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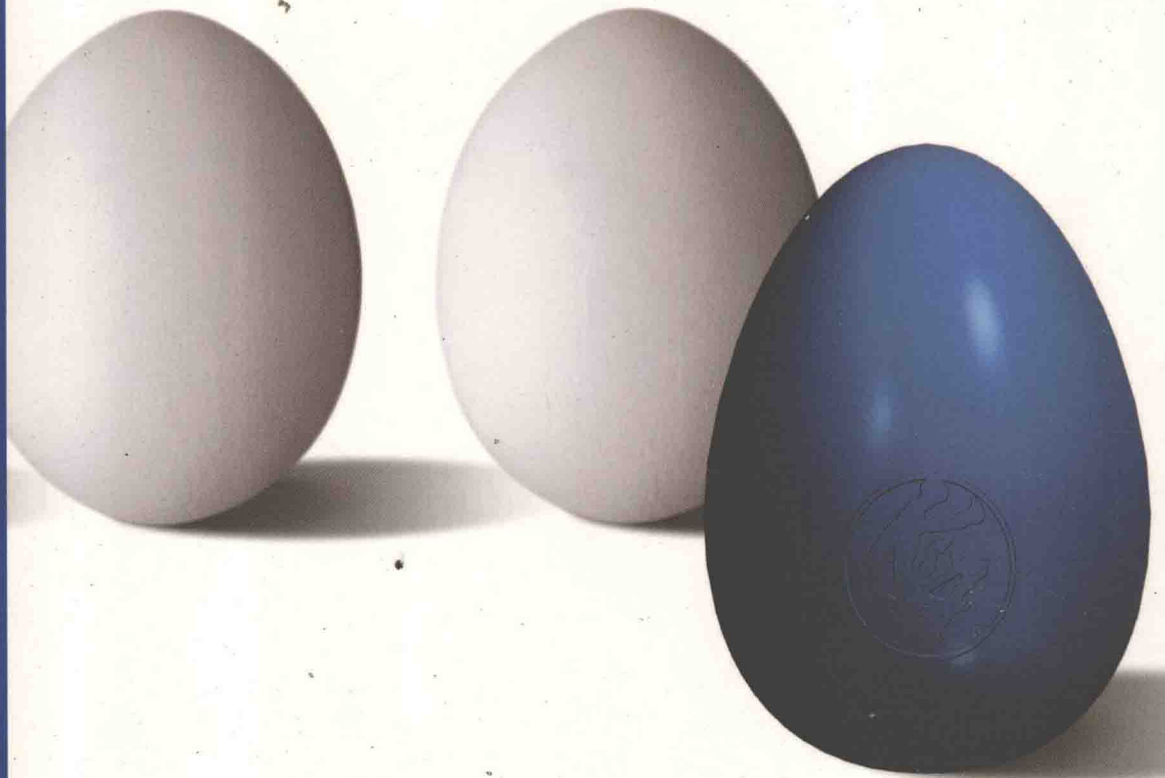
PRINCIPLES OF MARKETING

PHILIP KOTLER
GARY ARMSTRONG

ELEVENTH EDITION

Principles of Marketing

Eleventh Edition

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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.
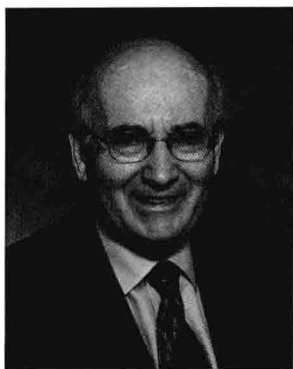
PHILIP KOTLER | is one of the world's leading authorities on marketing. He is the S. C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management, Northwestern University. He received his master's degree at the University of Chicago and his Ph.D. at MIT, both 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.

