

Marketing Management



THE MILLENNIUM EDITION

Philip Kotler

Marketing Management

The Millennium Edition

Philip Kotler
Northwestern University

*Companies should think about the Millennium as a
golden opportunity to gain mindshare and heartshare.*

—Philip Kotler

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DEDICATION

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



ABOUT THE AUTHOR

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 Graduate 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. He did postdoctoral work in mathematics at Harvard University and in behavioral science at the University of Chicago.

Dr. Kotler is the co-author of *Principles of Marketing* and *Marketing: An Introduction*. His *Strategic Marketing for Nonprofit Organizations*, now in its fifth edition, is the best seller in that specialized area. Dr. Kotler's other books include *Marketing Models*; *The New Competition*; *Marketing Professional Services*; *Strategic Marketing for Educational Institutions*; *Marketing for Health Care Organizations*; *Marketing Congregations*; *High Visibility*; *Social Marketing*; *Marketing Places*; *The Marketing of Nations*; *Marketing for Hospitality and Tourism*; *Standing Room Only—Strategies for Marketing the Performing Arts*; *Museum Strategy and Marketing*; and *Kotler on Marketing*.

In addition, he has published more than one hundred articles in leading journals, including the *Harvard Business Review*, *Sloan Management Review*, *Business Horizons*, *California Management Review*, the *Journal of Marketing*, the *Journal of Marketing Research*, *Management Science*, the *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*.

Professor Kotler was the first recipient of the American Marketing Association's (AMA) Distinguished Marketing Educator Award (1985). The European Association of Marketing Consultants and Sales Trainers awarded him their Prize for Marketing Excellence. He was chosen as the Leader in Marketing Thought by the Academic Members of the AMA in a 1975 survey. He also received the 1978 Paul Converse Award of the AMA, honoring his original contribution to marketing. In 1995, the Sales and Marketing Executives International (SMEI) named him Marketer of the Year. He has received 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, and the University of Economics and Business Administration in Vienna.

Professor Kotler has been a consultant to many major U.S. and foreign companies, including IBM, General Electric, AT&T, Honeywell, Bank of America, Merck, SAS Airlines, Michelin, and others 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, and a member of the Copernicus Advisory Board. He is a member of the Board of Governors of the School of the Art Institute of Chicago and a member of the Advisory Board of the Drucker Foundation. He has traveled extensively throughout Europe, Asia, and South America, advising and lecturing to many companies about global marketing opportunities.

PREFACE

When the first edition of *Marketing Management* was written in 1967, marketing was a far simpler subject. Consumer marketing largely operated on mass marketing principles, and business marketing primarily concerned itself with how to build the best sales force. The retail landscape was populated with major department stores, regional supermarket food chains, and a very large number of mom-and-pop stores. Most marketing thinking focused on making the sale.

In those days, marketers faced a number of tough decisions. They had to determine product features and quality, establish accompanying services, set the price, determine the distribution channels, decide how much to spend on marketing, and decide how to divide their resources among advertising, sales force, and other promotion tools.

Today's marketers, of course, face the same tough decisions. But today's marketplace is enormously more complex. Domestic markets, at one time safe from foreign invaders, are now the happy hunting grounds of giant global corporations as well as global niche specialists. Major strides in technology have considerably shortened time and distance: New products are launched at an astonishing pace and are available worldwide in a short time. Communications media are proliferating. New distribution channels and formats keep appearing. Competitors are everywhere—and hungry.

In the midst of these changes, busy consumers are changing their ways. To save time, they are shopping with catalogs, the telephone, and the computer. Today consumers can search the Internet to find the best price for a car. They can handle most of their banking needs over the phone or by computer. They can buy insurance and carry out financial transactions without working with an agent or broker. Consumers don't even need to visit the supermarket: Using Peapod, Streamline, or Netgrocer, they can place orders over the Internet and have the groceries delivered to their homes. Nor do they need to buy a newspaper to get their news; in fact, they can get a customized version of the *Wall Street Journal* every morning.

The changes for business buyers are also profound. Using the Internet, purchasing agents can search for the best vendors and values. General Electric has created the Trading Process Network (TPN) where GE, along with other subscribers to GE's service, can request quotes, negotiate terms, and place orders with global suppliers. Purchasing agents can go on-line to www.Dell.com and order specific computers with customized features.

These new shopping capabilities signify a brand new world of proliferating opportunities and proliferating threats. Silicon Valley is only one symbol of a Brave New World characterized by digitalization, robotization, telecommuting, artificial intelligence, virtual reality, and other technological advances. At the same time, what is a magnificent opportunity for millions of consumers and businesses is a major and sometimes deadly threat to others. Banks will have to close branches; travel agencies and brokerage firms will need to reduce staffs; automobile manufacturers will reduce the number of auto dealerships; and many bookstores, music stores, and video stores will close their doors. Technological advances are a double-edged sword: They create opportunities and they destroy opportunities.

