What Is Marketing?

CHAPTER OUTLINE	LEARNING OBJECTIVES When you finish this chapter, you should be able to:
Introduction	
What Marketing Is Not Misconception #1: Marketing Is Common Sense Misconception #2: Marketing Is Equivalent to Sales or Advertising Misconception #3: Marketing Makes People Buy Things They Don't Need Misconception #4: Marketing Is an Art, and You Either Have the Gift or You Don't Misconception #5: Marketing Does Not Involve Numbers	**1.1** Describe some common misconceptions about marketing.
Marketing Defined Marketing Is Managing Exchanges with Customers What Does Managing Exchanges with Customers Include?	**1.2** Provide an accurate definition of marketing.
Philosophy of Marketing Perceived Value The Role of Marketing Research	**1.3** Discuss, with examples, the philosophy of marketing.
How Marketing Has Changed over Time	**1.4** Outline the evolution of marketing thought and practice.

Introduction

What is marketing? If someone says he or she is in marketing, what do you assume that person does all day at work? What do marketing majors study and what jobs do they get after graduation? What makes marketing different from accounting, finance, management, or other areas of business? Karolina Zarychta, Director of Marketing, Education at John Wiley and Sons Inc., compares marketing to throwing a party: to throw a successful party, you need to plan—what's the occasion, who is attending, what is the setting—and you need to measure the effectiveness of what you did before planning your next bash. Marketing professionals perform similar activities. The idea of planning, executing, and measuring the effectiveness of a marketing plan is one of the key takeaways from the interview with Karolina.

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Karolina Zarychta, Wiley

In her interview Karolina corrects a common misconception. Marketing is *not* the same as advertising, or running a special promotion or giveaway; marketing is a planned campaign with well-defined goals, strategies, and tactics. Additionally, marketing is dynamic and constantly changing, particularly with the opportunities provided by social media and digital platforms to be more customer focused and to provide both virtual and experiential ways of experiencing a product.

1.1 What Marketing Is Not

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If you asked a dozen people to tell you what marketing is, you might get 12 different descriptions, and most would contain at least one misconception. Here are some of the more common misconceptions and myths about marketing.

Misconception #1: Marketing Is Common Sense

Perhaps the most frequent assertion (made by people who don't know better!) is that marketing is really just common sense. But, marketing isn't just common sense, and if you rely on common sense alone, your marketing will suffer. Here are three examples.

Common sense statement #1: *Lower price is always better.*

- **Reality:** *In some cases, higher price is actually better.*

Think of Rolex, Ferrari, Dolce and Gabbana, and Fabergé. These brands have value specifically because they charge such a high price. Rolex knows that higher prices actually add value for customers looking for prestige. Higher prices can also work better for non-luxury goods. **Sales**—units sold—(i.e., selling more watches) is not the goal. **Profit**—making money—is the goal. The relationship between sales and profit is not always clear and companies spend a great deal of time and money to research the prices that will yield the greatest profit for a specific product.

Low Prices Do Not Always Translate to High Sales Volume

An anonymous developer created a productivity app with a $9.99 price. His promotion resulted in 50,000 daily hits but without many actual purchases. Even after tweaking the software and website, sales were slow. He decided to increase the price to $19.99 so that at least he would make more when he sold some. He was surprised when doubling the price actually increased sales 10 times! $9.99 signals just another app, but $19.99 signals a premium app, which adds value and increases sales.

Source: Sid Bahrath, Raise Prices and Conversions: Here's How https://www.crazyegg.com/blog/raise-prices-increase-conversions.

Common sense statement #2: *Better service leads to higher profits.*

- **Reality:** *Better service is only more valuable if customers are willing to pay more for it.*

It seems obvious that customers would prefer to shop in more attractive stores with better service. However, Walmart strategically chooses not to spend money to make its stores more attractive or to provide better service specifically because Walmart's customers would rather pay less than have better service. The strategy has worked well to this point. To see how well, you can go to **https://corporate.walmart.com** and see for yourself.

Common sense statement #3: *More is better.*

- **Reality:** *Too many options can lower sales.*

Too many options means the company can't specialize, which leaves it vulnerable to competitors who do specialize in something. Sears was the leading retailer for over 100 years; it began to offer a yearly catalog with over 500 pages of products in the late 1890s. Customers could even order a home-building kit with options like running water and electricity upgrades. Can you imagine ordering your home, unassembled, online? Sears stores, and other department stores with a range of different product types such as appliances, clothing, electronics, outdoor products, and tools, were once the preferred shopping destinations for customers. However, carrying all of these products increases costs, and the department store business model was replaced with a more specialized model with stores that focused on fewer categories (think party supplies as in Party City or electronics as in Best Buy).

Also, the human brain has limits on what it can process at any one time and eventually becomes fatigued. If you go to the pharmacy to buy toothpaste and there are 10 different brands (Crest, Colgate, etc.) with 10 different versions (Plaque Fighting, Ultra Whitening, Sensitive Teeth, etc.) and two different package sizes (large and small tubes) for each option, you have to sort through 200 options to make a choice! Who has the interest or time to do that? Nobody does. So how do you choose? You take shortcuts, which we will describe in more detail in Chapter 4.

Misconception #2: Marketing Is Equivalent to Sales or Advertising

If you ask a dozen people on the street what "marketing" is, you will likely get answers that include something about sales or advertising. This is the marketing that most customers actually see in action. Marketing is a much broader concept that also includes product design, pricing, choosing where, when, and how to sell products to customers, and a variety of other decisions. The breadth of marketing decisions is referred to as the 4 Ps of marketing, which are product, price, place, and promotion decisions. For example, when introducing a new iPhone, Apple has to decide which features it should have (product), how much it should sell for (price), where to sell it (place), and how to persuade people to buy it (promotion). We will provide more details about marketing decision areas later in this chapter and also in Chapter 7, but for now it is important to note that marketers have to make a range of integrated decisions that go well beyond the scope of sales and advertising.

Misconception #3: Marketing Makes People Buy Things They Don't Need

While many people think marketing has special powers to influence people to do things they don't want to do, and marketers wish it were true, the reality is that marketing has limited influence on customers' behavior. A company can advertise its newest car and all its features, but many people, most people really, will not buy the new car, no matter how much the company spends on advertising and promotion, even if the car is desirable. People strive to get what they need, but don't always get what they want. From a marketing perspective, a **need** is a lack of means of subsistence. Basic needs would include food, shelter, companionship, and so forth. When a person doesn't have these things, they are motivated to do something to change their situation. However, two people can have the same need but satisfy the need in completely different ways. This is because people have different **wants**—strong desires for something. For example, we could say transportation is a basic need. However, some people might want to take public transportation, some might want to drive a car, some might want to ride a bicycle, and those who want a car might want different cars. However, even if two people want the same thing, the ability to get what is desired might be different due to different personal situations. Marketers pay particular attention to the combination of a strong desire for something and the ability to purchase, referred to as **demand**, as this is a minimum condition for buying something. If a customer wants something, but can't afford it, no amount of promotion will matter. The most marketing can do is influence your desires (wants) for certain products and attempt to make it more appealing for you to buy certain things over others. However, at the end of the day, you as the customer have control and only buy things for which you have demand.

