

PRINCIPLES OF
MARKETING

THIRD
CANADIAN
EDITION



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GARY ARMSTRONG
PEGGY H. CUNNINGHAM
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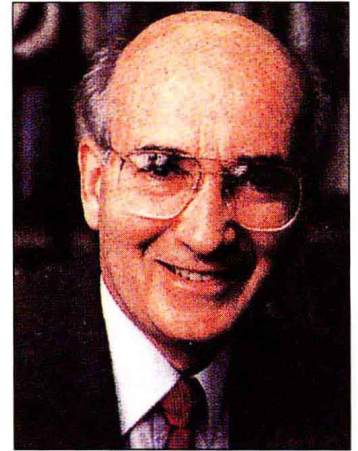
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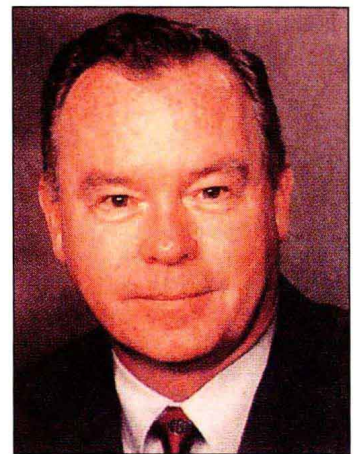
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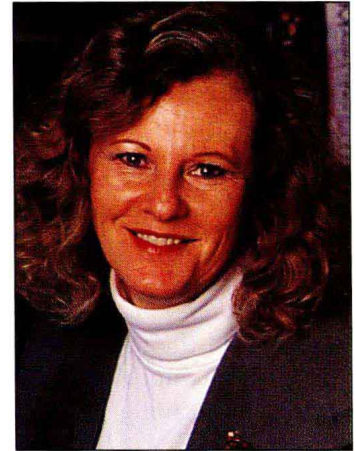
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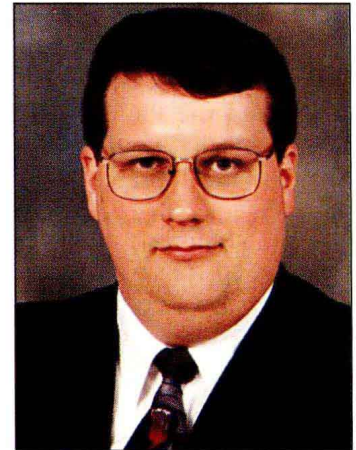
Gary Armstrong is Professor and Chair of Marketing in the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill. He holds undergraduate and master's degrees in business from Wayne State University in Detroit, and he received his Ph.D. in marketing from Northwestern University. 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 Honours 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 the school's highly regarded Award for Excellence in Undergraduate Teaching, which he won for the third time in 1993.



Peggy Cunningham is Assistant Professor of Marketing at Queen's University School of Business. She received her undergraduate degree from Queen's University, completed her MBA at the University of Calgary, and earned her Ph.D. in marketing from Texas A&M University. Dr. Cunningham worked in industry for ten years before becoming an academic which has allowed her to bring the perspective of the practitioner to the study of marketing. She conducts research in the fields of marketing ethics, strategic alliances, and cause-related marketing. She is a devoted teacher who tries to inspire her students to fully realize their full and unique potential. In recognition of these efforts, she has received several teaching and service awards including the Frank Knox award for teaching excellence, a campus-wide award granted by undergraduate students. She is also an active member of the American Marketing Association and was recently nominated as the Vice President (International) for the Marketing Educators' division.