This new world is also characterized by an amazingly rich information environment. Consumers will be able to access objective information on competing brands, including costs, prices, features, and quality, without relying on individual manufacturers or retailers. In many cases, they will be able to specify the customized features they want. They will even be able to specify the prices they are willing to pay, and wait for the most eager sellers to respond. The result is a dramatic shift of economic power from sellers to buyers.

Savvy companies are recognizing the inevitability of *customer value migration*: Customers will continuously shift toward suppliers who can deliver greater value. As buyers adopt new shopping routines, companies that have heavy investments in the older ways of providing value have only two courses of action. They can pursue *maintenance marketing*, an effort to convince customers that they still offer the most value, or they can pursue *transformational marketing*, an effort to reorganize to deliver greater value.

Savvy companies recognize that a major revolution is taking place in markets and marketing. More companies today are striving for leadership in specific markets instead of accepting second-rate positions in mass markets. Companies are emphasizing retaining customers rather than simply acquiring new ones. Companies are expanding their offerings mix in a bid for *customer share*, not just market share. Companies are identifying their more profitable customers and giving them extraordinary service. Companies are basing their decisions on *customer lifetime value* rather than on immediate profit maximization.

Every company's set of beliefs and practices is undergoing challenge and change:

1. From engineers designing products alone to involving marketing and other functions as well as customers in product development.
2. From pricing the product by an arbitrary markup over cost to pricing on the basis of delivered or perceived customer value.
3. From communicating and promoting offerings mainly through persuasion-based advertising and salespeople to using a much broader set of communication vehicles and platforms.
4. From relying mainly on one channel of distribution to building a mix of channels for reaching customers.
5. From running the company as a separate entity to building a superior value delivery network with suppliers and distributors as committed partners.

Yet even companies that undertake these changes need marketing vision and marketing knowhow to succeed. Many managers think of marketing as a company department whose job is to analyze the market, discern opportunities, formulate marketing strategies, develop specific strategies and tactics, propose a budget, and establish a set of controls. But there is more to marketing: Marketing must also push the rest of the company to be customer-oriented and market-driven. Marketing must convince everyone in the company and in its larger network to create and deliver superior customer value.

Marketing is more than a company department: It is an orderly and insightful process for thinking about and planning for markets. The process is applicable to more than just goods and services. Anything can be marketed—ideas, events, organizations, places, personalities. The process begins with researching the relevant marketplace to understand its dynamics and to identify opportunities to meet existing or latent needs. It involves segmenting the market and selecting those segments that the company can satisfy in a superior way. It involves formulating a broad strategy and refining it into a detailed marketing mix and action plan. It involves carrying out the plan, evaluating the results, and making further improvements.

THE MILLENNIUM EDITION

We have called the tenth edition the millennium edition because it will appear just as a new millennium begins and just as the pace of change in the marketplace is accelerating. It is an opportunity to select the best of past theory and practice and to introduce the new marketing ideas, tools, and practices that companies will need to operate successfully in the new millennium. Hundreds of mini-case examples have been added to illustrate what leading companies are doing to meet the challenges of the new environment. Throughout the book, we show how the World Wide Web and e-commerce are dramatically altering the marketing landscape.

At the same time, this special millennium edition continues to build on the fundamental strengths of past editions:

1. *A Managerial Orientation.* This book focuses on the major decisions marketing managers and top management face in their efforts to harmonize the organization's objectives, capabilities, and resources with marketplace needs and opportunities.
2. *An Analytical Approach.* This book presents a framework for analyzing recurrent problems in marketing management. Cases and examples illustrate effective marketing principles, strategies, and practices.
3. *A Basic Disciplines Perspective.* This book draws on the rich findings of various scientific disciplines—economics, behavioral science, management theory, and mathematics—for fundamental concepts and tools.
4. *Universal Applications.* This book applies marketing thinking to the complete spectrum of marketing: products and services, consumer and business markets, profit and nonprofit organizations, domestic and foreign companies, small and large firms, manufacturing and intermediary businesses, and low- and high-tech industries.
5. *Comprehensive and Balanced Coverage.* This book covers all the topics an informed marketing manager needs to understand: the major issues in strategic, tactical, and administrative marketing.

FEATURES OF THE MILLENNIUM EDITION

This edition has been both streamlined and expanded. It is still the same book, but every word has been scrutinized and much has been condensed to bring the essentials and the classic examples into sharper focus.