Misconception #4: Marketing Is an Art, and You Either Have the Gift or You Don't

Perhaps the world would never have heard of Apple or Steve Jobs if not for the creativity demonstrated in an ad that ran one time during the Super Bowl of 1984. But creativity does not guarantee marketing success. The list of clever ad campaigns and brands that created buzz but then failed is quite long. Pets.com had ads that were creative, but couldn't keep the company in business for a second year. Then there are the companies that plod along with no exciting marketing but are quite successful. Examples include United Parcel Service, which has almost 20% of the global express and courier service business and Procter and Gamble, which has a number of brands, including Tide. Can you remember any of their ads? Creativity can enhance good marketing but is not sufficient for success.

Misconception #5: Marketing Does Not Involve Numbers

Actually, marketing is full of numbers. For example, consider what type of information you would need to answer these questions: Will we make or lose money and how much? How much should we charge to make a profit? How many customers do we need to cover our expenses? Marketers need basic math skills. Not calculus or algebra that require complex mathematical calculators, but simple four-function math. Anyone who is not comfortable calculating basic marketing functions (e.g., profit, markup, margins, breakeven) should not seek a career in marketing, and would not be able to communicate effectively with a marketing professional. While this may sound intimidating, note that most common marketing math involves only addition, subtraction, multiplication, and division. We will cover when, why, and how to calculate all the basic numbers in marketing and show you how to use them. You will have enough practice using marketing math throughout the text to become confident in your ability to use and discuss marketing numbers in detail. Learning this skill is not trivial, since most marketing majors are not comfortable using even basic marketing math and do not have the applied skills to be effective in their initial jobs. So, now that we have a better understanding of what marketing isn't, let's focus on what marketing is. Next, we provide a clear, applied definition of marketing.

1.1 Concept Check

1. What are some of the key arguments that marketing is more than just common sense?
2. How would you respond to someone who said that marketing is really just sales?
3. Can marketing make people buy something they don't need? Use the distinction between needs and wants to support your answer.
4. A friend tells you that he intends to major in marketing because unlike other business majors like finance or accounting, marketing doesn't require any math. How do you respond?

1.2 Marketing Defined

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When many people think of marketing, they think of flashy ads, sales events, and closing million-dollar deals. However, while marketing certainly has its share of glamour, the reality is that most people don't really understand marketing all that well. The majority of marketing activity is not glamorous. When someone says, "I am a doctor" or "I am an accountant," people have a general idea what that person does. The same is true for an architect, a lawyer, and a teacher. However, when someone says, "I am a marketer," most people have no idea what that means. Why? Because marketing is a broad discipline that covers a variety of very different but related decisions. Decisions about which product to sell, how much to sell it for, where and when to sell it, and so forth are all part of marketing. Yet each is a complicated decision in itself. So, it is easy to see how marketing is misunderstood and how some people, even some in marketing, do not understand the full range of marketing activities and how they tie together.

To go any further, we need a simple but comprehensive definition of **marketing** to build on. As a starting point, we can consider the American Marketing Association's definition of marketing. From their website, they define marketing as: ". . . the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large (Approved July 2013)." Their definition is intended to provide a comprehensive definition of everything that is marketing. But marketing is complicated, so their definition is, too.

Let's simplify the definition by identifying the key ideas in their definition for marketing practice. First, marketing involves multiple parties, not just one, and these parties must come together in some way to exchange something. Typically, we would think about the parties as a company or nonprofit organization and its customers, and the place these parties come together is called a **market**. Markets can be physical, such as a farmer's market or shopping mall, or virtual, such as an online website. Second, these parties wish to exchange something, and each must have something of value to the other party to exchange. Profit-oriented companies usually have products (for example, a smartphone) or services (wireless phone service, for example) that they offer to customers who have money to exchange with the company. Nonprofit exchanges vary, but the concept is the same. The organization gives something to get something in return from the customer. For example, Habitat for Humanity is a nonprofit organization based in Atlanta, Georgia (USA), that builds, renovates, and repairs houses using volunteer labor and donations. Think about what the organization gives and receives in an exchange. Hint: Why does someone make a donation? What does the person donating either labor or money get in return? Third, marketing creates offerings, communicates with customers, and then delivers the offering to customers. In other words, it is marketing's job to manage exchanges with customers.

Marketing Is Managing Exchanges with Customers

For a working definition, we define marketing as *managing exchanges with customers*. Everyone has a basic understanding of what it means to manage something. Everyone knows what exchanges are. And, everyone knows what it means to be a customer. So, we think this definition, while simple, includes all the key elements of the common definitions of marketing.

One of the key implications of our definition of marketing is that marketing has to be managed, which requires planning, implementation, and control. Marketers create a marketing plan to guide their marketing activities. A **marketing plan** is a written statement for managing exchanges with customers that includes goals, activities needed to achieve goals, a timeline and budget for included activities, and measures to evaluate the activities. Effective plans spell out what is to be done to encourage exchanges with customers and how these activities should be accomplished (implementation). The marketing manager is responsible for coordinating the activities in the plan and monitoring the activities to completion (control). Good plans also include control measures that allow managers to assess the effectiveness of the plan activities so that adjustments can be made when necessary and to help inform future marketing activities. We will provide more comprehensive examples throughout the text of the planning, implementation, and control processes. For now, the important thing to remember is that the role of marketing is to effectively manage exchanges with customers.

Though our definition offers a simple view of marketing and is helpful to get a basic idea about marketing practice, do not be fooled into thinking marketing is easy. We have already pointed out that marketing is not simply common sense. But let's consider an example to demonstrate how difficult it can be to "manage exchanges with customers."

Assume you have been hired as a marketing manager for a food company. Your company makes a number of food items, including packaged desserts such as cakes and pies. On your first day at work, your boss enters your office and says, "Good news. We are expanding and will start making frozen desserts to offer more than just cakes and pies. I have an important assignment for you. We are going to start making gelato; it's similar to ice cream, but different. I want you to put together the marketing plan for our new gelato. We will have a meeting with the other managers in two weeks, and I want you ready to offer us your ideas on how to make our new gelato successful. Congratulations. I am counting on you." You smile and thank your boss for this great opportunity and for putting so much trust in you so early in your career with the company. But, after the boss leaves, you begin to think about your job. You are the marketing manager for a new product, gelato. What do you do to prepare for the upcoming meeting?

