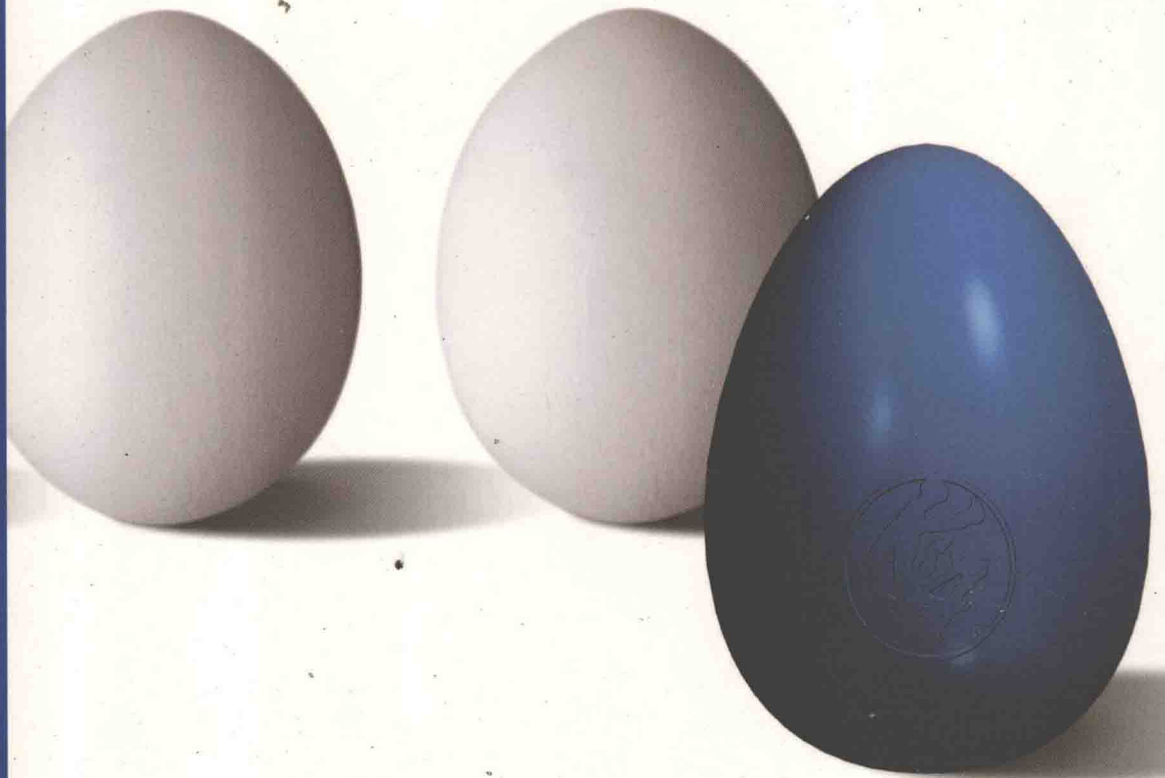




Pearson International Edition



PRINCIPLES OF MARKETING

PHILIP KOTLER
GARY ARMSTRONG

ELEVENTH EDITION

Principles of Marketing

Eleventh Edition

Philip Kotler

Northwestern University

Gary Armstrong

University of North Carolina



Pearson Education International

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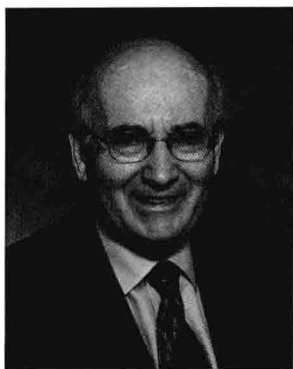
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Dedication

*To Kathy, Betty, KC, Keri, Delaney, Mandy, Matt, and Molly;
and Nancy, Amy, Melissa, and Jessica*

About the Authors

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



PHILIP KOTLER | is one of the world's leading authorities on marketing. He is the S. C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg 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. Dr. Kotler is author of *Marketing Management*, now in its twelfth edition and the most widely used marketing textbook in graduate schools of business. He has authored more than 20 other successful books and more than one hundred articles in leading journals. 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*. He was named the first recipient of two major awards: the *Distinguished Marketing Educator of the Year Award* given by the American Marketing Association and the *Philip Kotler Award for Excellence in Health Care Marketing* presented by the Academy for Health Care Services Marketing. Other major honors include the 1978 Paul Converse Award of the AMA, honoring his original contribution to marketing, the European Association of Marketing Consultants and Sales Trainers Prize for Marketing Excellence, the 1995 Sales and Marketing Executives International (SMEI) Marketer of the Year award, the 2002 Academy of Marketing Science Distinguished Educator Award, and 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, the Budapest School of Economic Science and Public Administration, and the University of Economics and Business Administration in Vienna.

