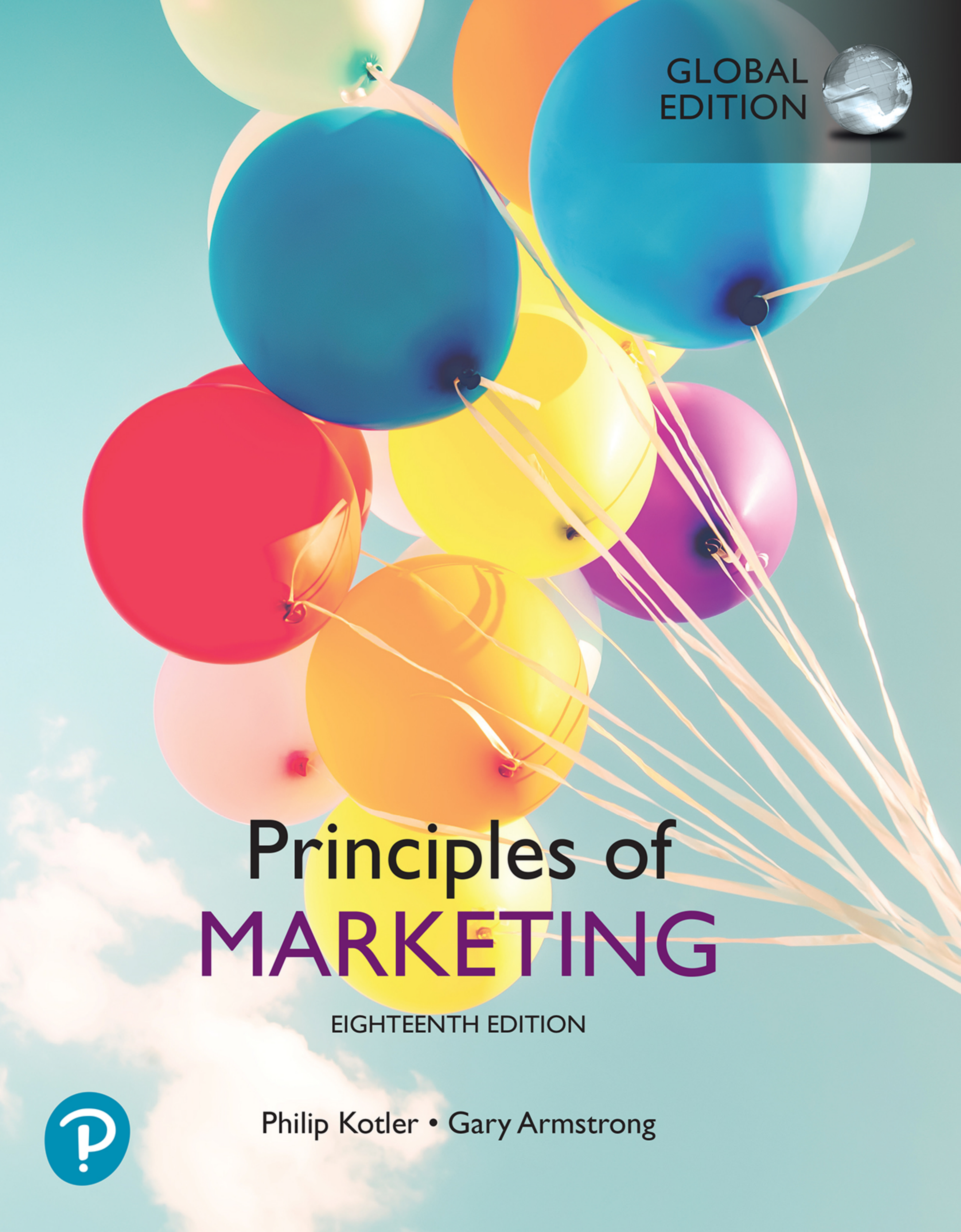


GLOBAL EDITION

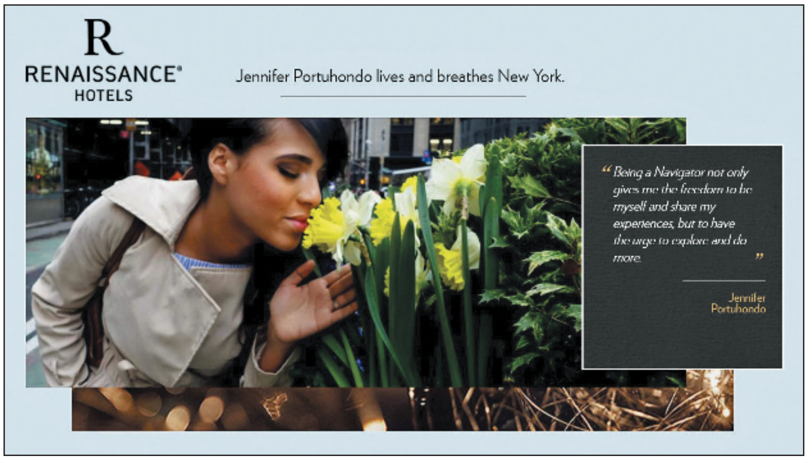
Principles of MARKETING

EIGHTEENTH EDITION

Philip Kotler • Gary Armstrong

Principles of

MARKETING



Geographic segmentation: Marriott's Renaissance Hotels' Navigator program helps guests experience "the hidden gems throughout the neighborhood of each hotel through the eyes of those who know it best." Navigator Jennifer Portuhondo at the Renaissance New York Times Square Hotel "lives and breathes New York."

Marriott International, Inc.

Navigator program, which hyper-localizes guest experiences at each of its more than 160 lifestyle hotels around the world:[28]

> Renaissance Hotels' Navigator program puts a personal and local face on each location by "microlocalizing" recommendations for guests' food, shopping, entertainment, and cultural experiences at each destination. The program is anchored by on-site Renaissance Hotels "Navigators" at each location. Navigators are extensively trained locals who are deeply passionate about the destination and often have a personal connection to the locale. An example is Jennifer Portuhondo, a restaurant-loving Manhattanite at the Renaissance New York Times Square Hotel who "lives and breathes New York." Based on hours of intense training plus their own personal experiences and ongoing research, navigators work with guests personally to help them experience the hidden gems in the neighborhood of each hotel through their own experienced eyes.
>
> In addition, Renaissance Hotels engages locals in each city to participate by inviting them to follow their local Navigator via social media as well as adding their own favorites to the system, creating each hotel's own version of Yelp. Navigators then cull through submitted