What Does Managing Exchanges with Customers Include?

Recall that your job as the marketing manager is to manage the exchanges with customers. So you have to manage all the exchanges with customers related to the new gelato product. You do some homework and find out that gelato is a frozen product similar to ice cream, but with a few key differences (see **Figure 1.1**). Specifically, gelato uses less cream and more milk than ice cream, so it has less fat. In addition, gelato has a lot less air churned into the mix than ice cream. Gelato is denser than ice cream. It is also served warmer and is less frozen when served, which means it generally has a more intense flavor. Armed with this knowledge, you try to think of what you need to decide in order to manage exchanges with customers. Here is a partial list of the questions you will need to answer before the managers' meeting.

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FIGURE 1.1 Gelato Stores, With Attractive Displays of the Many Flavor Choices, Are a Common Sight in Italy

1. You will need to decide with whom you try to exchange. In other words, who will be your customers? Not everyone. Kids, perhaps adults. Some customers will only buy it when it is hot outside. Maybe you will only be able to sell it where it is hot all year. You could sell it to individuals, or restaurants, or grocery stores. You recognize that some customers might be more appropriate than others because they desire gelato more than others and would be the most likely to buy it. These customers need to be described in detail and would be considered the **target market**—the primary group of customers you would prefer to exchange with. The target market is the focus of the marketing plan.
2. You will need to decide what you will offer to exchange. Gelato is your "product," but why does someone want gelato? Is it better than ice cream in some way? It tastes different, but many people won't even know what gelato is. You will need to decide which flavors to offer and identify who else is selling gelato. Which of the potential benefits you could use is most important to *your* target market that would give you an advantage?
3. You will need to determine what you want in return from your customers for the gelato. You need to decide how much to charge, whether or not you will have different sizes, and whether you will offer different package types (cones or cups?). How do your choices of package size and amounts influence what you would charge for your gelato? You will need to decide if you will always charge the same price or not.
4. You will need to decide how customers will buy from you, including where, when, and how customers will exchange with you. Will they have to pay cash or can they use credit? Will customers go to gelato stores or will you ship it to the customers? You could sell through existing stores or create your own. You could consider home delivery to customers as an option.
5. You will need to decide how to influence the customers to exchange with you. You need to educate and inform customers so they will have a reason to buy gelato from you. What information do they need? Can you get customers excited about your gelato? How? Some methods will likely work better to persuade customers to buy, but you will have to decide which ones to use and how to determine if they work or not. Can you think of others?

It should be clear from this example that marketing is complicated and involves a wide range of decisions. It is therefore easy to miss something critical to the potential exchange. In fact, it is for this reason that many marketing plans fail. Low estimates of new product failures are in the 35%–40% range, while higher estimates suggest 80% or more of new products fail. Marketing failures imply that a marketing manager did not understand a significant piece (or more than one piece) of the overall puzzle and did not effectively manage the exchange with customers. Given the complexity of marketing, it helps to have a way to think about things that makes it less likely that something will be forgotten or overlooked. This way of thinking, or orientation, distinguishes good marketers from others. We call it the philosophy of marketing.

Mini Case 1

Fortini Lab . . . it's not just gelato.

Fortini Lab is not your typical gelato shop. Located in Albano Laziale (one of the Castelli Romani—Roman Castle-—towns north of Rome, Italy), the Fortini Lab is one part gelato shop, one part pastry shop, and one part vegan restaurant (see **Figure 1.2**). Sound like an odd combination? Not if you know Simone Fortini. Simone started as a gelato and pastry maker and was part owner of a gelato shop down the street from where his Fortini Lab now welcomes customers from 6:00 a.m. for espresso and a pastry through 1:00 a.m. for a late-night gelato and glass of Prosecco. He was always interested in gelato and pastries, but a trip to London introduced him to the vegan and vegetarian recipes that he eventually added to the Fortini Lab concept.

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FIGURE 1.2 **Fortini Lab**

Simone uses artisanal recipes handed down through the years by his family, focused on handmade food with natural ingredients. Industrial manufacturers have coveted his gelato recipes, and his pastries are shipped throughout neighboring towns and sold in other shops, but he has always believed in the idea that people make food for friends. Simone created Fortini Lab with this idea in mind, initially focusing on making artisan gelato and pastries as customers watched, later expanding by adding a vegan and vegetarian menu.

The "lab" idea is central to his marketing strategy. A laboratory implies experimentation and activity. These ideas are reinforced as customers get to try different creations as the chefs experiment right in front of them. The bottom floor has an open "gelato lab" where customers can watch their gelato being made. Upstairs, the lunch crowd can watch their vegetarian or vegan meals begin prepared in another "lab." This enhances the customer experience. The fact that customers can see what is being prepared and how it is being prepared also gives customers the sense that the food is more natural. Simone now has his sights set on expansion. He is considering additional locations in the other Castelli Romani towns, in Rome itself, and also in other European cities and potentially the United States.

Hungry for some artisan gelato, a delicate pastry, or vegan spaghetti made with pesto sauce and long strands of thinly sliced zucchini instead of meat sauce and pasta noodles? The Fortini Lab is the place to go!

Questions

1. Do you think the same customers go to Fortini Labs for gelato, pastries, and vegan lunches, or are these different customers?
2. Is Fortini Lab a concept you think would work where you live? Why or why not?
3. What do you see as the major challenges for Simone Fortini if he tries to expand his concept to other locations?

1.2 Concept Checks

1. Define marketing in a single sentence.
2. What are the basic requirements for an exchange to take place?
3. What is a target market and why is this concept important to marketers?

1.3 Philosophy of Marketing

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The best marketers manage exchanges that maximize the benefits for both the company and the customer in spite of the fact that the two parties have conflicting goals: The company wants each customer to pay the maximum they are willing to pay but give the customer the minimum benefits, while the customer wants to pay the least amount possible for maximum benefits. Consider from the previous example that you decide to charge $2.99 for a cup of your gelato. If a customer believes that the benefits of buying the gelato at $2.99 per cup exceed the costs, then the customer is satisfied. The customer buys the gelato, and the company gets $2.99 per cup in sales. However, what if the customer would have been willing to pay $3.99 for the gelato? In this case, the customer is really satisfied since the price was only $2.99. What about the company? The company would rather charge $3.99 than $2.99 if that is an acceptable price to the customer. This suggests that in practice, conflict underlies each marketing exchange.