"The same but different": streamlining

■ **FEWER CHAPTERS:** The tenth edition has been streamlined from 24 chapters to 22 by combining topics that fit naturally together. Chapter 8 now covers all the aspects of dealing with the competition, including the material on market strategies for leaders, challengers, nichers, and followers. Chapter 10 now covers differentiating and positioning the market offering over the product life cycle.

■ **ORGANIZATION:** The book is still organized in five parts, but in a different configuration: Part I, "Understanding Marketing Management," includes chapters on the societal, managerial, and strategic underpinnings of marketing theory and practice. Part II, "Analyzing Marketing Opportunities," presents concepts and tools for analyzing markets and marketing environments to find opportunities. Part III, "Developing Marketing Strategies," focuses on positioning, new market offerings, and

global strategies. Part IV, “Shaping the Market Offering,” deals with developing and managing brands and product lines, services, and pricing strategies and programs. Part V, “Managing and Delivering Marketing Programs,” deals with the tactical and administrative side of marketing; the logistics of marketing channels; retailing and wholesaling; integrated marketing communications; advertising, promotion, and public relations; the salesforce; direct and on-line marketing; and managing the total marketing effort.

■ **BOXED MATERIAL:** The book still contains three series of boxes: *Marketing Insight* boxes highlight current research work and findings in marketing management. *Marketing Memo* boxes present tips and suggestions for marketing managers at all stages of the marketing management process. *Marketing for the Millennium* boxes focus on technological advances and e-commerce. Boxes in both the Insight and the Memo series have been revised and updated, and new topics have been added; all Millennium boxes are entirely new.

New features, expanded coverage

Streamlining and condensing have also made room for expansion and for new features:

■ *New End-of-Chapter Exercises.* The Applications section includes several new types of extremely practical exercises to challenge students:

- *Concept Checks* review important material developed in the chapter.
- *Marketing and Advertising* exercises focus on real companies and include the ads; they give the student practice in analyzing the marketing objectives advertising is intended to realize.
- *Focus on Technology* exercises help the student learn to deal with advances in technology, again using real organizations and real Internet Web sites.
- *Marketing for the Millennium* exercises again focus on real companies with real Web sites to give the student the opportunity to analyze trends and changing marketing opportunities.
- *You’re the Marketer* asks students to make a formal marketing plan using the hypothetical example of the Sonic Company from chapter 3; it is linked to the Marketing Plan Pro software.

■ Revised and expanded Direct and On-line Marketing Chapter covers all the new marketing and information channels and explains their impact on marketing management strategies and tactics. It includes revised and expanded coverage of electronic business: e-commerce, the on-line consumer, the advantages/disadvantages of on-line marketing, methods of conducting on-line marketing, and the promise and challenges of on-line marketing.

■ Minicase and In-text Examples have been replaced, updated, and added to focus on e-commerce companies, uses of the Internet, and service businesses, as well as classic cases. New minicases include Amazon.com, Virtual Vineyards, iVillage.com, AOL, Alvin Ailey Dance Company, Tiffany, and Cadillac; updated minicases include Procter & Gamble, Nike, Wal-Mart, Caterpillar, and Club Med. Classic minicases such as Ben & Jerry’s, Absolut vodka, and Kodak have been retained.

■ New and updated *Marketing Insight* boxes include such topics as “Scholars and Dollars: Marketing and Selling Comes to College”; “Sara Lee: From Manufacturer to Nimble Marketer”; “Mr. Failure’s Lessons for Sweet Success: Robert McGrath’s New Product Showcase and Learning Center”; and “The Rise of Corporate Branding.”

■ New and updated *Marketing Memo* boxes focus on such topics as “Tapping into the Net Generation,” “Internet Ethics for Kids,” and “Commandments of Discounting.”

■ New *advertisements* plus screen captures showing Web pages from real companies illustrate topics discussed in boxes or presented in minicases in that chapter.

■ The *millennium theme* appears throughout the book:

- A new *Marketing for the Millennium* box focuses on looking forward and on trends that will mark the new millennium. Topics include “Monsanto: From Old Line Chemicals to Cutting-Edge Life Sciences,” describing how companies are reinventing themselves, and Internet topics such as “The Business-to-Business Cyberbuying Bazaar” and “Developing Products on Internet Time: The Story of Netscape’s Navigator.”
- *Millennium margin* notes present facts and information about the millennium, the millennium celebration worldwide, millennium products, and millennium marketing ideas.
- Key chapters—such as chapters 1, 3, and 21—contain *twenty-first century sections* focused on the future.

■ New *Kotler on Marketing* statements summarize a topic in condensed form and open each chapter.