tips and feature the best recommendations alongside their own for sharing on its web, mobile, and social media channels or in the hotel lobby on a tablet or in a printed Local Navigator Guide. The hotels also offer an R Navigator phone app that lets guests "uncover the most authentic hidden gems the city you're visiting has to offer. Eat, drink, shop and more—at locations handpicked and continually updated by our local Navigators themselves."

Advances in communications technology have given rise to new high-tech versions of location-based marketing. Thanks to the explosion in smartphones and tablets that integrate geolocation technology, companies can now track consumers' whereabouts closely and engage them on the go with localized deals and information fast, wherever they may be. Retailers ranging from Home Depot and Starbucks to Walgreens and Sephora have jumped onto the hyperlocal bandwagon. For example, Home Depot's app localizes trend information and product suggestions—customers in Oregon receive different recommendations from those living in Florida. And when customers visit a store, the Home Depot app shifts into "store mode" to show product locations. Some stores even offer Waze-like navigation of store aisles.

Local marketing has some drawbacks, however. It can drive up manufacturing and marketing costs by reducing the economies of scale. It can also create logistics problems as companies try to meet the varied requirements of different local markets. Still, as companies face increasingly fragmented markets and as new supporting digital technologies develop, the advantages of local marketing often outweigh the drawbacks.

Individual marketing
Tailoring products and marketing programs to the needs and preferences of individual customers.

