
Stages in the Adoption Process	342
Individual Differences in Innovativeness	342
Role of Personal Influence	343
Influence of Product Characteristics on the Rate of Adoption	344
Influence of Organizational Buyers’ Characteristics on the Rate of Adoption	344
SUMMARY	345

## **13** MANAGING PRODUCTS THROUGH THEIR PRODUCT LIFE CYCLE 347

THE PRODUCT LIFE CYCLE	348
Demand/Technology Life Cycle	348
Stages in the Product Life Cycle	349
Product-Category, Product-Form, and Brand Life Cycles	350
Other Shapes of the Product Life Cycle	351
Marketing Concepts and Tools: Forecasting the Shape and Duration of the Product Life Cycle	353
Rationale for the Product Life Cycle	354
INTRODUCTION STAGE	354
Market Strategies in the Introduction Stage	355
Marketing Strategies 13-1: The Market Pioneer “Advantage”	356
GROWTH STAGE	358
Marketing Strategies in the Growth Stage	358
MATURITY STAGE	358
Marketing Strategies in the Mature Stage	359
Marketing Strategies 13-2: Breaking Through the “Mature-Product Syndrome”	362
DECLINE STAGE	362
Marketing Strategies during the Decline Stage	363
SUMMARY AND CRITIQUE OF THE PRODUCT LIFE-CYCLE CONCEPT	364
THE CONCEPT OF MARKET EVOLUTION	366
Stages in Market Evolution	367
Dynamics of Attribute Competition	369
SUMMARY	370

# 14 DESIGNING MARKETING STRATEGIES FOR MARKET LEADERS, CHALLENGERS, FOLLOWERS, AND NICHERS

373

## MARKET-LEADER STRATEGIES 375

Expanding the Total Market 375 Defending Market Share 377 Marketing Strategies 14-1: Defensive Strategies According to the Defender Model 378 Expanding Market Share 381 Marketing Concepts and Tools: The Impact of Different Marketing-Mix Variables on Market Share 384

## MARKET-CHALLENGER STRATEGIES 385

Defining the Strategic Objective and Opponent(s) 385 Companies and Industries: How Procter & Gamble and Caterpillar Maintain Their Market Leadership 386 Choosing an Attack Strategy 389

## MARKET-FOLLOWER STRATEGIES 392

Marketing Strategies 14-2: Some Attack Strategies Available to Challengers 393

## MARKET-NICHER STRATEGIES 394

Marketing Strategies 14-3: Specialist Roles Open to Market Nichers 396 Marketing Strategies 14-4: Strategies for Entering Markets Held by Incumbent Firms 396

## SUMMARY 397

# 15 DESIGNING STRATEGIES FOR THE GLOBAL MARKETPLACE

399

Market Environment and Trends 15-1: How Does the U.S. Perform in World Trade? 401 Marketing Strategies 15-1: Global Marketing Blunders 403

## APPRAISING THE GLOBAL MARKETING ENVIRONMENT 403

The International Trade System 404 Economic Environment 404 Political-Legal Environment 405 Marketing Environment and Trends 15-2:

How Nations Have Been Moving Back to Barter 406 Marketing Strategies 15-2: Megamarketing—Breaking into Blocked Markets 407 Cultural Environment 407 Business Environment 407

## DECIDING WHETHER TO GO ABROAD 408

Marketing Environment and Trends 15-3: The International Product Life Cycle 409

## DECIDING WHICH MARKETS TO ENTER 409

Marketing Strategies 15-3: Should Multinationals Restrict Their Trade to the Triad Markets? 410 Marketing Concepts and Tools: Assessing Country Risk 412

## DECIDING HOW TO ENTER THE MARKET 413

Indirect Export 413 Direct Export 413 Licensing 414 Joint Ventures 414 Direct Investment 415 The Internationalization Process 415

## DECIDING ON THE MARKETING PROGRAM 416

Product 416 Promotion 417 Marketing Strategies 15-4: Global Standardization or Adaptation? 418 Price 420 Distribution Channels 421

## DECIDING ON THE MARKETING ORGANIZATION 422

Export Department 422 International Division 422 Global Organization 423 Companies and Industries: The World's Champion Marketers—The Japanese? 424

## SUMMARY 424



**16** MANAGING PRODUCT LINES, BRANDS,  
AND PACKAGING 428

WHAT IS A PRODUCT? 429  
Five Levels of a Product 429 Product Hierarchy 431 Product  
Classifications 432  
PRODUCT-MIX DECISIONS 432  
Marketing Concepts and Tools: Product Classifications and Their  
Marketing-Strategy Implications 433  
PRODUCT-LINE DECISIONS 436  
Product-Line Analysis 436 Product-Line Length 437 Line-Modernization  
Decision 440 Line-Featuring Decision 440 Line-Pruning Decision 441  
BRAND DECISIONS 441  
Branding Decision 442 Brand-Sponsor Decision 444 Marketing Strategies:  
Licensing Brand Names for Royalties 444 Family-Brand Decision 445  
Brand-Extension Decision 447 Multibrand Decision 447  
Brand-Repositioning Decision 448  
PACKAGING AND LABELING DECISIONS 449  
SUMMARY 451

**17** MANAGING SERVICE BUSINESSES  
AND ANCILLARY SERVICES 453

NATURE AND CLASSIFICATION OF SERVICES 455  
CHARACTERISTICS OF SERVICES AND THEIR MARKETING IMPLICATIONS 456  
Intangibility 456 Inseparability 457 Variability 457 Perishability 458  
MARKETING STRATEGIES FOR SERVICE FIRMS 459  
Marketing Strategies: Motivating Employees to Care for the Customer—The Case  
of Hospitals 461 Managing Differentiation 461 Managing Service  
Quality 463 Marketing Concepts and Tools: Market-Performance Analysis 466  
Companies and Industries: Walt Disney Enterprises—A Highly Responsive  
Organization 467 Managing Productivity 467  
MANAGING PRODUCT SUPPORT SERVICES 468  
Presale Service Strategy 469 Postsale Service Strategy 469  
SUMMARY 470

**18** DESIGNING PRICING STRATEGIES  
AND PROGRAMS 473

SETTING THE PRICE 475  
Selecting the Pricing Objective 476 Marketing Concepts and Tools 18-1:  
Finding the Profit-Maximizing Price 477 Determining Demand 478  
Estimating Costs 480 Analyzing Competitors' Prices and Offers 482  
Selecting a Pricing Method 482 Marketing Concepts and Tools 18-2: Methods  
of Estimating Perceived Value—An Illustration 486 Marketing Concepts and  
Tools 18-3: Methods for Establishing a Price Around a Perceived Value 488  
Selecting the Final Price 489