Professor Kotler has been a consultant to many major U.S. and foreign companies 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, 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.



GARY ARMSTRONG | is Crist W. Blackwell Distinguished Professor of Undergraduate Education in the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill. He holds undergraduate and masters 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. His Blackwell Distinguished Professorship is the only permanent endowed professorship for distinguished undergraduate teaching at the University of North Carolina at Chapel Hill. He has been very active in the teaching and administration of Kenan-Flagler's undergraduate program. His recent administrative posts include Chair of the Marketing Faculty, Associate Director of the Undergraduate Business Program, Director of the Business Honors Program, and others. He works closely with business student groups and has received several campus-wide 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 three times. In 2004, Professor Armstrong received the UNC Board of Governors Award for Excellence in Teaching, the highest teaching honor bestowed at the University of North Carolina at Chapel Hill.

Preface

Welcome to the Eleventh Edition!

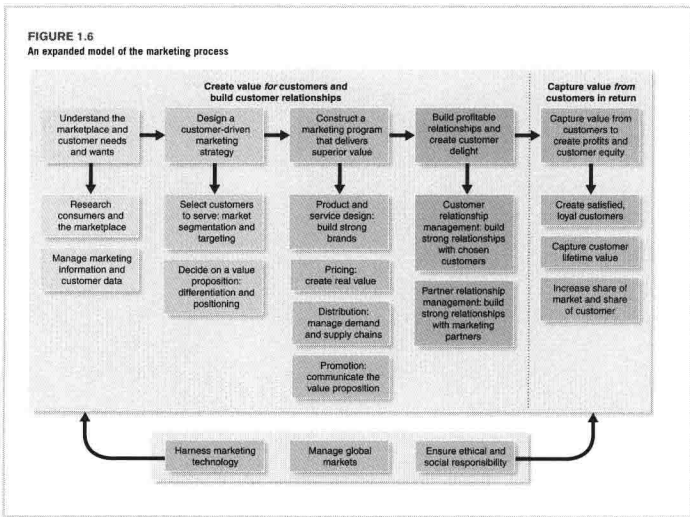
Our goal with *Principles of Marketing* has always been to offer the most current, applied, resourceful, and exciting text for the introductory marketing course. That's why it continues to be the most widely used introductory marketing text around the world. That's what makes it stand out in a crowd.

We've poured over every book page, figure, table, exercise, illustration, example, and reference. We've included the latest concepts and practices to keep the text fresh and timely. And we've reviewed hundreds of pages of feedback from marketing instructors and students to make sure that this book responds to your needs.

We think you'll agree that the eleventh edition is the best edition yet!

What Makes This Book Stand Out in a Crowd?

NEW! An Integrative New Customer-Value Framework



■ **Creating value for customers in order to capture value from customers in return:** This innovative customer value framework is introduced in a five-step marketing process model at the start of chapter 1, which details how marketing *creates* customer value and *captures* value in return. The framework is carefully explained in the first two chapters, providing students with a solid foundation. It is then integrated throughout the remainder of the text.

The Eleventh Edition Builds on Four Major Themes

■ **Building and managing profitable customer relationships:** Creating value for customers in order to capture value from customers in return. Today's marketers must be good at *creating customer value* and *managing customer relationships*. Leading marketing companies understand the marketplace and customer needs, design

customer-driven marketing strategies that create customer value, develop marketing programs that deliver value and satisfaction, and build strong customer relationships. In return, they capture value from customers in the form of sales, profits, and customer equity.

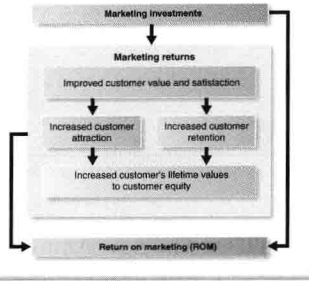
Marketers must also excel at *partner relationship management*. They must work closely with partners inside and outside the company to jointly build profitable customer relationships. Successful marketers are now partnering effectively with other company departments to build strong company value chains. And they are joining with outside partners to build effective supply chains and effective customer-focused alliances.