Individual Marketing. In the extreme, micromarketing becomes **individual marketing**—tailoring products and marketing to the needs and preferences of individual customers. Individual marketing has also been labeled one-to-one marketing, mass customization, and markets-of-one marketing.

The widespread use of mass marketing has obscured the fact that for centuries consumers were served as individuals: The tailor custom-made a suit, the cobbler designed shoes for an individual, and the cabinetmaker made furniture to order. Today, new technologies are permitting many companies to return to customized marketing. Detailed databases, robotic production and flexible manufacturing, and interactive technologies such as smartphones and online and social media have combined let brands address and serve customers individually.

Companies these days are hyper-customizing everything from food, artwork, earphones, and sneakers to high-end luxury products. At one end of the spectrum, candy lovers can go to mymms.com and buy M&Ms with personalized messages or pictures embossed on each little candy. Visit Nike ID online to design and order your very own personalized sneakers. Jerry Harvey Audio makes customized earphones based on molds of customers' ears to provide optimized fit and better and safer sound. The company even laser-prints designs on

Individual marketing: The Rolls-Royce Bespoke design team works closely with individual customers to help them create their own unique Rolls-Royces.

WENN Ltd/Alamy Stock Photo

the tiny ear buds—some people request a kid for each ear; others prefer a dog.

At the other extreme are "bespoke" luxury goods (a fancy word for "custom-made" or "made to order"). For the right price, well-heeled customers can buy custom-designed goods ranging from bespoke fashions and accessories by Hermès and Gucci to bespoke cars from Aston Martin or Rolls-Royce. Ninety-five percent of Rolls-Royce buyers customize their cars in some way. Customers can sit down with a Rolls-Royce Bespoke design team—color experts, leather-smiths, master woodworkers—in a lounge filled with images, materials, and other inspirational elements to design their own unique Rolls-Royces. One customer even wanted his car's interior trim to be made from a favorite tree that had recently fallen on his estate. After analyzing a sample, a Rolls-Royce craftsman deemed the wood acceptable, and the customer's tree will now live forever in the dash and door panels of his custom Rolls-Royce.[29]

Beyond customizing products, marketers also personalize advertising messages, marketing offers, and service encounters on a one-to-one basis. Given today's data and analytics technologies, almost any customer engagement can be fine-tuned to individual customer characteristics, preferences, and behaviors.

Choosing a Targeting Strategy

Companies need to consider many factors when choosing a market-targeting strategy. Which strategy is best depends on the company's resources. When the firm's resources are limited, concentrated marketing makes the most sense. The best strategy also depends on the degree of product variability. Undifferentiated marketing is more suited for uniform products, such as grapefruit or steel. Products that can vary in design, such as cars or fashions, are more suited to differentiation or concentration. The product's life-cycle stage also must be considered. When a firm introduces a new product, it may be practical to launch one version only, and undifferentiated marketing or concentrated marketing may make the most sense. In the mature stage of the product life cycle, however, differentiated marketing often works better.

Another factor is *market variability*. If most buyers have the same tastes, buy the same amounts, and react the same way to marketing efforts, undifferentiated marketing is appropriate. Finally, *competitors' marketing strategies* should be considered. When competitors use differentiated or concentrated marketing, undifferentiated marketing can be suicidal. Conversely, when competitors use undifferentiated marketing, a firm can gain an advantage by using differentiated or concentrated marketing, focusing on the needs of buyers in specific segments.

Socially Responsible Target Marketing

Smart targeting helps companies become more efficient and effective by focusing on the segments that they can satisfy best and most profitably. Targeting also benefits consumers—companies serve specific groups of consumers with offers carefully tailored to their needs. However, target marketing sometimes generates controversy and concern. The biggest issues usually involve the targeting of vulnerable or disadvantaged consumers with controversial or potentially harmful products.