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

FIGURE 1.6
An expanded model of the marketing process
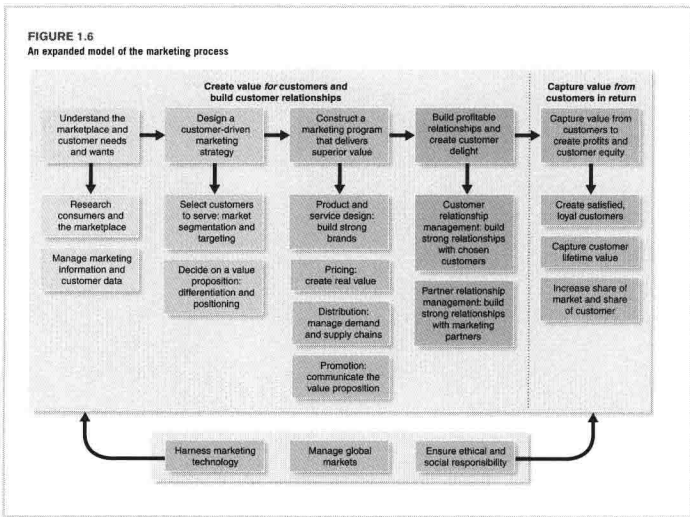
■ **Creating value *for* customers in order to capture value *from* customers in return:** This innovative customer value framework is introduced in a five-step marketing process model at the start of chapter 1, which details how marketing *creates* customer value and *captures* value in return. The 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 Valarie A. Zeithaml, "Return on Marketing: Using Customer Equity to Focus Marketing Strategy," *Journal of Marketing*, January 2004, p. 112.
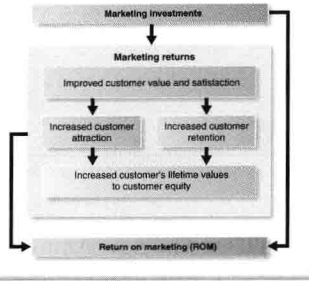
Other Important Changes and Additions

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.

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 realties 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.

INSTRUCTOR'S MANUAL IN PRINT: Contains chapter overviews and objectives, plus detailed lecture outlines—incorporating key terms and various pedagogy from the text. Also includes support for end-of-chapter material, along with additional student projects and assignments.

- *New feature:* "Outside Examples" offer instructors additional lecture material for each chapter. The examples may include extensions of concepts or company examples mentioned briefly in the chapter, or new material that further develops a key concept in the text.
- *New feature:* "Professors on the Go!" was created with the busy professor in mind. This helpful feature brings key material upfront in the manual, where instructors who are short on time can take a quick look and find key points and assignments to incorporate into a lecture without having to page through all the material provided for each chapter.

TEST ITEM FILE IN PRINT: Contains over **3,000 questions.** Each chapter consists of multiple-choice, true/false, essay, and short-answer questions, with page references and difficulty levels provided for each question.

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- Manually or randomly view test bank questions and drag-and-drop to create a test.
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Free customer support is available at media.support@pearsoned.com or 1-800-6-PROFESSOR between 8:00 A.M. and 5:00 P.M. CST.

NEW! **INSTRUCTOR'S RESOURCE CENTER:** All instructor resources are password protected and available for download via **www.prenhall.com/kotler.** For your convenience, these resources are also available on the Instructor's Resource CD-ROM.

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- *Test Item File:* View chapter-by-chapter or download the entire test item file as a .zip file.
- *TestGen for PC/Mac:* Download this easy-to-use software; it's preloaded with the Eleventh Edition test questions and a user's manual.
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    - **PowerPoint MEDIA RICH (On IRC-CD only):** This media rich alternative includes basic outlines and key points from each chapter, plus advertisements and art from the text, images from outside the text, discussion questions, Web links, and embedded video snippets from the accompanying video library. It's the best option if you want a complete presentation solution. Instructors can further customize this presentation using the image library featured on the IRC on CD-ROM.
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- The NFL and the importance of social responsibility
- Song Airlines and smart pricing strategies
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- Reebok's retailing and wholesaling policies
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- Case Pilot to aid in analyzing cases
- Marketing Toolkit: Interactive modules to aid in review of understanding key concepts
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- Capture attention
- Get instant feedback
- Assess comprehension
- Learn more at **www.prenhall.com/crs**

Acknowledgments

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 J. L. Kellogg Graduate School of Management, Northwestern University, and at the Kenan-Flagler Business School, University of North Carolina at Chapel Hill, for ideas and suggestions.

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