What if the customer is only willing to pay $1.99 for the gelato? No exchange would have taken place since the customer would not have purchased if the price was $2.99. Worse, the company might not have known that the price was a problem. If customers don't buy gelato, it could be because they didn't like the flavor offered. Or maybe they don't understand the product benefits (e.g., what is gelato anyway? Is it just ice cream?). Maybe they wanted to buy gelato at the movie theater, but you decided to sell it at the grocery store. Maybe they wanted a different size. Maybe they had chocolate cake instead.

Perceived Value

So what is the basic goal of marketing managers in managing exchanges? They maximize how much customers are willing to pay while making sure customers think they got more than they paid for (see **Figure 1.3**). This way, everyone wins. Customers are happy because they got good value for the price. The company is happy because customers paid $3.99 instead of $2.99 for the gelato. The key is making sure customers think the gelato is worth *more than* $3.99 rather than thinking it is worth only $2.99 or worse, $1.99. Marketing managers are responsible for influencing the perceived value customers associate with the exchange. **Perceived value** is defined as the *perceived benefits relative to the perceived costs* associated with an exchange.

Marketers have to manage perceived value, but different customers have different perceptions. Some customers think a cup of gelato is worth $1.99, some $2.99, and others $3.99

FIGURE 1.3 **Example of the Impact Marketing Can Have on Perceived Value to the Customer and Profit for the Company**

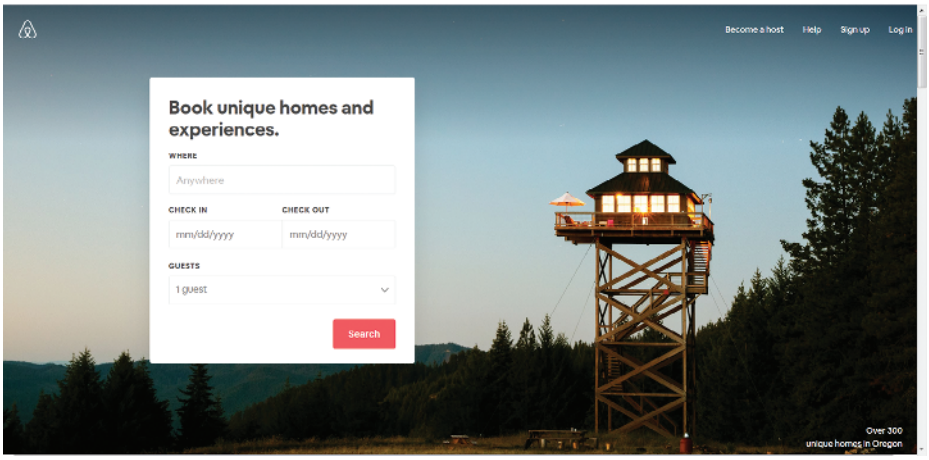
	Price versus Cost of a Hamburger in Different Restaurants		
	Fast Food	**Casual Dining**	**Full Service**
Amount customer was willing to pay for a hamburger (value to customer)…	$4.50	$9.00	$18.00
Typical scenario when resturant uses cost to set prices...			
IF Actual Price	$4.00	$8.00	$16.00
Actual Cost*	$3.60	$7.60	$15.20
Company makes…	**$0.40**	**$0.40**	**$0.80**
But, if marketing was doing its job properly and tying price to value to customer…			
Price charged could be…	$4.45	$8.95	$17.50
Actual Cost *	$3.60	$7.60	$15.20
Company makes…	**$0.85**	**$1.35**	**$2.30**
Extra amount company could have made selling the same thing but with better marketing tying price to value...	**$0.45**	**$0.95**	**$1.50**

*Includes all the cost including the burger ingredients, labor, rent, marketing, etc.

or more. This is one of the most important points to understand about marketing. Marketing is not about pleasing all customers. Marketing is about finding a group of customers who want what you have to offer and providing it better than others do so that you maximize perceived value for that group. This is what differentiates the target market for your product from other customers. Your target market will purchase from you, pay a higher price than others for the same thing, and keep coming back. In other words, good marketers start with an appropriate group of customers and then increase the perceived value for that group as much as possible. Because different groups want different things, marketers offer different combinations of benefits called **value propositions** that will appeal to some specific groups but not others. Different value propositions maximize value for different target customers. For example, Airbnb offers customers a variety of lodging arrangements where customers can live like a local because you stay in someone's home. You can cook and do your own laundry. You get the sense of living there. The value proposition for a hotel is very different, offering customers dining, cleaning, and entertainment options. The hotel value proposition is to get away from everyday living and relax. Which do you prefer? Can you see how both value propositions have value, but for different groups of customers who want something different from their travel experience?

New Value Propositions in the Travel Industry

Airbnb (see **Figure 1.4**) matches travelers with those who have rooms, apartments, homes, or even castles to rent (over 1,400 castles to rent, in fact). Airbnb has over 3,000,000 different listings around the world in almost 200 countries. Travelers can choose to rent the entire home or a room; they can even choose to share their travel experience with the host or others by sharing rooms.



airbnb.com

FIGURE 1.4 The Airbnb Website Gives Customers a Wide Variety of Options for Choosing Vacation Rentals

To be successful, marketers have to understand the perceived value associated with a particular exchange for a group of customers and then find out what influences that group's perceptions of value. For example, if you ask 100 customers who normally buy ice cream for $3.99 per cup how much they would be willing to pay for gelato, you might find that 80% indicate they would be willing to pay only $2.99. So, next you might ask why they would be willing to pay only $2.99 for gelato when they pay $3.99 for ice cream. Many of them explain they have no idea what gelato is and don't know about the benefits. At this point you might use advertising to tell customers that gelato has less fat than ice cream. You then ask another 100 customers how much they would pay and you find that now 80% say $3.29. Better, but still not the $3.99 they are willing to pay for ice cream. Maybe they think gelato is low fat and therefore doesn't taste as good. So, you have 100 customers taste the gelato and then ask how much they would be willing to pay. Now you find 80% willing to pay $3.99. Finally. You have learned from this exercise that you need to educate customers about gelato and compare its fat content to that of ice cream, but also you have to make sure customers taste it so they know it tastes good. Otherwise, you have not maximized their perceived value, nor the company's. This is marketing's job, but also highlights the difficulty marketers face determining value and settling on specific value propositions to customers.

