

MARKETING MANAGEMENT

ANALYSIS, PLANNING AND CONTROL

FIFTH EDITION

PHILIP KOTLER

MANAGEMENT

analysis, planning, and control

Philip Kotler

Northwestern University

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MARKETING MANAGEMENT: analysis, planning, and control, Fifth Edition
Philip Kotler

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Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

ISBN 0-13-558024-2

Prentice-Hall International, Inc., *London*
Prentice-Hall of Australia Pty Limited, *Sydney*
Editora Prentice-Hall do Brasil, Ltda., *Rio de Janeiro*
Prentice-Hall Canada Inc, *Toronto*
Prentice-Hall of India Private Limited, *New Delhi*
Prentice-Hall of Japan, Inc., *Tokyo*
Prentice-Hall of Southeast Asia Pte. Ltd., *Singapore*
Whitehall Books Limited, *Wellington, New Zealand*
Prentice-Hall, Inc., *Englewood Cliffs, New Jersey*

This book is dedicated
to my wife, Nancy,
with love

About the Author



PHILIP KOTLER is the Harold T. Martin Professor of Marketing at the J. L. Kellogg Graduate School of Management at Northwestern University. He received a master's degree at the University of Chicago and a Ph.D. degree at M.I.T., both in economics. He did postdoctoral work in mathematics at Harvard and in behavioral science at the University of Chicago.

Dr. Kotler is the author of *Principles of Marketing*, one of the leading undergraduate textbooks, now in its second edition. His *Marketing for Nonprofit Organizations*, now in its second edition, is the most widely used textbook in that specialized area. Dr. Kotler's other books are *Marketing Model-Building: A Decision Making Approach*; *Marketing Management and Strategy: A Reader*; *Creating Social Change*; and *Simulation in the Social and Administrative Sciences*. In addition, he has written over seventy articles for leading journals, including the *Harvard Business Review*, *Journal of Marketing*, *Journal of Marketing Research*, *Management Science*, and *Journal of Business Strategy*. He is the only three-time winner of the coveted Alpha Kappa Psi annual award for the best 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), and as director of the American Marketing Association. He is currently on the board of trustees of the Marketing Science Institute and is a director of the Management Analysis Center (MAC) and Deltak, Inc. He received the 1978 Paul D. Converse Award given by the American Marketing Association to honor "outstanding contributions to science in marketing." In 1983, he was honored as Marketer-of-the-Year by the Chicago Chapter of the American Marketing Association.



Preface

Marketing is the business function that identifies current unfulfilled needs and wants, defines and measures their magnitude, determines which target markets the organization can best serve, and decides on appropriate products, services, and programs to serve these markets. Thus marketing serves as the link between a society's needs and its pattern of industrial response.

The Current Marketing Environment

The last decade has been one of trial and tribulation for most companies, here and abroad. Following the Mideast war of 1972, the world economy was plunged into a period of great shortages of oil and of many products that depended on oil. Shortages were shortly followed by double-digit inflation. Efforts to curb inflation led many countries into recession. Consumers' optimism soured into pessimism, and consumers slowed down their spending and proceeded to buy more carefully.

Several major companies tottered under the impact of the hard times, including Chrysler, International Harvester, and Braniff. Some of these companies were not the victims of the times so much as of their own failure to interpret new market forces and consumer requirements. They were victims of weak marketing and weak strategic planning. Other companies showed a high capacity to adapt to changing market needs—Procter & Gamble, IBM, McDonald's, General Mills—and continued to show good profits throughout the period, demonstrating that marketing can make a difference.

On the whole, the United States has been losing industrial leadership during this period. The U.S. foreign trade deficit hit record highs. American firms have been outperformed in many world markets by the Japanese and by some European firms. The U.S. auto industry fell into a weakened position because of its failure to

downsize its cars early enough; and the U.S. steel industry is paying dearly for its failure to invest in more modern plants years ago. Many U.S. companies are saddled with high labor costs that prevent their products from being competitive in world markets. U.S. productivity has fallen, and the U.S. reputation for quality products has slipped in the minds of many consumers.