For example, fast-food chains have generated controversy over the years by their attempts to target inner-city minority consumers. They've been accused of pitching their high-fat, salt-laden fare to low-income, urban residents who are much more likely than suburbanites to be heavy consumers. Similarly, big banks and mortgage lenders have been criticized for targeting consumers in poor urban areas with attractive home mortgages that they can't really afford.

Children are seen as an especially vulnerable audience. Marketers in a wide range of industries—from cereal, soft drinks, and fast food to toys, fashion, and social media—have been criticized for their marketing efforts directed toward children. Critics worry that enticing premium offers and high-powered advertising appeals will overwhelm children's defenses. For instance, YouTube has been accused by some consumer groups of profiting by enticing children into what one advocate calls an "ad-filled digital playground" where toy, theme park, and sneaker ads can surface alongside kid-oriented videos. YouTube's terms of use discourage children under 13 years of age from using the site, but most kids don't know about or ignore these conditions. "Google profits handsomely from selling advertising to kid-directed programs that it packages," says the advocate.[30]

Such digital technologies may make children even more vulnerable to targeted marketing messages. Traditional child-directed TV and print ads usually contain fairly obvious pitches that are easily detected and controlled by parents. However, marketing in digital media may be subtly embedded within the content and viewed by children on personal, small-screen devices that are beyond even the most watchful parent's eye. In digital platforms, the lines between educational, entertainment, and commercial content are often blurred. Thus, as children consume increasing amounts of online and digital content, experts advise close parental supervision of children using digital devices.

Socially responsible targeting: Digital technologies may make children even more vulnerable to targeted marketing messages.

subbotina/123RF

More broadly, the growth of the internet, smartphones, and other carefully targeted direct media has raised fresh concerns about potential targeting abuses. The internet and mobile marketing allow more precise targeting, letting the makers of questionable products or deceptive advertisers zero in on the most vulnerable audiences. Unscrupulous marketers can now send tailor-made, deceptive messages by email directly to millions of unsuspecting consumers. For example, the Federal Bureau of Investigation's Internet Crime Complaint Center website alone received almost 300,000 complaints last year.[31]

Today's marketers are also using sophisticated analytical techniques to track consumers' digital movements and to build amazingly detailed customer profiles containing highly personal information. Such profiles can then be used to hypertarget individual consumers with personalized brand messages and offers. However, with such targeting, marketers often walk a fine line between serving customers better and stalking them:

> How well does your smartphone know you? What stories could your laptop tell? Whatever you do—at work, at play, socializing, shopping—your phone, tablet, laptop, or desktop is almost always a part of the action. These devices go where you go, entertain you, connect you with friends, take you browsing and shopping, feed you news and information, and listen in on even your most intimate voice, text, and email conversations. And more and more, these devices are sharing all that personal information with marketers. Companies have now developed sophisticated analytics that border on wizardry to extract intimate insights about consumers.
>
> Marketers argue that using all of this up-close-and-personal information better serves both customers and a company. Customers receive tailored, relevant information and offers from brands that really understand and interest them. However, many consumers and privacy advocates are concerned that such intimate information in the hands of unscrupulous marketers can result in more harm than benefit. They often view big data and hypertargeting less as "serving consumers better" and more as "stalking" and "profiling" consumers. Although most consumers are willing to share some personal information if it means getting better service or deals, many consumers worry that marketers might go too far.

Thus, in target marketing, the issue is not really *who* is targeted but rather *how* and for *what*. Controversies arise when marketers attempt to profit at the expense of targeted segments—when they unfairly target vulnerable segments or target them with questionable products or tactics. Socially responsible marketing calls for segmentation and targeting that serve not just the interests of the company but also the interests of those targeted.

Author Comment At the same time that a company is answering the first simple-sounding question (Which customers will we serve?), it must also be asking the second question (How will we serve them?).