■ **Building and managing strong brands to create brand equity:** Well-positioned brands with strong brand equity provide the basis upon which to build profitable customer relationships. Today's marketers must know how to position their brands and manage them well.

■ **Harnessing marketing technologies in this digital age:** Digital and high-tech marketing developments are dramatically changing both buyers and marketers. Today's marketers must know how to leverage new information, communication, and transportation technologies to connect more effectively with customers and marketing partners in this digital age.

- **Marketing in a socially responsible way around the globe:** As technological developments make the world an increasingly smaller place, marketers must market their brands globally and in socially responsible ways.

FIGURE 2.7
Return on marketing
Adapted from Roland T. Rust,
Katherine N. Lemon, and
Valerie A. Zeithaml, "Return
on Marketing: Using Customer
Equity to Focus Marketing
Strategy," *Journal of
Marketing*, January 2004,
p. 112.



Other Important Changes and Additions

The Eleventh Edition includes new and expanded material on a wide range of topics, including:

- Measuring and managing return on marketing
- Managing customer relationships
- Positioning and positioning maps
- Value-based pricing
- Database marketing
- Buzz marketing and experiential marketing
- Environmental sustainability
- Supplier development and supply chain management
- Marketing and diversity
- Socially responsible marketing
- New marketing technologies
- Global marketing

Real Marketing

Principles of Marketing features real-world examples that show concepts in action and reveal the drama of modern marketing. In the Eleventh Edition, every chapter-opening vignette and Real Marketing highlight has been replaced or significantly updated to deliver on our promise of offering the most current and exciting text.

Part 1
Defining Marketing and the Marketing Process

CHAPTER 1

Marketing: Managing Profitable Customer Relationships

Previewing the Concepts

Welcome to the exciting world of marketing! In this chapter, to start off, we will introduce you to the basic concepts. We'll start with a simple question: What is marketing? Simply put, marketing is managing profitable customer relationships. The aim of marketing is to create value for customers and to capture value in return. Chapter 1 is organized around five steps in the marketing process—from understanding customer needs, to designing customer-driven marketing strategies and programs, to building customer relationships and capturing value for the firm. Understanding these basic concepts, and forming your own ideas about what they really mean to you, will give you a solid foundation for all that follows.

To set the stage, let's first look at NASCAR. In only a few years, NASCAR has swiftly become a pastime for beer-guzzling Bubbas into a national marketing phenomenon. How? By creating high-octane value for its millions of fans. In return, NASCAR and its many sponsors, read on and see how NASCAR

After studying this chapter, you should be able to:

1. define marketing and outline the steps in the marketing process
2. explain the importance of understanding customers and the marketplace, and identify the five core marketing concepts
3. identify the key elements of a customer-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy
4. discuss customer relationship management, and identify strategies for creating value for customers and capturing value from customers in return
5. describe the major trends and forces that are changing the marketing landscape in this age of relationships

Real Marketing 18.2

E-Mail Marketing: The Not-So-New Marketing Medium?

E-mail is the hot new marketing medium. In just a few years, e-mail ads are popping into our computer screens and filling our e-mail inboxes. And they're bigger and better than the spam messages of old. The new breed of e-mail ads is designed to command your attention. They're full of pictures, animation, interactive links, color photos, streaming video, and personalized e-mail messages.

But there's a dark side to the exploding use of e-mail marketing. The biggest concern? Spam—the deluge of unwanted, unsolicited commercial messages that now clog up our e-mailboxes and our lives. Various studies show that spam now accounts for an average of 40 to 60 percent of a week-end user's e-mail. In the worst case, up from 13 a year ago. America Online tracks some 2 billion e-mail messages sent to its subscribers each day.

Despite these dismal statistics, when used properly, e-mail can be the ultimate direct marketing medium. It's the most effective way to reach customers. Dell, L.L. Bean, Office Depot, and others use it regularly, and with great success. E-mail lets those marketers send highly targeted, highly personalized, relationship-building messages to customers who actually want to receive them. It's all at only a few cents per contact. E-mail ads rarely incur consent barriers and get customer opt-in. According to one estimate, well-planned e-mail campaigns typically achieve 10 percent to 15 percent click-through rates. That's pretty good when compared with the 3 percent to 7 percent average response rates for traditional direct mail.