Many critics have placed the blame on U.S. management, saying that it suffers from a too short-run orientation. Top management is judged by annual profitability, and their bonuses are highly related to their current performance. Top management, it is alleged, has stinted on long-run productivity investments, quality improvements, and technological research. The result has been slipping productivity and noncompetitive global costs.

In the meantime another nation, Japan, views market development in much longer-range terms. They plan for global leadership and have succeeded in winning the lion's share of demand in a number of important global markets, including automobiles, cameras, consumer electronics, watches, steel, and shipbuilding. They have accomplished this by going after market share instead of current profitability and also receiving government support in their drive for global industrial leadership.

The marketing challenges thus are greater than at any time in history. Business firms face the following problems:

An international market that is moving toward greater protectionism.

Many nations that are so debt-ridden that it is hard or risky to do business with them. Foreign companies that receive subsidies from their governments and win business through lower prices.

High U.S. wages that make some of our mainstay employment industries uncompetitive in world markets.

A cautious consumer population that is price sensitive and increasingly responsive to price discounts and generic products.

Old industries like autos and steel that have lost their competitive edge.

An insufficient number of new industries in which the United States has a competitive edge and that offer high employment opportunities.

Companies hope that these problems can be solved. Properly viewed, the problems are also opportunities. More companies are recognizing that they need stronger marketing and that they have been mistaking a selling operation for a marketing operation. Selling is what a company does to dispose of the products it makes. Marketing is what a company does to decide on what products to make in the first place. As companies recognize that their marketing can and must be improved, they are taking concrete steps to transform their companies into sophisticated marketing companies. They recognize that the marketplace, not the factory, ultimately determines which firms will succeed. Their challenge is to find ways to reconcile company profitability, customer-need satisfaction, and social responsibility.

Marketing will remain one of the most difficult decision-making areas for companies. Marketing problems do not exhibit the neat quantitative properties of many problems in production, accounting, or finance. Psychological variables 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, nonlin-

ear, lagged, stochastic, interactive, and downright difficult. However, this is not taken as a case for intuitive decision making; rather it suggests the need for improved theory and sharper tools for analysis.

The Nature of This Book

This book on marketing management has the following features:

- *A managerial orientation.* This book focuses on the major decisions facing marketing executives and top management in their attempt to harmonize the objectives and resources of the organization with the needs and opportunities in the marketplace.
- *An analytical approach.* This book presents a framework for analyzing recurrent marketing problems. Descriptive material is introduced where it helps illustrate marketing principles.
- *A basic disciplines perspective.* This book draws heavily on the basic disciplines of economics, behavioral science, and mathematics. *Economics* provides the fundamental tools and concepts for seeking optimal results in the use of scarce resources. *Behavioral science* provides fundamental concepts and findings for the interpretation of consumer and organizational buying behavior. *Mathematics* provides an exact language for expressing the relationships existing between two or more variables.
- *A universal approach.* This book applies marketing thinking to a wide range of phenomena. Marketing is relevant to industrial as well as consumer markets, service industries as well as goods industries, small companies as well as large ones, nonprofit organizations as well as profit companies, and buyers as well as sellers.
- *Comprehensive and balanced coverage.* This book avoids a lopsided coverage of strategic, tactical, or administrative marketing. It covers all the topics about which a marketing manager needs some knowledge.

Changes in the Fifth Edition

The fifth edition has been written to reflect the new problems facing companies and the new concepts needed to deal with these problems. The fifth edition has the following objectives:

- To strengthen the material on strategic marketing because of the increasing necessity for executives to think strategically and not only tactically.
- To strengthen the material on marketing organization and implementation, because many companies fail to carry out their strategies in an effective manner.
- To create a stronger chapter flow, which takes the reader through the whole marketing management process—understanding marketing management, analyzing market opportunities, researching and selecting target markets, developing marketing strategies, planning marketing tactics, and implementing and controlling the marketing effort.
- To introduce the current statistics and new episodes that illustrate effective (or ineffective) marketing.