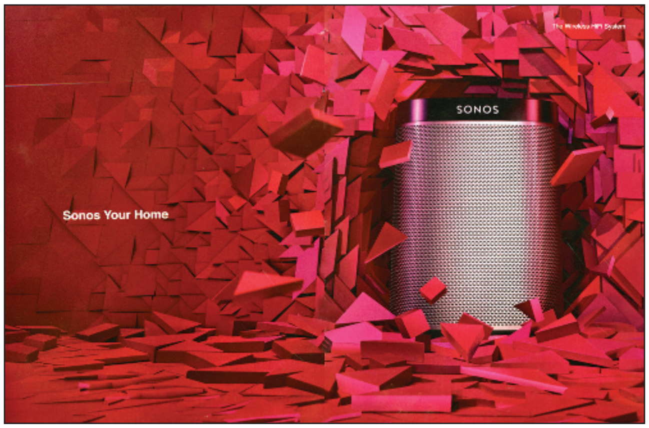
Differentiation and Positioning

OBJECTIVE 7-4 **Discuss how companies differentiate and position their products for maximum competitive advantage.**

Product position
The way a product is defined by consumers on important attributes—the place it occupies in consumers' minds relative to competing products.

Beyond deciding which segments of the market it will target, the company must decide on a *value proposition*—how it will create differentiated value for targeted segments and what positions it wants to occupy in those segments. A **product position** is the way a product is *defined by consumers* on important attributes—the place the product occupies in consumers' minds relative to competing products. Products are made in factories, but brands happen in the minds of consumers.

In the automobile market, the Honda Fit and Nissan Versa are positioned on economy, Mercedes and Cadillac on luxury, and Porsche and BMW on performance. Your Visa card is "Everywhere you want to be"; with American Express, "Don't live life without it." Gillette is "The best a man can get," but with Dollar Shave Club you "Shave time. Shave money." And whereas Bose gives you "Better sound through research," Sonos unleashes "All the music on earth, in every room of your house, wirelessly." Such simple sounding statements form the backbone of a brand's value proposition.



Positioning: Sonos does more than just sell speakers; it unleashes "All the music on earth, in every room of your house, wirelessly."

The Advertising Archives/Alamy Stock Photo

Consumers are overloaded with information about products and services. They cannot reevaluate products every time they make a buying decision. To simplify the buying process, consumers organize products, brands, and companies into categories and "position" them in their minds. A product's position is the complex set of perceptions, impressions, and feelings that consumers have for the product compared with competing products.

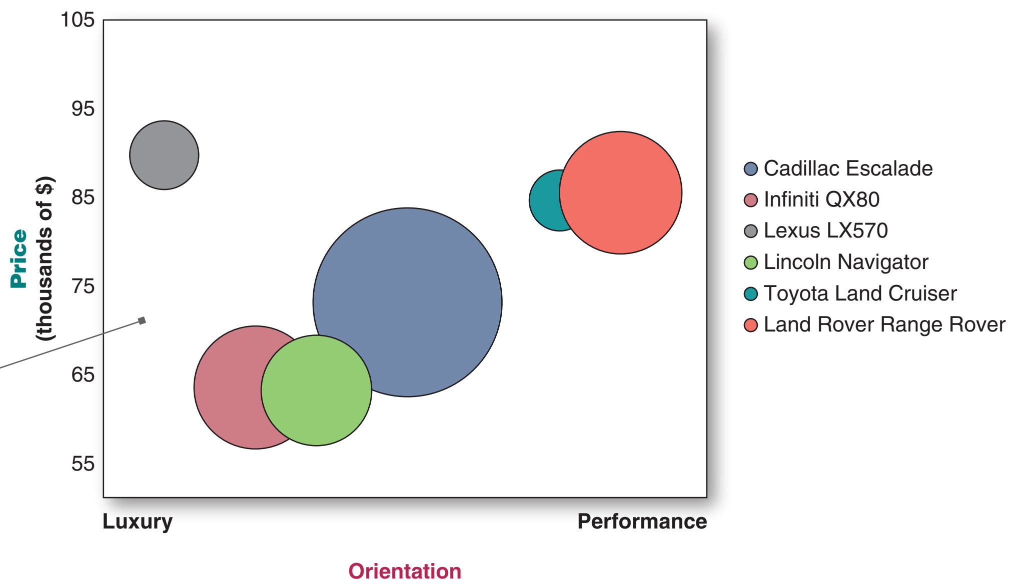
Consumers position products with or without the help of marketers. But marketers do not want to leave their products' positions to chance. They must *plan* positions that will give their products the greatest advantage in selected target markets, and they must design marketing mixes to create these planned positions.