The Role of Marketing Research

The average marketing manager might stop here. However, the truly successful marketing managers keep going. Recall from our brief introduction that marketing plans should include goals, activities, and measures to see what can be improved. What else could be done that might encourage customers to pay $4.29 or $4.59 or even $6.99 for our gelato? This is what we mean when we say that successful marketers have a particular philosophy. To be successful, marketers should be "naïve scientists." A naïve scientist has an idea that something might work based on either theory or watching something in practice and tests the idea. The outcome is measured to see if the idea worked. Then, based on the results, the idea can be improved upon. Tested again. Measured. Revised. Tested. Measured. Revised. And so on. This is what we refer to as **marketing research** (measuring the outcomes of specific marketing activities against goals). Many ideas won't work, but the ones that do should make up for the time and effort spent on those that don't. In any case, once you test something and it doesn't work, you know it doesn't work. This could keep you from spending a lot more money expanding the activity to a larger scale later. As an example, the better companies test their ads with a small group of customers before they put them on television for a larger audience. The purpose is to find out if the ad works as it should. Spending $50,000 now can avoid the company making a $1,000,000 mistake later. Good marketing research should be the foundation for the marketing plan.

The idea that marketers should be naïve scientists is very powerful, and has several implications for marketing practice:

1. While there is an art (and sometimes luck) to successful marketing, it should be methodical. Marketing ideas should have a basis in theory or practice and be tested. If a company that sells chemicals hires some business majors and some chemistry majors as salespeople, would you expect the business majors to sell more chemicals because they have more business training or the chemistry majors to sell more because they should know more about the chemicals? This question is easily tested by comparing the salespeople with each background to see which group on average sells more.
2. To test an idea to see if it effective, the idea should have a specific goal against which to measure the outcomes. Is $100,000 in sales for a month a success for the ad campaign? Is having 100,000 unique visitors go to the website to participate in a holiday contest a success? The answer depends on the expected sales or visitors—the goals for the marketing activity. In the gelato example, we used $3.99 per cup as a comparison standard and goal for perceived value of gelato since that was the selling price for ice cream. We wanted to change customer perceptions enough so that they would be willing to pay at least $3.99 per cup for our gelato. The measure used to evaluate success or effectiveness should be relevant to the marketing goal of the marketing activity.
3. You have to measure marketing outcomes to see if your marketing works. Some will argue that sales and profits are the only measures of performance; thus, marketing should be measured only against sales and profits. However, many marketing activities are not directly related to sales. They might have indirect effects or long-term effects that are more difficult to measure. We might want to educate customers on the health benefits of gelato compared to ice cream. We would need to develop a plan to consistently measure perceptions among dessert buyers to see if our advertising was working to increase the healthy perception of gelato compared to ice cream.
4. Marketing doesn't always work, and good marketing means taking calculated risks. A common statement in advertising is, "I know half my advertising money is wasted, but I don't know which half." The marketing philosophy means experimentation is needed to influence perceived value. Yet many companies punish failure rather than understand that success requires some risk. The key is to measure outcomes and make adjustments so that the same risks are not repeated. For example, one option you might try to persuade customers that gelato is healthier than ice cream would be an ad showing a pint of ice cream next to a blob of fat and a pint of gelato next to a feather. Would this work? Actually, the more important question is not whether it would work, but would there be something you could do that would work better? That's marketing's job.

New Product Releases Require a Great Deal of Marketing Research

Coca-Cola made a mistake when it introduced New Coke after having done market research that suggested cola drinkers wanted a sweeter soda (see **Figure 1.5**). However, New Coke was not successful, and the loyal Coca-Cola drinkers responded so negatively to the new recipe that Coca-Cola decided to bring back the old formula, renaming the original drink Coca-Cola Classic. Coca-Cola Classic actually strengthened Coca-Cola's position in the US soft drink market and made loyal drinkers even more loyal. In our terms, Coca-Cola had an idea (new recipe based on taste tests), tested the idea (tried the New Coke in the market), measured the results (sales dropped, loyal drinkers sent nasty letters and boycotted stores, etc.), and revised the idea (reintroduced the original under the new name with "Classic" attached). This sequence of events increased the perceived value of the original Coca-Cola.

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FIGURE 1.5 Coca-Cola Was Successfully Reintroduced as Coca-Cola Classic After Loyal Coca-Cola Drinkers Resoundingly Rejected New Coke

In sum, marketing is managing exchanges with customers. Successful marketing means understanding and influencing customer perceptions to encourage favorable exchanges. Marketers have to experiment with ideas based on theory and practice to influence perceived value. Doing so means taking some risks as not everything you try will be successful. However, proper goal setting and measurement will be required to get a positive return on marketing efforts.

1.3 Concept Check

1. What is perceived value and how is it important to marketers?
2. What does it mean to suggest that good marketers are like "naïve scientists"?
3. Is marketing more art or science? Explain.

1.4 How Marketing Has Changed over Time

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See Author Video

You now have a grasp of what marketing is and what it isn't, so let's take a moment to reflect on what you've learned so far. Let's see if you can recognize marketing when you see it.

Here's a little quiz.

Self Quiz

Consider each of the following examples and indicate if it is an example of marketing or not:

- Ancient Egyptians used written contracts for bartering goods and services as early as 2000 BCE and paid for other items with coins.
- The early Romans used to paint pictures of wineglasses and grapes above the door to denote wine stores.
- In the Middle Ages, monks brewed beer for nourishment, but also to sell for profit and to barter for services and even to pay taxes.
- By the end of the 1890s, Sears, Roebuck and Co. produced a mail order catalog with over 500 pages offering American consumers an opportunity to purchase just about anything from appliances to specialty food items and even home-building kits.
- In 2003 Chanel paid actress Nicole Kidman $3 million and spent $33 million on an ad for its fragrance, Chanel No.5.
- In 2007 General Motors gave the filmmakers of the Transformers movie a Chevrolet Camaro to use for filming; the car was one of the stars in the movie.
- In 2015 Amazon.com raised the membership fee for its Prime customers from $79 per year to $99 per year.
- In 2013 a group of actors decided to launch a startup company after visiting poor countries and seeing the plight of malnourished children. Their idea was to create a company that sold snack bars, but also provided food to malnourished children. By January 2017 the company had given over 2,300,000 food packets to malnourished children with over 3,000 retail outlets selling their snack bars, but will the company continue to grow?

Actually, these are all examples of marketing, and the practice of marketing has been around for thousands of years. However, marketing has changed over time as business practices have changed.