However, when carefully designed e-mail may be effective, and this event is welcomed by satisfied consumers, critics argue that most commercial e-mail messages amount to little more than annoying "junk mail" cluttering our e-mail boxes. And many e-mail marketers claim that spammer-generated messages to argue with an e-mail address. There is, in fact, considerable concern about the growing use of e-mail for spamming. In fact, the Federal Trade Commission, 44 percent came from privacy advocates.

It's not just the e-mail marketers who are in trouble for our overflooded inboxes. Sending e-mail to us is easy and so inexpensive that it's almost free. And it's a lot easier to get a bad response rate. For example, Data Resource Consulting, the parent of 220 million e-mails every year. That makes the company sound like a big e-mail marketer. But in reality, it's a home-based business run by a 41-year-old single mother, Lisa Bettner, in Topeka, Kansas. Outside the House Queen in the *Real World* Journal, Bettner provides a good example of why spam is multiplying in e-mail.

The war was getting on. Bettner's son had been throwing around a lot of e-mailing e-mail messages one and two. Sublimely, she stepped back to the "spam" line and

CAN YOU BLOCK %!#@*% JUNK MAIL?

It's not just the e-mail marketers who are in trouble for our overflooded inboxes. Sending e-mail to us is easy and so inexpensive that it's almost free. And it's a lot easier to get a bad response rate. For example, Data Resource Consulting, the parent of 220 million e-mails every year. That makes the company sound like a big e-mail marketer. But in reality, it's a home-based business run by a 41-year-old single mother, Lisa Bettner, in Topeka, Kansas. Outside the House Queen in the *Real World* Journal, Bettner provides a good example of why spam is multiplying in e-mail.

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(One continues)

Learn how . . .

- **NASCAR** creates high-octane, totally involving, very profitable customer relationships
- **MTV** achieves phenomenal global success with its unique blend of global strategy and local programming
- **McDonald's** reversed its fortunes by aligning itself with the new marketplace realities and now has customers and stockholders alike humming its catchy "I'm lovin' it" jingle
- **RFID technology**—embedding tiny "smart chips" in the products you buy—gives us an exciting glimpse into the future of supply chain management

- **Steinway** proves that when it comes to its pianos, price is nothing, the Steinway experience is everything
- **Krispy Kreme** sells more than just a few ounces of flour and sugar with chocolate and sprinkles on top—it creates truly magical moments for customers
- **Whole Foods Market** thrives by positioning away from behemoth Wal-Mart rather than trying to compete head to head
- **Crispin Porter & Bogusky**, an award-winning ad agency, has made itself the agency of the moment by preaching that "anything and everything is an ad"
- **Washington Mutual** (or WaMu to the faithful) applies an unusual relationship-building strategy in an effort to become the Wal-Mart of the banking industry

- **Burt's Bees** proves that small can be beautiful—business is buzzing for this small maker of earth-friendly natural products for natural people
- **Google** triumphs amid the dot-com meltdown by focusing heavily on simply helping users search the Internet
- **and much more!**

Supplements that Stand Out

For Instructors

NEW! ANNOTATED INSTRUCTOR'S MEDIA EDITION: The new Annotated Instructor's Media Edition includes an insert at the front of each chapter, which serves as a "Quick Reference" for the entire supplements package. Suggestions for using materials from the Instructor's Manual, PowerPoint slides, Test Item File, Video Library, and online materials are offered for each main section within every chapter.

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Philip Kotler
 Gary Armstrong

Brief Contents

Preface xiv

PART 1 | Defining Marketing and the Marketing Process 2

- 1 Marketing: Managing Profitable Customer Relationships 2
- 2 Company and Marketing Strategy: Partnering to Build Customer Relationships 32

PART 2 | Understanding the Marketplace and Consumers 58

- 3 The Marketing Environment 58
- 4 Managing Marketing Information 92
- 5 Consumer Markets and Consumer Buyer Behavior 126
- 6 Business Markets and Business Buyer Behavior 158

PART 3 | Designing a Customer-Driven Marketing Strategy and Marketing Mix 180

- 7 Segmentation, Targeting, and Positioning: Building the Right Relationships with the Right Customers 180
- 8 Product, Services, and Branding Strategies 216
- 9 New-Product Development and Life-Cycle Strategies 256
- 10 Pricing Products: Pricing Considerations and Approaches 286
- 11 Pricing Products: Pricing Strategies 310
- 12 Marketing Channels and Supply Chain Management 336
- 13 Retailing and Wholesaling 370
- 14 Integrated Marketing Communications Strategy 398
- 15 Advertising, Sales Promotion, and Public Relations 424
- 16 Personal Selling and Direct Marketing 454