Robert Warren is President of W.W.R., a Winnipeg-based consulting firm specializing in strategic marketing and planning issues. In this role, he has provided market research and analysis services for such firms as AgrEvo, Manitoba Hydro and Happy Harry's. He has also conducted customer service studies and seminars for a variety of clients including Eaton Place, MTS Mobility, and UGG. His work with this company led to an appointment as Assistant Producer for Research on CKY-TV's *The Innovators*. Professor Warren was responsible for uncovering stories and providing background story research. Professor Warren is Director of the University of Manitoba's Family Business Forum. This program was established in 1994 to provide management development seminars for family-owned businesses in Manitoba. He is also the editor of the Centre for Entrepreneurship's newsletter *The Review*. In addition, he is an instructor in the Faculty of Management where he teaches in the Marketing Department. Professor Warren also serves as a Management Services Representative for the Business Development Bank of Canada. In this position he helps new and existing businesses put together business and marketing plans.



Preface

Philip Kotler and Gary Armstrong are among the best-known names in marketing and have long been recognized for their expertise and unique perspectives about the field. When asked to adapt their text for the Canadian marketplace, we were pleased to take on this challenge, because we had such a strong product to start with. However, we also realized that there are distinct challenges to marketing in Canada that had to be considered in our discussion. These challenges include regional and language differences, multiculturalism, population dispersion, different regulatory policies and philosophies, the small domestic marketplace and resulting mandate for global sales, a highly concentrated retail environment, and unique cultural and ethical norms and values that distinguish Canadian business from its American counterparts. In addition, many Canadian firms are operating units of large, multinational firms; thus, marketing in Canada often necessitates integrating Canadian strategies with the global programs of the parent firm.

Despite these differences, considerable common ground can be found in the practice of visionary marketing. Marketing is the business function that identifies customer needs and wants, determines which target markets the organization 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 team up closely with other departments in the company and partner 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 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 art 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 also 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 non-profit 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 intermediaries to make their products available to customers. And

they need to know how to advertise and promote products so 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 sales forces, 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 marketplace. Each chapter opens with a major example describing an actual company situation. Boxed Marketing Highlights, short examples, colour illustrations, video cases, and company cases highlight high-interest ideas, stories, and marketing strategies.

Principles of Marketing tells the stories that reveal the drama of modern marketing: Canadian Tire’s rebirth in the face of foreign competition; Speedy Muffler’s zeal for taking care of customers; Levi-Strauss & Co.’s startling success in finding new ways to grow, both in North America and abroad; Bombardier’s attainment of a leadership position in the cut-throat, business-to-business aerospace market by focussing on the needs of the entire buying centre; Motorola’s quest for customer-driven, “six-sigma” quality; Labatt and TD Bank’s innovative Internet marketing programs; P&G’s struggle to bring sanity back to food prices; Black & Decker’s new-product success through listening to the customer; Coca-Cola’s abandonment of Madison Avenue to “go Hollywood” to create its breakthrough, always cool, Always Coca-Cola advertising campaign; the success of M.A.C., the outrageous Canadian cosmetic firm, in challenging the cosmetic giants; the use of social and cause-related marketing by companies like Imperial Oil and Molson’s to help fulfil their role as responsible corporate citizens; and the struggle of Canadian retailers, such as Eaton’s, Sears Canada, Zellers, the Bay, and the Forzani Group, to meet the demands of a rapidly evolving, highly competitive marketplace. 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 THIRD CANADIAN EDITION

The third Canadian edition of *Principles of Marketing* offers important improvements in organization, content, and style. The revisions emphasize a number of major new marketing themes, including:

- ◆ *Marketing in the Canadian environment*—the features that make Canada both challenging and exciting, including a focus on regionalism, the growth of ethnic markets, and the threats posed by foreign competition.
- ◆ *Delivering superior customer value, satisfaction, and quality*—market-centred strategy and “taking care of the customer.”

- ◆ *Relationship marketing*—keeping customers and capturing *customer life-time value* by building value-laden customer relationships.
- ◆ *Total marketing quality*—the importance of customer-driven, total quality as a means of delivering total customer satisfaction.
- ◆ *Value-delivery systems*—cross-functional teamwork within companies and cross-company, supply-chain partnerships to create effective customer value-delivery systems.
- ◆ *Global marketing*—chapter-by-chapter integrated coverage, plus a full chapter focussing on international marketing considerations.
- ◆ *Marketing ethics, environmentalism, and social responsibility*—chapter-by-chapter integrated coverage, plus a full chapter on marketing ethics and social responsibility.
- ◆ *Internet marketing*—an entire section includes lessons on how to use the Internet for strategic advantage and analyses challenges for integrating it into the marketing mix. Examples, including a case from Labatt, bring this material alive for students.