The United States and to some degree the global economy has changed over time. The US moved from an emphasis on agriculture to industrialization to services. For example, in the United States the economy was largely based on agriculture until the mid-1800s. Between 1850 and World War II (mid-1940s) industrialization in the United States increased to become the major sector of the economy. After World War II, the service economy developed, and today over 80% of the labor force in the United States works in service industries. As an economy develops, the role and focus of marketing changes to reflect the importance and influence of different business sectors. We can identify five different orientations that develop as an economy grows. These **marketing orientations** represent an approach to marketing that influences practice. We provide a timeline based on the development of the US economy, although the same pattern can be seen in many other markets (see **Table 1.1**).

TABLE 1.1 Timeline of Marketing Orientations

Marketing Orientation	Timeline	Sector of Economy Dominating	Notes
Simple trade/bartering	Pre 1850	Agriculture	• Focus on transaction
Production Orientation	1850–1920	Industrialization	• Focus on production efficiency and availability with low cost • Distribution is key
Sales Orientation	1890–1970	Industrialization	• Focus on aggressive selling • Customers need persuading
Market Orientation	1950–2000	Services	• Customer is "king/queen" • Satisfyies needs for profit • Focus on customer relationship
Social Orientation	2000-current	Information/Technology	• Focus on social responsibility and sustainability • Emphasis on social networks

Simple Trade and Bartering Prior to 1850, when the US economy was largely agricultural, marketing's role was predominantly tied to simple trade and bartering—swapping one product or service for another (see **Figure 1.6**). Marketing efforts were localized at that time due to limited transportation options and word of mouth was the primary way to reach customers.

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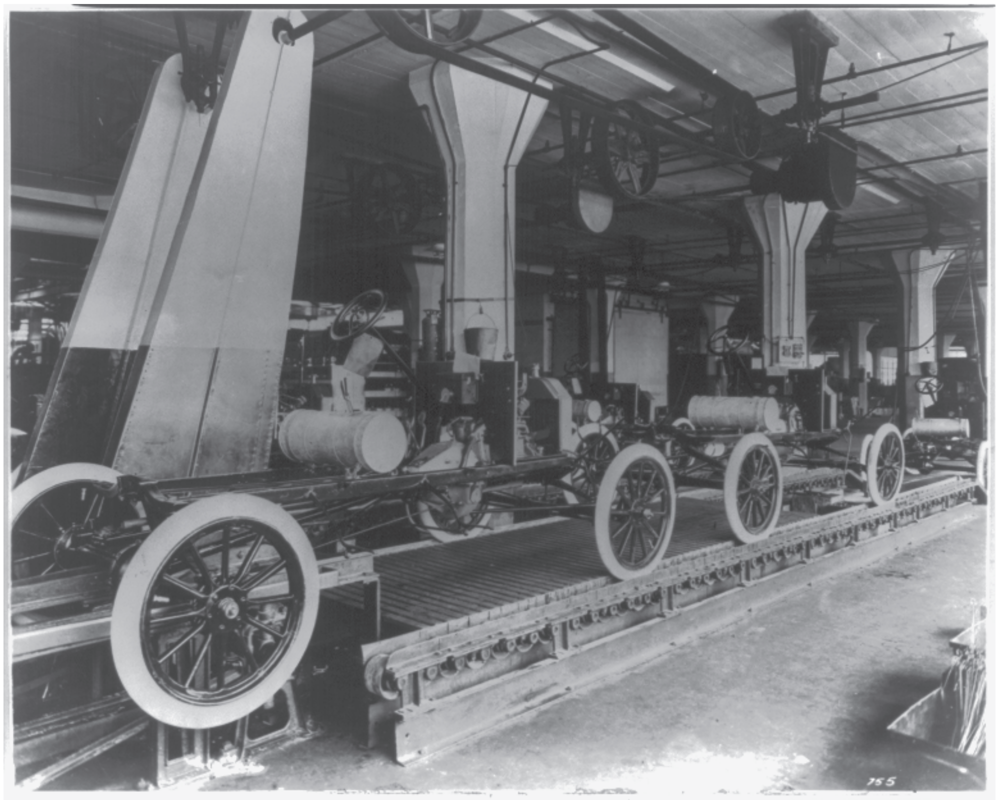
FIGURE 1.6 **The Swap Meet Has Been a Popular Way of Trading Goods Since the 19th Century in America**

Production Orientation Once the US economy became more industrialized, companies became more intent on manufacturing products efficiently and making them affordable and widely available. In the early part of the 20th century, Henry Ford had the idea that everyone could have a car if he could make them efficiently enough and keep the prices low. Ford introduced the Model T in 1908 with a price of $850. By the mid-1920s more than half the world's cars were identical Model Ts (see **Figure 1.7**). The pursuit of efficiency eventually enabled Ford to reduce the price to $260. We refer to marketing during the manufacturing era between 1850



Library of Congress Prints and Photographs Division [LC-USZ62-19261]

FIGURE 1.7 **Ford Model T Assembly Line**

and 1945 as a production orientation. Companies strived to produce what customers wanted. Because many of these products were new to the market, demand was high. Sales went to the company that produced the most efficient and cost-effective version of the product. Making the products widely available was critically important for success.

Sales Orientation The success of Ford and other large manufacturing companies from the late 1800s into the 1920s drew other companies into markets, and competition increased. Competitors produced similar products, prompting companies to focus on sales. Availability was still important, but now it became more important than ever to have salespeople promoting one product over others. During this period, marketing was characterized by a sales orientation, with the primary goal of marketing being to determine how to most effectively sell products to specific customers. Much of what we know about sales techniques and persuasion comes from innovations during this period. Sales goals were short term and focused, favoring single transactions rather than repeat purchases. The sales orientation was most prevalent from the 1920s through roughly 1950, but can you think of any businesses that still use this approach today? Hint: Shopped for a used car lately?

Market Orientation Following World War II the US economy entered a very prosperous period during which consumers had money to spend, the middle class increased as a percentage of the population, and the economy shifted away from manufacturing toward services as the dominant sector. Education, technology, science, communication, and other service areas gained importance after the war, and companies quickly moved to provide services customers desired. Competition increased and customers became more sophisticated buyers. As a result, the sales tactics of the previous period failed to work effectively. Instead, companies focused on understanding exactly what customers wanted and tried to provide the product or service at a profit. The goal of marketing changed from selling to satisfying customers. The mantra for this orientation is "the customer is king/queen." Smarter companies also discovered that rather than focusing on single sales to customers, it was more profitable to build a relationship with customers for repeat sales. The concept of **customer relationship marketing** gained popularity, where companies would focus their efforts on understanding the target market so well that they built a relationship with customers over time. Membership clubs, discounts for repeat customers, and loyalty programs were attempts to strengthen the relationship between company and customers. CVS pharmacy's loyalty program, extracare, offers customers personalized coupons, exclusive deals and allows shoppers to earn rewards with every purchase that lead to future discounts (see **Figure 1.8**). Perhaps one of the surprises from this approach was

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FIGURE 1.8 The CVS ExtraCare Program Rewards Loyal Customers

the discovery by some companies that not all customers are desirable. Best Buy discovered that some customers actually cost the company more money than they made the company because these customers returned merchandise more frequently or habitually used customer service resources. Best Buy moved to reduce this problem, but when the "customer is always right," it can be difficult. As a general time frame, we consider the market orientation prevalent from about 1950 through the mid-1990s, though many companies still have this orientation.