PART 4 | Extending Marketing 492

- 17 Creating Competitive Advantage 492
- 18 Marketing in the Digital Age 516
- 19 The Global Marketplace 550
- 20 Marketing Ethics and Social Responsibility 580

APPENDICES

- 1 Marketing Plan A-1
- 2 Measuring and Forecasting Demand A-12
- 3 Marketing Math A-19
- 4 Careers in Marketing A-24

Contents

Preface xiv

PART 1 | Defining Marketing and the Marketing Process 2

CHAPTER 1 | Marketing: Managing Profitable Customer Relationships 2

What Is Marketing? 4

Marketing Defined 5 ■ The Marketing Process 5

Understanding the Marketplace and Consumer Needs 6

Customer Needs, Wants, and Demands 6 ■ Marketing Offers—Products, Services, and Experiences 6 ■ Customer Value and Satisfaction 7 ■ Exchanges and Relationships 7 ■ Markets 7

Designing a Customer-Driven Marketing Strategy 8

Selecting Customers to Serve 8 ■ Choosing a Value Proposition 9 ■ Marketing Management Orientations 9

Preparing a Marketing Plan and Program 12

Building Customer Relationships 13

Customer Relationship Management 13 ■ The Changing Nature of Customer Relationships 15 ■ Partner Relationship Management 18

Capturing Value from Customers 19

Creating Customer Loyalty and Retention 19 ■ Growing Share of Customer 20 ■ Building Customer Equity 21

The New Marketing Landscape 22

The New Digital Age 23 ■ Rapid Globalization 24 ■ The Call for More Ethics and Social Responsibility 25 ■ The Growth of Not-for-Profit Marketing 25

So, What Is Marketing? Pulling It All Together 28

Reviewing the Concepts 29 ■ Reviewing the Key Terms 30 ■ Discussing the Concepts 30 ■ Applying the Concepts 31 ■ Focus on Technology 31 ■ Focus on Ethics 31

CHAPTER 2 | Company and Marketing Strategy: Partnering to Build Customer Relationships 32

Companywide Strategic Planning: Defining Marketing's Role 35

Defining a Market-Oriented Mission 35 ■ Setting Company Objectives and Goals 36 ■ Designing the Business Portfolio 37

Planning Marketing: Partnering to Build Customer Relationships 42

Partnering with Other Company Departments 42 ■ Partnering with Others in the Marketing System 43

Marketing Strategy and the Marketing Mix 44

Customer-Centered Marketing Strategy 44 ■ Developing the Marketing Mix 48

Managing the Marketing Effort 49

Marketing Analysis 50 ■ Marketing Planning 50 ■ Marketing Implementation 51 ■ Marketing Department Organization 51 ■ Marketing Control 52 ■ The Marketing Environment 53

Measuring and Managing Return on Marketing 53

Reviewing the Concepts 55 ■ Reviewing the Key Terms 56 ■ Discussing the Concepts 56 ■ Applying the Concepts 56 ■ Focus on Technology 57 ■ Focus on Ethics 57

PART 2 | Understanding the Marketplace and Consumers 58

CHAPTER 3 | The Marketing Environment 58

The Company's Microenvironment 61

The Company 61 ■ Suppliers 61 ■ Marketing Intermediaries 62 ■ Customers 62 ■ Competitors 63 ■ Publics 63

The Company's Macroenvironment 64

Demographic Environment 65 ■ Economic Environment 76 ■ Natural Environment 77 ■ Technological Environment 78 ■ Political Environment 81 ■ Cultural Environment 85

Responding to the Marketing Environment 88

Reviewing the Concepts 89 ■ Reviewing the Key Terms 89 ■ Discussing the Concepts 90 ■ Applying the Concepts 90 ■ Focus on Technology 90 ■ Focus on Ethics 90

CHAPTER 4 Managing Marketing Information 92

Assessing Marketing Information Needs 95

Developing Marketing Information 96

Internal Data 96 ■ Marketing Intelligence 98

Marketing Research 99

Defining the Problem and Research Objectives 100 ■
Developing the Research Plan 100 ■ Gathering
Secondary Data 101 ■ Primary Data Collection 103 ■
Implementing the Research Plan 111 ■ Interpreting
and Reporting the Findings 111