Positioning Maps

In planning their differentiation and positioning strategies, marketers often prepare *perceptual positioning maps* that show consumer perceptions of their brands versus those of competing products on important buying dimensions. **Figure 7.3** shows a positioning map for the U.S. large luxury SUV market.[32] The position of each circle on the map indicates the brand's perceived positioning on two dimensions: price and orientation (luxury versus performance). The size of each circle indicates the brand's relative market share.

FIGURE 7.3
Positioning Map: Large Luxury SUVs

The location of each circle shows where consumers position a brand on two dimensions: price and luxury-performance orientation. The size of each circle indicates the brand's relative market share in the segment. Thus, Toyota's Land Cruiser is a niche brand that is perceived to be relatively expensive and more performance oriented.



Thus, relative to other luxury SUVs, customers view the market-leading Cadillac Escalade as a moderately priced, large, luxury SUV with a balance of luxury and performance. The Escalade is positioned on urban luxury, and in its case, "performance" probably means power and safety performance. You'll find no mention of off-road adventuring in an Escalade ad.

Choosing a Differentiation and Positioning Strategy

Some firms find it easy to choose a differentiation and positioning strategy. For example, a firm well known for quality in certain segments will go after this position in a new segment if there are enough buyers seeking quality. But in many cases, two or more firms will go after the same position. Then each will have to find other ways to set itself apart. Each firm must differentiate its offer by building a unique bundle of benefits that appeal to a substantial group within the segment.

Above all else, a brand's positioning must serve the needs and preferences of well-defined target markets. For example, although both Dunkin' and Starbucks are coffee and snack shops, they target very different customers who want very different things from their favorite coffee seller. Starbucks targets more upscale professionals with more high-brow, "third place" positioning. In contrast, Dunkin' targets the "average Joe" with a decidedly more low-brow, "everyman" kind of "America runs on Dunkin'" positioning. Yet each brand succeeds because it creates just the right value proposition for its unique mix of customers.

The differentiation and positioning task consists of three steps: identifying a set of differentiating competitive advantages on which to build a position, choosing the right competitive advantages, and selecting an overall positioning strategy. The company must then effectively communicate and deliver the chosen position to the market.

Identifying Possible Value Differences and Competitive Advantages

To build profitable relationships with target customers, marketers must understand customer needs and deliver more customer value better than competitors do. To the extent that a company can differentiate and position itself as providing superior customer value, it gains **competitive advantage**.

Competitive advantage
An advantage over competitors gained by offering greater customer value either by having lower prices or providing more benefits that justify higher prices.

But solid positions cannot be built on empty promises. If a company positions its product as *offering* the best quality and service, it must actually differentiate the product so that it *delivers* the promised quality and service. Companies must do much more than simply shout out their positions with slogans and taglines. They must first *live* the slogan. For example, Clorox positions its Glad trash bag as "Glad: The Toughest Trash Bag." But this positioning would ring hollow if its products didn't live up to the promise. So to prove its positioning claim, Glad ran a "Torture Test" campaign in which a homemaker packed a Glad Force Flex Plus kitchen trash bag full of garments and other items and checked it as normal baggage on a trip through seven major U.S. airports. A 90-second ad video showed footage from hidden cameras as they followed the bag's tortuous ordeals at the hands of unforgiving baggage handlers throughout the journey. The bag emerged unscathed. "The bag made it," the ad concluded. "If it can handle this, it can handle your trash! Be happy, it's Glad."[33]

Services differentiation: QuickenLoans' Rocket Mortgage doesn't just offer mortgage loans; its online-only interface lets users get a loan decision in only minutes.