THE TEACHING AND LEARNING PACKAGE

This edition of Marketing Management includes a number of ancillaries designed to make the marketing management course an exciting, dynamic, interactive experience.

■ A comprehensive, extensively revised *Instructor’s Resource Manual* includes chapter/summary overviews, key teaching objectives, answers to all end-of-chapter Applications exercises, supplementary resource suggestions, exercises, and transparency lecture notes. Detailed lecture outlines integrate video material and transparency notes. Portions of the manual may be downloaded as an electronic file from the Prentice Hall web site at www.prenhall.com/kotler.

■ The *Test Item File*, prepared by Betty Pritchett, contains more than 2,000 multiple-choice, true-false, and essay questions. Each question is rated by level of difficulty and includes a text page reference. In electronic format, it is available in Mac and Windows in *Prentice Hall Test Manager*; it is also available in print. Instructors without access to computers can use Prentice Hall’s complimentary test preparation service. Just call 1-800-842-2958 and tell the customer service representative which questions from the test item file you want on the test. A ready-to-administer test will be faxed to you within 24 hours.

■ All-new *full color transparencies*, 10 to 20 images per chapter, highlight key concepts. 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. All are available in electronic form on PowerPoint 4.0. The electronic transparencies may be downloaded as an electronic file from the Prentice Hall web site at www.prenhall.com/kotler.

■ Broadcast television and marketing education have joined forces to create the most exciting and valuable video series ever produced for business education, *ON LOCATION! Custom Case Videos for Marketing*. Each of the 6- to 8-minute *ON LOCATION!* clips is issue oriented; each holds students' attention by linking video to all the major conceptual elements of the text. Each clip weaves facilities, advertisements, product shots, text illustrations, and interviews with marketing managers and customers. With *ON LOCATION!* you can take your class on these marketing field trips without leaving the classroom: Airline, DHL, DuPont, Got Milk, House of Blues, Intel, Kodak, Levi's, NASCAR, Nike, Nivea, Sputnik, Starbucks, The Forum, Shops, WNBA, and Yahoo!

■ The *New York Festivals International Advertising Awards* recognize the best advertising from around the world. Each year a distinguished panel of judges reviews nearly 10,000 campaign entries from more than 50 countries and awards gold, silver, and bronze medals. Prentice Hall is the exclusive educational distributor of the gold medal winners in the television and cinema category: three videocassettes with nearly 200 of these award-winning spots are available upon adoption of this book.

■ *Marketing Plan Pro*. This highly-rated software is totally interactive, featuring ten sample marketing plans, excellent help, customizable charts, and professional-looking color printouts. The plan wizards enable you to easily customize your marketing plan to fit your marketing needs. Then follow the clearly outlined steps—define, plan, budget, forecast, track, and measure—from strategy to implementation. Click to print, and your text, spreadsheet, and charts come together to create a powerful marketing plan.

■ *PhotoWars CD-ROM*. *PhotoWars* is a brand-new simulation by Mohan Sawhney (Northwestern University) and Raj Malhotra, together with PowerSim and Arthur Andersen. It provides a software-based learning environment to help users improve their skills for navigating in high-change digital markets. *PhotoWars* is designed to be an "action learning" exercise whereby students will learn concepts, and apply what they learn, based upon the Digistrat management framework. The *PhotoWars* environment allows repeated plays and provides instant feedback by employing powerful system dynamics models based on a PowerSim simulation software engine. This allows managers to learn by doing, and to learn by failing safely. Observing and experimenting with such interactions allows the user to grasp the model's structure. Available at a nominal cost, packaged with the millennium edition, *PhotoWars* can be assigned outside of class or incorporated into two to three class sessions.

■ *CW/PHLIP*. Keep your course updated throughout the year with the most advanced and text-specific site available on the Web today! Developed by professors for professors and their students, this is a content-rich, multidis-

ciplinary business Web site that is updated every two weeks by the CW/PHLIP Team of 40 Ph.D. professors. This resource is available at no extra cost to professors and students. Our Web site has been vastly improved to include electronic study guides for students, additional Internet exercises and links for students, and a complete array of teaching material including downloadable versions of many components. (Try Syllabus Builder to plan your course!) Go as fast as you can to www.prenhall.com/phlip to preview this fantastic resource!

■ *WebCT*. The Business Publishing WebCT course is a full-featured, Internet-based, complete course management and distance learning solution. Instructors with little or no technical experience can use a point-and-click navigation system to design their own on-line course components, including setting up a course calendar, quizzes, assignments, lectures, and self-paced study help. These courses were developed *by educators for educators*. The same team that developed our feature-rich Web sites hired 40 experienced college professors, who produced our WebCT courses in teams of three.

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Philip Kotler
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July 1999

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