Analyzing Marketing Information 112

Customer Relationship Management (CRM) 112

Distributing and Using Marketing Information 116

Other Marketing Information Considerations 116

Marketing Research in Small Businesses and Nonprofit
Organizations 116 ■ International Marketing
Research 118 ■ Public Policy and Ethics in Marketing
Research 120 ■ Reviewing the Concepts 122 ■
Reviewing the Key Terms 123 ■ Discussing the
Concepts 123 ■ Applying the Concepts 124 ■ Focus
on Technology 124 ■ Focus on Ethics 124

CHAPTER 5 Consumer Markets and Consumer Buyer Behavior 126

Model of Consumer Behavior 129

Characteristics Affecting Consumer Behavior 129

Cultural Factors 129 ■ Social Factors 133 ■ Personal
Factors 136 ■ Psychological Factors 140

Types of Buying Decision Behavior 146

Complex Buying Behavior 146 ■ Dissonance-Reducing
Buying Behavior 146 ■ Habitual Buying Behavior 147 ■
Variety-Seeking Buying Behavior 147

The Buyer Decision Process 147

Need Recognition 148 ■ Information Search 148 ■
Evaluation of Alternatives 149 ■ Purchase Decision
149 ■ Postpurchase Behavior 149

The Buyer Decision Process for New Products 152

Stages in the Adoption Process 152 ■ Individual
Differences in Innovativeness 152 ■ Influence of
Product Characteristics on Rate of Adoption 153 ■
Consumer Behavior Across International Borders 154 ■
Reviewing the Concepts 154 ■ Reviewing the Key
Terms 155 ■ Discussing the Concepts 155 ■ Applying
the Concepts 156 ■ Focus on Technology 156 ■ Focus
on Ethics 156

CHAPTER 6 Business Markets and Business Buyer Behavior 158

Business Markets 161

Characteristics of Business Markets 161 ■ A Model of
Business Buyer Behavior 164

Business Buyer Behavior 165

Major Types of Buying Situations 165 ■ Participants in
the Business Buying Process 167 ■ Major Influences
on Business Buyers 168 ■ The Business Buying
Process 170 ■ Business Buying on the Internet 173

Institutional and Government Markets 175

Institutional Markets 175 ■ Government
Markets 175 ■ Reviewing the Concepts 177 ■
Reviewing the Key Terms 178 ■ Discussing the
Concepts 178 ■ Applying the Concepts 178 ■ Focus
on Technology 179 ■ Focus on Ethics 179

PART 3 Designing a Customer-Driven Marketing Strategy and Marketing Mix 180

CHAPTER 7 Segmentation, Targeting, and Positioning: Building the Right Relationships with the Right Customers 180

Market Segmentation 183

Segmenting Consumer Markets 183 ■ Segmenting
Business Markets 194 ■ Segmenting International
Markets 195 ■ Requirements for Effective
Segmentation 196

Target Marketing 197

Evaluating Market Segments 197 ■ Selecting Target
Market Segments 198 ■ Socially Responsible Target
Marketing 203

Positioning for Competitive Advantage 204

Positioning Maps 205 ■ Choosing a Positioning
Strategy 206 ■ Communicating and Delivering the
Chosen Position 213 ■ Reviewing the Concepts 213 ■
Reviewing the Key Terms 214 ■ Discussing the
Concepts 214 ■ Applying the Concepts 214 ■ Focus
on Technology 215 ■ Focus on Ethics 215

CHAPTER 8 Product, Services, and Branding Strategy 216

What Is a Product? 218

Products, Services, and Experiences 219 ■ Levels of
Product and Services 220 ■ Product and Service
Classifications 220

Product and Service Decisions 225

Individual Product and Service Decisions 225 ■
Branding 229 ■ Product Line Decisions 233 ■
Product Mix Decisions 234

Branding Strategy: Building Strong Brands 235

Brand Equity 235 ■ Building Strong Brands 236 ■
Managing Brands 242

Services Marketing 243

Nature and Characteristics of a Service 243 ■
Marketing Strategies for Service Firms 245

Additional Product Considerations 250

Product Decisions and Social Responsibility 250 ■
 International Product and Services Marketing 250 ■
 Reviewing the Concepts 252 ■ Reviewing the Key
 Terms 253 ■ Discussing the Concepts 253 ■ Applying
 the Concepts 254 ■ Focus on Technology 254 ■ Focus
 on Ethics 254

CHAPTER 9 New-Product Development and Product Life-Cycle Strategies 256**New-Product Development Strategy 258**