Quicken Loans

To find points of differentiation, marketers must think through the customer's entire experience with the company's product or service. An alert company can find ways to differentiate itself at every customer contact point in the customer journey. In what specific ways can a company differentiate itself or its market offer? It can differentiate along the lines of *product, services, channels, people*, or *image*.

Through *product differentiation*, brands can be differentiated on features, performance, or style and design. Thus, premium audio brand Bose positions its audio products on the innovative, high-quality listening experiences it gives users. Bose promises "better sound through research." And BMW positions itself as "The Ultimate Driving Machine" that's "designed for driving pleasure."

Beyond differentiating its physical product, a firm can also differentiate the services that accompany the product. Some companies gain *services differentiation* through speedy, convenient service. QuickenLoans' Rocket Mortgage unit doesn't just offer mortgage loans; its online-only website or mobile app interface lets users easily upload financial details and get a loan decision in only minutes. Other firms promise high-quality customer service. For example, in an age where customer satisfaction with airline service is in constant decline, Singapore Airlines sets itself apart through extraordinary customer care and the grace of its flight attendants.

Firms that practice *channel differentiation* gain competitive advantage through the way they design their channel's coverage, expertise, and performance. Amazon and GEICO, for example, set themselves apart with their smooth-functioning direct channels. Companies can also gain a strong competitive advantage through *people differentiation*—hiring and training better people than their competitors do. People differentiation requires that a company select its customer-contact people carefully and train them well. For example, East Coast supermarket chain Wegmans has long been recognized as a customer service champ with a cult-like loyalty among its shoppers. The secret to its extraordinary customer service lies in its carefully selected, superbly trained, happy employees, who personify Wegmans's commitment to customers: "Everyday You Get Our Best." For example, the chain's cashiers aren't allowed to interact with customers until they've had at least 40 hours of training. "We're committed to hiring good people who are passionate about food and ready to learn and grow with us," says a Wegmans store manager.[34]

Even when competing offers look the same, buyers may perceive a difference based on company or brand *image differentiation*. A company or brand image should convey a product's distinctive benefits and positioning. Developing a strong and distinctive image calls for creativity and hard work. A company cannot develop an image in the public's mind overnight by using only a few ads. If Ritz-Carlton means quality, this image must be supported by everything the company is, says, and does.

Symbols, such as the McDonald's golden arches, the colorful Google logo, the Twitter bird, the Nike swoosh, or Apple's "bite mark" logo, can provide strong company or brand recognition and image differentiation. The company might build a brand around a famous person, as Nike did with its Michael Jordan and LeBron James basketball shoe and apparel collections. Some companies even become associated with colors, such as Coca-Cola (red), IBM (blue), or UPS (brown). The chosen symbols, characters, and other image elements must be communicated through advertising that conveys the company's or brand's personality.

Choosing the Right Competitive Advantages

Suppose a company is fortunate enough to discover several potential differentiations that provide competitive advantages. It now must choose the ones on which it will build its positioning strategy. It must decide how many differences to promote and which ones.

How Many Differences to Promote. Many marketers think that companies should aggressively promote only one benefit to the target market. Former advertising executive Rosser Reeves, for example, said a company should develop a *unique selling proposition (USP)* for each brand and stick to it. Each brand should pick an attribute and tout itself as "number one" on that attribute. Buyers tend to remember number one better, especially in this overcommunicated society. Thus, Walmart promotes its unbeatable low prices and Burger King promotes personal choice—"have it your way."

Other marketers think that companies should position themselves on more than one differentiator. This may be necessary if two or more firms are claiming to be best on the same attribute. For example, Toyota positions its Land Cruiser on both luxury and off-road performance. The Land Cruiser began in 1951 as a four-wheel-drive, jeep-like vehicle designed to conquer the world's most grueling terrains and

Positioning on multiple competitive advantages: Toyota positions its Land Cruiser as "a sophisticated blend of off-road prowess, on-road comfort, and unparalleled refinement."

David Hare/Alamy Stock Photo