Social Orientation From roughly 1995 onward, the US economy has become more specialized in higher end services, specifically information technology. From a marketing perspective, this has had two important effects. First, information technology has changed the social structure of consumers and business. The Internet, technology interfaces, and new communication options have increased the amount of and opportunities for social interaction. In 2009 Forrester Research, a leading market research company, released the report titled "Future of the Social Web," suggesting opportunities for social interaction will only increase in the future. Consumers use technology to socialize with each other and with companies and generally to interact with the world around them. Social media was once only for personal use, but now companies are using social media postings as opportunities to interact with customers and even to provide opportunities for customers to interact with each other in more meaningful ways. A second impact from the economy's shift to a higher service level has been the increased focus of companies, and increased scrutiny by consumers, of **social responsibility**—companies acting at least in part in the best interests of society rather than their own interests. For example, TOMS shoes donates a pair of shoes to a child in need for each pair sold. Many companies now have a social mission. While a social orientation suggests the company focuses on the social aspects of marketing, it does not imply that all companies are or will choose to adopt social responsibility as a marketing goal.

Though the marketing orientations can be tied generally to a rough timeline based on changes in the economy, we can still see companies that exhibit the different orientations in different sectors today. Companies primarily in manufacturing, for example, AMD, which makes computer processors, still use a production orientation in their marketing. AMD's marketing orientation is that customers want faster and more efficient processors, so they pursue this goal. Real estate companies, many car companies, and insurance agencies market using primarily a sales orientation. Other companies use a market orientation (see Table 1.1.).

1.4 Concept Check

1. How does an economy evolve over time? What are the main stages in development?
2. What are the different marketing orientations?
3. Are the different marketing orientations unique to the US economy or can they be applied to global business markets? Explain.

Chapter Summary

The goal of this chapter is to give you a general introduction to marketing.

1.1 What Marketing Is Not

- Marketing is not simply common sense. Common sense can lead to failure and often does.
- Marketing is more than just advertising or sales. Other key decisions marketers must make include product, price, and place.
- Marketing cannot make people buy something against their will. Marketers try to influence wants, but customers ultimately decide if something is worth buying or not.
- Marketing is equal parts art and science.
- Marketing involves lots of four-function math and you need to be comfortable with the math used in marketing to be successful in your marketing job.

1.2 Marketing Defined

- Marketing is defined as managing exchanges, typically between buyers and sellers.
- Specifically, marketing's main purpose is to increase the probability of an exchange taking place by increasing the value of the exchange for both parties.

1.3 Philosophy of Marketing

- Marketing has a particular philosophy. Marketers are naive scientists who test ideas, measure their effectiveness, and refine them based on results.
- Research is critical to marketing to determine if marketing activities are effective.

1.4 How Marketing Has Changed over Time

- Some marketers have the bartering philosophy which views an exchange as a fair trade of equal value goods or service.
- A production orientation for marketing suggests marketers focus on providing affordable products by making them widely available.
- A sales orientation for marketing involves persuasion to make sales as efficiently as possible.
- A market orientation for marketers can be characterized by the phrase "the customer is king/queen," because the focus is on meeting customer needs while making a profit.
- Companies that adopt a social orientation to marketing focus on making money but also on providing a social benefit while doing so.

Key Concepts

sales
profit
needs
wants
demand
market
marketing
marketing plan
target market
perceived value
value proposition
marketing research
marketing orientations
simple trade and bartering
production orientation
sales orientation
customer relationship marketing
social orientation
social responsibility

Application Questions

1. What is the purpose of a marketing plan and what should be included for a plan to be effective?
2. Think of a product you are familiar with and imagine you have an idea for a better version of the product. How would you go about testing whether your product might be successful or not?
3. Think of a product you know about that failed. Provide a marketing explanation for why the product failed.
4. What is the value proposition for Uber? How does it compare to the value proposition of a taxi or a limousine service?
5. Describe how the U.S economy has changed over time in regard to the sectors of the economy. How did the shift in importance of different sectors affect marketing practice?
6. Companies can have different marketing orientations, as described in the chapter. Provide an example of a company applying each marketing orientation.

Discussion Questions

1. Many people criticize marketing, arguing that marketing influences customers to buy things they really don't need. Marketers argue customers have choices and choose what they want that provides them the most perceived value. Choose a side to this debate and defend your position based on how you think marketing impacts society. Is marketing good or bad for society as a whole?
2. How does the marketing philosophy differ from other academic areas you have studied? Can you explain the likely reason for the differences in how the different areas see the world?
3. Do products have intrinsic value or is value created? For example, consider this question, "Is a diamond or a bottle of water more valuable?"
4. Do you think that all companies should be socially responsible? Why or why not?
5. Should companies, government, or nobody be responsible for determining what will be sold to customers?

Running Case: This Bar Saves Lives (TBSL)

WileyPLUS

Running Case Study Video This Bar Saves Lives, Chapter 1: Initial Marketing Ideas

A Trip to Liberia

Ryan Devlin turned to his traveling partner, Todd Grinnell, and they shared a knowing glance. No need to say anything. The child was dying. It was a sight becoming all too common for them in the last hour, and now they both secretly wished for the day to end, to get back to camp, to get back to the USA . . . pretty much to get anywhere but the refugee camp, to get away from the misery and suffering.

The two were friends, both actors. Todd had contacted Ryan in early 2011 with an opportunity to raise money to build a bridge and orphanage in Liberia. Ryan agreed to help and the two planned a trip to Liberia to tour the area. The hopeful and positive trip took an unexpected turn when the two visited a refugee camp, a visit that would have significant consequences for both of them. There, Ryan and Todd toured a large medical ward, which Todd later described as "cavernous," "hollow," and "quiet." The reason for the quiet was the seemingly endless rows of bed after bed covered in mosquito netting, each containing a child dying of malnutrition. "It's hard to see . . . moms holding babies . . . they are just helpless."