Idea Generation 260 ■ Idea Screening 264 ■ Concept
 Development and Testing 264 ■ Marketing Strategy
 Development 267 ■ Business Analysis 267 ■ Product
 Development 267 ■ Test Marketing 269 ■
 Commercialization 271 ■ Organizing for New-Product
 Development 272

Product Life-Cycle Strategies 274

Introduction Stage 277 ■ Growth Stage 277 ■
 Maturity Stage 277 ■ Decline Stage 281 ■ Reviewing
 the Concepts 283 ■ Reviewing the Key Terms 284 ■
 Discussing the Concepts 284 ■ Applying the
 Concepts 284 ■ Focus on Technology 285 ■
 Focus on Ethics 285

CHAPTER 10 Pricing Products: Pricing Considerations and Approaches 286**What Is a Price? 289**

Today's New Pricing Environment 289 ■ Pricing: An
 Important but Difficult Decision 291

Factors to Consider When Setting Prices 291

Internal Factors Affecting Pricing Decisions 291 ■
 External Factors Affecting Pricing Decisions 297

General Pricing Approaches 302

Cost-Based Pricing 302 ■ Value-Based Pricing 304 ■
 Competition-Based Pricing 306 ■ Reviewing the
 Concepts 307 ■ Reviewing the Key Terms 308 ■
 Discussing the Concepts 308 ■ Applying the
 Concepts 308 ■ Focus on Technology 309 ■
 Focus on Ethics 309

CHAPTER 11 Pricing Products: Pricing Strategies 310**New-Product Pricing Strategies 313**

Market-Skimming Pricing 313 ■ Market-Penetration
 Pricing 313

Product Mix Pricing Strategies 313

Product Line Pricing 313 ■ Optional-Product Pricing
 314 ■ Captive-Product Pricing 315 ■ By-Product
 Pricing 315 ■ Product Bundle Pricing 316

Price-Adjustment Strategies 316

Discount and Allowance Pricing 316 ■ Segmented
 Pricing 317 ■ Psychological Pricing 319 ■
 Promotional Pricing 322 ■ Geographical Pricing 323 ■
 International Pricing 324

Price Changes 325

Initiating Price Changes 325 ■ Responding to Price
 Changes 327

Public Policy and Pricing 329

Pricing Within Channel Levels 329 ■ Pricing Across
 Channel Levels 332 ■ Reviewing the Concepts 333 ■
 Reviewing the Key Terms 334 ■ Discussing the
 Concepts 334 ■ Applying the Concepts 334 ■ Focus
 on Technology 335 ■ Focus on Ethics 335

CHAPTER 12 Marketing Channels and Supply Chain Management 336**Supply Chains and the Value Delivery Network 338 The Nature and Importance of Marketing Channels 340**

How Channel Members Add Value 341 ■ Number of
 Channel Levels 342

Channel Behavior and Organization 343

Channel Behavior 343 ■ Vertical Marketing Systems
 344 ■ Horizontal Marketing Systems 346 ■
 Multichannel Distribution Systems 347 ■ Changing
 Channel Organization 348

Channel Design Decisions 348

Analyzing Consumer Needs 350 ■ Setting Channel
 Objectives 350 ■ Identifying Major Alternatives 351 ■
 Evaluating the Major Alternatives 353 ■ Designing
 International Distribution Channels 354

Channel Management Decisions 355

Selecting Channel Members 355 ■ Managing and
 Motivating Channel Members 355 ■ Evaluating
 Channel Members 356

Public Policy and Distribution Decisions 357**Marketing Logistics and Supply Chain Management 357**

Nature and Importance of Marketing Logistics 357 ■
 Goals of the Logistics System 359 ■ Major Logistics
 Functions 359 ■ Integrated Logistics Management 362
 ■ Reviewing the Concepts 366 ■ Reviewing the Key
 Terms 367 ■ Discussing the Concepts 367 ■ Applying
 the Concepts 367 ■ Focus on Technology 368 ■ Focus
 on Ethics 368

CHAPTER 13 Retailing and Wholesaling 370**Retailing 373**

Types of Retailers 373 ■ Retailer Marketing Decisions
 378 ■ The Future of Retailing 384

Wholesaling 389

Types of Wholesalers 391 ■ Wholesaler Marketing
 Decisions 393 ■ Trends in Wholesaling 394 ■

Reviewing the Concepts 395 ■ Reviewing the Key Terms 396 ■ Discussing the Concepts 396 ■ Applying the Concepts 396 ■ Focus on Technology 397 ■ Focus on Ethics 397