A carefully revised Chapter 1 introduces and integrates the above topics to set the stage at the beginning of the course. An innovative Chapter 18 on building customer relationships through value, satisfaction, and quality returns the student to these important concepts as a means of tying marketing together at the end of the course. In between, each chapter reflects the current marketing emphasis on delivering customer value and satisfaction and on building customer relationships.

Other major additions to the third Canadian edition include

- ◆ *Marketing communications*—major and important new material in Chapter 15 on the *new marketing communications environment*, *direct marketing*, and *integrated marketing communications*.
- ◆ *Sales management*—in Chapter 17, new sections on *sales force strategy and structure*, *team selling*, and *relationship marketing*.
- ◆ *Marketing logistics*—completely revised coverage of physical distribution to include important new issues in *integrated marketing logistics* and *supply-chain management*. Also, a new section on *hybrid channels*.
- ◆ *Product and brand strategy*—significant new material on brand quality and brand strategy, including *co-branding*, *multibranding*, and *packaging and the environment*.
- ◆ *Marketing management and competitive strategies*—Chapter 19 combines with Chapter 18 to provide the most complete coverage of competitive marketing strategy of any introductory marketing text. New material has been added, including a section on customer value disciplines. These chapters help students to integrate what they've learned about marketing strategy and tactics around the key concept of gaining competitive advantage through the delivery of customer value, satisfaction, and quality.

The third Canadian edition contains many other important changes. A chapter on creating competitive advantage has been added, further strengthening the strategic orientation of the book. Leading-edge topics, such as relationship marketing, integrated marketing communications, global marketing, and total quality management, have been given more extensive coverage. An entire section on Internet marketing has been added and Web sites have been set out throughout the text to encourage students to explore this new area of marketing. Many new chapter-opening examples and Marketing Highlights have been added, reflecting the “best practices” of firms on the forefront of Canadian business. Boxed features entitled “Marketers Speak Out” show students how the lessons of marketing are put to use. All tables, figures, examples, and references throughout the text have been thoroughly updated and reflect the latest data available from

such sources as Statistics Canada, *Canadian Business*, *Marketing* magazine, and the business press. The previous edition's two chapters on consumer behaviour have been combined to create a single, more streamlined Chapter 5. Many new chapter-opening examples and Marketing Highlight exhibits illustrate important new concepts with actual business applications. Dozens of new examples have been added within the running text. The text has an exciting new integrated design, and dozens of new photos and advertisements that illustrate key points and make the text more effective and appealing are included. All the real-life company cases are new or revised, and the text comes with an exciting new collection of video cases that 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-opening objectives.* Each chapter begins with learning objectives that preview the flow of concepts in the chapter.
- ◆ *Chapter-ending summaries of objectives.* At the end of each chapter, summaries are provided for each chapter objective to reinforce main points and concepts.
- ◆ *Chapter-opening examples.* Each chapter starts with a dramatic marketing story that introduces the chapter material and arouses student interest.
- ◆ *Full-colour figures, photographs, advertisements, and illustrations.* Throughout each chapter, key concepts and applications are illustrated with strong, full-colour visual materials.
- ◆ *Marketing highlights.* Additional examples and important information are presented in Marketing Highlight exhibits throughout the text.
- ◆ *Marketers speak out.* Interviews with marketing professionals are interspersed throughout the text, highlighting real-life marketing experiences.
- ◆ *Review questions and exercises.* Each chapter contains a set of discussion questions covering the main chapter points. "Applying the concepts" exercises build individual and group process and leadership skills.
- ◆ *Key terms.* Key terms are highlighted within the text, defined in page margins, and listed at the end of each chapter with page references.
- ◆ *Company cases.* Company cases for class or written discussion are provided at the end of each chapter and four integrative comprehensive cases are included in appropriate places. These cases challenge students to apply marketing principles to real companies in real situations.
- ◆ *Video cases.* Twenty-one written video cases are provided at key points in the text, supported by exciting videos from CBC news programs. These 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.
- ◆ *Web links.* Exciting and useful Internet sites are integrated throughout the text and are easily identifiable by the Web links icon.