The two knew they had to do something to help. Seeing the poverty and children's plight firsthand motivated the two to think about ways to do more than build a bridge or an orphanage. They determined to investigate options for addressing the severe malnutrition they witnessed in Liberia. "There's got to be something we can do to help out."

Malnutrition: A Significant Problem

A simple lack of food is something most people in the United States don't think about. It almost seems impossible until seen for yourself. And, yet, in Liberia children were starving to death. So, Ryan and Todd began researching malnutrition. What they found was distressing. According to a 2010 report from the UN's World Food Programme, in Liberia 41% of the children under age 5 were stunted, a consequence of chronic malnutrition (see **https://www.childfund.org**). Ryan and Todd also discovered that Liberia was not alone. Each year over 2.6 million children die from malnutrition. That's one child every 12 seconds.

According to UNICEF's website (**https://data.unicef.org**): "Nearly half of all deaths in children under 5 are attributable to undernutrition. This translates into the unnecessary loss of about 3 million young lives a year. Undernutrition puts children at greater risk of dying from common infections, increases the frequency and severity of such infections, and contributes to delayed recovery. In addition, the interaction between undernutrition and infection can create a potentially lethal cycle of worsening illness and deteriorating nutritional status. Poor nutrition in the first 1,000 days of a child's life can also lead to stunted growth, which is irreversible and associated with impaired cognitive ability and reduced school and work performance."

Malnutrition affects education, income, and productivity as well, so the two considered different options to help.

The Idea Takes Shape: Buy One, Give One Movement

Todd and Ryan considered different options for helping malnourished children in Liberia and other poverty-stricken regions, but were unsure how to proceed. For one thing, the problem exists on a huge scale. How can two people make a significant difference? When most people think of helping, they think of charities that provide funding or direct aid to those in need. A number of established, reputable companies provide food aid to children in need. However, for Ryan the problem was that "if people give, they just donate, but then the aid stops." The two were interested in a more permanent solution, a model that would sustainably send aid to malnourished children in need.

Yet, the answer wasn't obvious until one day when Ryan sent Todd an email with the subject "just a little idea to save the world." That's when it all changed. Ryan had seen a *60 Minutes* documentary on Plumpy'Nut, a ready-to-eat therapeutic food (REAT) product created specifically to combat severe malnutrition that was being distributed by Doctors Without Borders in Niger with great success. Plumpy'Nut was basically a peanut butter paste with additional nutrients that included the same vitamins and minerals as a glass of milk and a multivitamin. The effects for children suffering from severe malnutrition who started taking Plumpy'Nut over a 10-week period were miraculous. While it seemed clear that Plumpy'Nut could be a viable aid for malnourished children, the team still needed a vehicle for securing sustainable aid.

Ryan's idea was to use the increasingly popular Buy One, Give One (BOGO) concept to provide Plumpy'Nut to children in need. BOGO was made popular by TOMS shoes, "The One for One" Company. TOMS was founded in 2006 with the mission to give a pair of shoes to a child in need for every pair bought. Other companies with a social agenda quickly adopted the TOMS model. Warby Parker, an online glasses retailer, refined the model. It gave a pair of eyeglasses for a pair bought, but also provided training for locals in donation areas to provide eye exams and sales training to sell affordable glasses locally. Naked Hippies, a Florida-based apparel company, took the BOGO model further. Not only does it donate apparel, but it also offers small loans to individuals in the donation locations to stimulate commerce and self-provision in the area. The BOGO movement includes a variety of companies and product categories, including Better World Books (books plus global literacy donations), Roma (boots), One World Play (initial investment by Sting—they donate soccer balls), Baby Teresa (baby clothes), Smile Squared (toothbrushes), Everything Happy (kids' blankets, toys, etc.), Soapbox (soap), and even BOGO Bowl (dog food for shelters). Ryan suggested to Todd that they use food for food. Their BOGO would be "Buy a Bar. Save a Life. We Eat Together." People would buy snack bars and the company would give a packet of Plumpy'Nut to children in need. Todd loved the idea. But how would they make it a game changer that could significantly change lives in Liberia and elsewhere by solving the malnutrition problem? Clearly, their work was just getting started.

Running Case Questions

1. What other brands (in any category) can you name that have a social orientation/goal?
2. Who do you think might buy TBSL bars, and why would they buy them?
3. Do you think the humanitarian, philanthropic aspect of the purchase is more or less important than the taste of the bars for TBSL's success?
4. Do you think the TBSL approach can or will be copied by competitors such as Kind bars? Why or why not?
5. Do you think the bar is the best option for TBSL? What other product options do you think might work to accomplish its goals?

Application Exercise

As you learned in this chapter, marketing is managing exchanges between the company and the customer. The TBSL case introduced you to the founders of TBSL and the motivation for their company. In each chapter you will learn a little more about the company and its marketing, but to get started let's follow in their footsteps by learning a little about the bar market and try to uncover some general information about both customers and the products. In other words, we will initially focus on trying to find out what is being exchanged and what each party in the exchange hopes to get from the other.

Here are two brief exercises to get you started. Note there are no wrong answers for this exercise. You are simply doing a little investigating to get an idea about the bar market products and customers. We will build on this exercise each chapter to dig a little deeper into the TBSL marketing.

1. A good place to start for understanding a market is to visit the market, in this case literally. Go to a local grocery store (or you can try an online market if necessary) and find the aisle that has snack bars, granola bars, and the like. Take a few pictures so you can document what the customer sees when walking down the aisle. Now take a few notes about what products are on the aisle together. Try to answer the following questions:
   a. What basic categories of bars are there?
   b. How many brands are there?
   c. Which brands have the most options and take up most of the shelf space?
   d. Which products draw your attention the most and why?
   e. What else did you notice that you thought was interesting?
   f. Can you identify different value propositions among the different bar options?

   Be sure to save your notes, as we will refer back to them later.
2. Now, let's find out a little about what customers want in this market. Talk to some of your friends and family. Ask them the following questions:
   a. Do you eat any kinds of snack bars? If so, which ones?
   b. What do you look for when you buy bars?
   c. Where do you typically buy them?
   d. How often do you eat them?
   e. How much would you normally pay for them?
   f. Which is your favorite bar and why?

Compare the answers from different customers. Can you identify any common patterns in their answers? If so, what are they? Again, keep your notes as we will refer back to them later.

Congratulations, you have now completed your first marketing research project. Think about what you learned about this market. As you have no doubt guessed, there is still a lot we don't know, so we will add a piece each chapter to fill in the gaps and gain a better understanding of how marketing works. In Wiley PLUS you can hear from Ryan Devlin as he describes the initial thinking behind This Bar Saves Lives and some of their thoughts on marketing at the beginning of the startup journey.