These objectives have led to the following distinctive features in the fifth edition:

- Two new chapters, specifically chapter 13 (“Marketing Strategies During Periods of Shortages, Inflation, and Recession”) and chapter 18 (“Retailing, Wholesaling, and Physical-Distribution Decisions”).
- Several substantially revised chapters, specifically chapters 1, 2, 6, 9, 11, 12, 19, 22, and 23.

- New and expanded material on marketing planning, strategic planning, competitive marketing strategies, marketing warfare, product life cycles, marketing strategies in different economic climates, marketing implementation, negotiation, pricing strategies, retailing and wholesaling, principles of effective marketing communication, and marketing of services.
- Substantial revision of the writing style toward shorter and more active prose.
- Substantial updating of references and citations of contemporary marketing success stories and empirical findings.
- Improved pedagogical aids: new end-of-the-chapter questions, new Instructor's Manual with lecture suggestions and multiple-choice questions, and three new or revised compatible supplementary texts: *Marketing Management and Strategy: A Reader*, 3rd ed., Philip Kotler and Keith Cox; *Cases in Marketing Management: Issues for the 1980s*, Charles Hinkle and Esther Stineman; *Problems in Marketing Management: A Workbook*, Jack Sissors.

The book is organized into six parts. *Part I* develops the societal, managerial, and strategic underpinnings of marketing. *Part II* presents concepts and tools for analyzing any market and marketing environment to discern opportunities. *Part III* presents principles for researching and selecting target markets. *Part IV* deals with strategic marketing and describes how firms can develop their marketing strategies. *Part V* deals with tactical marketing and describes how firms 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.

Acknowledgments

This fifth edition bears the imprint of many persons. I first want to thank my colleagues and associates at the J. L. Kellogg Graduate School of Management at Northwestern University. My colleagues in the marketing department made an important contribution through their zest in blending marketing theory with managerial practice: Bobby J. Calder, Richard M. Clewett, Lakshman Krishnamurthi, Stephen A. LaTour, Sidney J. Levy, Prabha Sinha, Louis W. Stern, Brian Sternthal, Alice Tybout, and Andris A. Zoltners. I also want to acknowledge the valuable assistance of three scholars in our marketing program: Bruce Wrenn, for his work on text material and the instructor's manual; Françoise Simon-Miller, for her valued comments on four chapters; and Lalita Ajay Manrai, for her expert manuscript editing and managing of the workflow process. I also benefited from the excellent secretarial assistance of Marion Davis, Laura Pooler, and Linda Winstead. I also want to thank the Harold T. Martin family for the generous support of my chair at the J. L. Kellogg Graduate School of Management of Northwestern University. Completing the Northwestern team is my dean and longtime friend, Donald P. Jacobs, whom I want to thank for his continuous support of my research and writing efforts.

I am also indebted to the following colleagues at other universities who reviewed this edition and provided insightful suggestions.

C. L. Abercrombie—Memphis State University

William E. Bell—California State University, Fullerton

Peter Bennett—Pennsylvania State University
Marian Burke—Duke University
Julie Edell—Duke University
Jay Klompmaker—University of North Carolina, Chapel Hill
Edward Popper—Northeastern University
Peter Wilton—University of California, Berkeley

My thanks also go to my foreign-edition coauthors for their suggestions on the contents of the fifth edition:

Bernard Dubois—Centre d'Enseignement Superieur des Affaires (France)
Peter Fitzroy and Robin Shaw—Monash University (Australia)
Ronald E. Turner—Queen's University (Canada)

The talented staff at Prentice-Hall deserves praise for their role in shaping the present book. My editor, Elizabeth Classon, offered excellent advice on the form of the fifth edition. I also want to acknowledge the fine editorial work of Esther Koehn, college production editor; the creative graphic design of Maureen Eide, and the marketing research work of Paul Misselwitz.

My overriding debt is to my wife, Nancy, who provided me the time, support, and inspiration needed to regenerate this book. It is truly our book.

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