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 extensively revised and expanded system of supplemental learning and teaching aids:

FOR THE INSTRUCTOR

- ◆ *Instructor's Resource Manual*. This comprehensive guide includes a chapter summary for a quick overview, a list of key teaching objectives, and answers to all end-of-chapter discussion and case questions. A highly detailed lecture outline cuts preparation time by thoroughly integrating the video material, cases, and transparencies. In addition, the manual summarizes each video and provides answers to the video case discussion questions.
- ◆ *Instructor's Electronic Resource Manual*. This manual is available electronically on 3.5" disks (IBM version only).
- ◆ *Test Item File*. The test item file contains over 2000 multiple-choice, true/false, and essay questions.
- ◆ *PH Custom Test*. This powerful computerized testing package uses a state-of-the-art software program which provides fast, simple, and error-free test generation. Entire tests can be previewed on-screen before printing. Tests can be saved to one of three word processing file formats: WordPerfect, Microsoft Word, or ASCII. PH Custom Test can print multiple variations of the same test, scrambling the order of questions and multiple-choice answers.
- ◆ *Colour Transparencies*. Two hundred full-colour transparencies highlight key concepts for presentation. Each transparency is accompanied by a full page of teaching notes that include relevant key terms and discussion points from the chapters as well as additional material from supplementary sources.
- ◆ *Electronic Transparencies*. All acetates and lecture notes are available on Powerpoint 4.0. The disk is designed to allow you to present the transparency to your class electronically and also may be used as part of a Presentation Manager lecture.
- ◆ *CBC Video Cases*. Prentice Hall Canada and the CBC have worked together to bring you 21 segments from such notable CBC programs as *Venture*, *Market Place*, and *Undercurrents*. Designed specifically to complement the text, this case collection is an excellent tool for bringing students into contact with the world outside the classroom. These programs have extremely high production quality, present substantial content, and have been chosen to relate directly to chapter content.
- ◆ *BRANDMAPS*. This is a multi-brand, multi-market computerized marketing simulation exercise designed for use in undergraduate marketing principles and first-year MBA marketing courses.



FOR THE STUDENT

- ◆ *Learning Guide.* The Learning Guide includes chapter overviews, objectives, key terms and definitions, and detailed outlines for note-taking and review. A special applications section, “Applying Terms and Concepts,” is designed to illustrate and apply topics in marketing. Each case in the section either is a synopsis of a recent article in marketing or has been drawn from the author’s experiences in the field. To reinforce students’ understanding of the chapter material, the guide includes a section of multiple-choice and true/false questions. Additional sections include a marketing research paper, a project outline, and a special careers appendix.



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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 School of Business, Queen’s University, the University of Manitoba, J. L. Kellogg Graduate School of Management, Northwestern University, at the Kenan-Flagler Business School, University of North Carolina at Chapel Hill, for ideas and suggestions. We owe special thanks to 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 thank Cathy Goodwin, University of Manitoba, for her work on the Services Marketing Chapter, and Lewis Hershey for his work in preparing the *Instructor’s Resource Manual*, *Test Item File*, and *Colour Transparencies Package*. We want to acknowledge Rick Starr, who prepared chapter objective summaries, discussion questions, and exercises. Thanks also go to Tom Paczkowski for the *Student Learning Guide*. Finally, we thank Mark Palmer for his help in so many phases of the text’s development, and Betsey Christian for her able editing assistance.

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Philip Kotler
Gary Armstrong
Peggy H. Cunningham
Robert Warren

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