CHAPTER 14 Integrated Marketing Communications Strategy 398

The Marketing Communications Mix 401

Integrated Marketing Communications 401

The Changing Communications Environment 402 ■ The Need for Integrated Marketing Communications 402

A View of the Communication Process 404

Steps in Developing Effective Communication 406

Identifying the Target Audience 406 ■ Determining the Communication Objectives 406 ■ Designing a Message 408 ■ Choosing Media 410 ■ Selecting the Message Source 411 ■ Collecting Feedback 413

Setting the Total Promotion Budget and Mix 414

Setting the Total Promotion Budget 414 ■ Setting the Overall Communication Mix 415 ■ Integrating the Promotion Mix 418

Socially Responsible Marketing Communication 420

Reviewing the Concepts 422 ■ Reviewing the Key Terms 423 ■ Discussing the Concepts 423 ■ Applying the Concepts 423 ■ Focus on Technology 423 ■ Focus on Ethics 423

CHAPTER 15 Advertising, Sales Promotion, and Public Relations 424

Advertising 427

Setting Advertising Objectives 427 ■ Setting the Advertising Budget 428 ■ Developing Advertising Strategy 429 ■ Evaluating Advertising 439 ■ Other Advertising Considerations 440

Sales Promotion 441

Rapid Growth of Sales Promotion 442 ■ Sales Promotion Objectives 442 ■ Major Sales Promotion Tools 442 ■ Developing the Sales Promotion Program 446

Public Relations 447

The Role and Impact of Public Relations 448 ■ Major Public Relations Tools 449 ■ Reviewing the Concepts 451 ■ Reviewing the Key Terms 451 ■ Discussing the Concepts 452 ■ Applying the Concepts 452 ■ Focus on Technology 452 ■ Focus on Ethics 452

CHAPTER 16 Personal Selling and Direct Marketing 454

Personal Selling 457

The Nature of Personal Selling 457 ■ The Role of the Sales Force 457

Managing the Sales Force 458

Designing Sales Force Strategy and Structure 459 ■ Recruiting and Selecting Salespeople 464 ■ Training Salespeople 466 ■ Compensating Salespeople 466 ■ Supervising Salespeople 467 ■ Evaluating Salespeople 470

The Personal Selling Process 470

Steps in the Selling Process 471 ■ Personal Selling and Customer Relationship Management 473

Direct Marketing 473

The New Direct-Marketing Model 474 ■ Benefits and Growth of Direct Marketing 475 ■ Customer Databases and Direct Marketing 475 ■ Forms of Direct Marketing 478 ■ Integrated Direct Marketing 485 ■ Public Policy and Ethical Issues in Direct Marketing 486 ■ Reviewing the Concepts 488 ■ Reviewing the Key Terms 489 ■ Discussing the Concepts 490 ■ Applying the Concepts 490 ■ Focus on Technology 490 ■ Focus on Ethics 490

PART 4 Extending Marketing 492

CHAPTER 17 Creating Competitive Advantage 492

Competitor Analysis 495

Identifying Competitors 495 ■ Assessing Competitors 497 ■ Selecting Competitors to Attack and Avoid 499 ■ Designing a Competitive Intelligence System 501

Competitive Strategies 501

Approaches to Marketing Strategy 501 ■ Basic Competitive Strategies 502 ■ Competitive Positions 505 ■ Market Leader Strategies 506 ■ Market Challenger Strategies 509 ■ Market Follower Strategies 510 ■ Market Nicher Strategies 510

Balancing Customer and Competitor

Orientations 512

Reviewing the Concepts 514 ■ Reviewing the Key Terms 514 ■ Discussing the Concepts 514 ■ Applying the Concepts 515 ■ Focus on Technology 515 ■ Focus on Ethics 515

CHAPTER 18 Marketing in the Digital Age 516

Major Forces Shaping the Digital Age 519

Digitalization and Connectivity 519

The Internet Explosion 519 ■ New Types of Intermediaries 520 ■ Customization 520

Marketing Strategy in the Digital Age 520

E-Business, E-Commerce, and E-Marketing in the Digital Age 520 ■ Benefits to Buyers 521 ■ Benefits to Sellers 522

E-Marketing Domains 523

B2C (Business-to-Consumer) 523 ■ B2B (Business-to-Business) 525 ■ C2C (Consumer-to-Consumer) 527 ■ C2B (Consumer-to-Business) 528