4-1 THE EXTERNAL MARKETING ENVIRONMENT

Perhaps the most important decisions a marketing manager must make relate to the creation of the marketing mix. Recall from Chapters 1 and 2 that a marketing mix is the unique combination of product, place (distribution), promotion, and price strategies. The marketing mix is, of course, under the firm's control and is designed to appeal to a specific group of potential buyers, or target market. A **target market** is a group of people or organizations for which an organization designs, implements, and maintains a marketing mix intended to meet the need of that group, resulting in mutually satisfying exchanges.

Although managers can control the marketing mix, they cannot control elements in the external environment.

target market a group of people or organizations for which an organization designs, implements, and maintains a marketing mix intended to meet the need of that group, resulting in mutually satisfying exchanges

Managers must alter the marketing mix because of changes in the environment in which consumers live, work, and make purchasing decisions. Also, as markets mature, some new consumers become part of the target market; others drop out. Those who remain may have different tastes, needs, incomes, lifestyles, and buying habits than the original target consumers. Technology, and the resulting change in buying habits, meant that consumers no longer have those "Kodak Moments" when taking pictures of a birthday party or an exceptional sunset. Digital photography has sent thirty-five-millimeter film the way of the horse and buggy. Unfortunately, shifting technology ultimately led to the bankruptcy of Eastman Kodak.

Although managers can control the marketing mix, they cannot control elements in the external environment that continually mold and reshape the target market. Controllable and uncontrollable variables affect the target market, whether it consists of consumers or business purchasers. The uncontrollable elements in the center of the environment continually evolve and create changes in the target market. In contrast, managers can shape and reshape the marketing mix to influence the target market. That is, managers react to changes in the external environment and attempt to create a more effective marketing mix.

Chapter **4**

The Marketing Environment

Learning Outcomes

After you finish this chapter go to
p57 *for* **STUDY TOOLS**

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environmental management when a company implements strategies that attempt to shape the external environment within which it operates

Image courtesy of The Advertising Archives

This ad targets upwardly mobile customers by suggesting that owning the Baby Phat product offers upward mobility and a reward for hard work.

4-1a Understanding the External Environment

Unless marketing managers understand the external environment, the firm cannot intelligently plan for the future. Thus, many organizations assemble a team of specialists to continually collect and evaluate environmental information, a process called environmental scanning. The goal in gathering the environmental data is to identify future market opportunities and threats.

4-1b Environmental Management

No single business is large or powerful enough to create major change in the external environment. Thus, marketing managers are basically adapters rather than agents of change. For example, despite the huge size of firms like General Electric, Walmart, Apple, and Caterpillar, they don't control social change, demographics, or other factors in the external environment.

Just because a firm cannot fully control the external environment, however, doesn't mean that it is helpless. Sometimes a firm can influence external events. For example, extensive lobbying by FedEx has enabled it to acquire virtually all the Japanese routes it has sought. When a company implements strategies that attempt to shape the external environment within which it operates, it is engaging in **environmental management**.

The factors within the external environment that are important to marketing managers can be classified as social, demographic, economic, technological, political and legal, and competitive.

4-2 SOCIAL FACTORS

Social change is perhaps the most difficult external variable for marketing managers to forecast, influence, or integrate into marketing plans. Social factors include our attitudes, values, and lifestyles. Social factors influence the products people buy; the prices paid for products; the effectiveness of specific promotions; and how, where, and when people expect to purchase products.

4-2a American Values

A *value* is a strongly held and enduring belief. During the United States' first 200 years, four basic values strongly influenced attitudes and lifestyles:

- **SELF-SUFFICIENCY: Every person should stand on his or her own two feet.**
- **UPWARD MOBILITY: Success would come to anyone who got an education, worked hard, and played by the rules.**
- **WORK ETHIC: Hard work, dedication to family, and frugality were moral and right.**
- **CONFORMITY: No one should expect to be treated differently from everybody else.**

These core values still hold for a majority of Americans today. A person's values are key determinants of what is important and not important, what actions to take or not to take, and how one behaves in social situations.

People typically form values through interaction with family, friends, and other influencers such as teachers, religious leaders, and politicians. The changing environment can also play a key role in shaping one's values.

Values influence our buying habits. Today's consumers are demanding, inquisitive, and discriminating. No longer willing to tolerate products that break down, they are insisting on high-quality goods that save time, energy, and often calories. U.S. consumers rank the characteristics of product quality as (1) reliability, (2) durability, (3) easy maintenance, (4) ease of use, (5) a trusted brand name, and (6) a low price. Shoppers are also concerned about nutrition and want to know what's in their food, and many have environmental concerns.

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The Natural Marketing Institute has marked some burgeoning **trends** that are apparently becoming American **values.** Some of them are:

- **Getting off the grid: Consumers are pursuing ways to become more self-sufficient, including household-generated energy, water conservation and purification, and private gardens.**
- **Meaningful green: Green initiatives must be distinctive, memorable, and measurable to have an impact on environmental, social, and economic dimensions.**
- **EcoTechMed: New economic realities are motivating many to take greater steps toward proactive health care rather than sick care and to take greater responsibility for their own health and wellness.**

Source: Partial list of trends projected by the Natural Marketing Institute, "Healthy, Green, Simple—Trends to Watch in the Next Ten Years," *Quirk's Marketing Research Review*, May 2010, 6.

4-2b The Growth of Component Lifestyles

People in the United States today are piecing together **component lifestyles**. A lifestyle is a mode of living; it is the way people decide to live their lives. With component lifestyles, people are choosing products and services that meet diverse needs and interests rather than conforming to traditional stereotypes.

component lifestyles the practice of choosing goods and services that meet one's diverse needs and interests rather than conforming to a single, traditional lifestyle

In the past, a person's profession—for instance, banker—defined his or her lifestyle. Today, a person can be a banker and also a gourmet, fitness enthusiast, dedicated single parent, and Internet guru. Each of these lifestyles is associated with different goods and services and represents a target audience. Component lifestyles increase the complexity of consumers' buying habits. Each consumer's unique lifestyle can require a different marketing mix.

4-2c How Social Media Have Changed the Way People and Businesses Communicate

Social media are Web-based and mobile technologies that allow the creation and exchange of user-generated content. Social media encompass a wide variety of content formats including text, video, photos, audio, PDF files, and PowerPoint. These media allow for one-to-one, one-to-many, and many-to-many (going viral) communications. Social media participants can create content, comment on content, or simply observe.

By the beginning of 2012, one minute out of every five spent on the Internet worldwide was dedicated to social networking. This statistic is based upon data from 1.2 billion people around the globe, or 82 percent of the world's Internet population.[1] Facebook, YouTube, and Twitter are the most-used social networking sites worldwide, and Facebook, by far, is the world's most popular with 92 percent of all social networking site users signing in. Fifteen percent of Facebook users update their own status, 22 percent comment on another's post or status, 20 percent comment on another user's photos, 26 percent "like" another user's content, and 10 percent send another user a private message.[2]

Are social networking site users more socially connected? Looking at how much total support, emotional support, companionship, and instrumental aid adults receive, the average American scores 75 out of 100 on a scale of total support, 75 out of 100 on emotional support (such as receiving advice), 76 out of 100 in companionship (such as having people to spend time with), and 75 out of 100 in instrumental aid (such as having someone to help if they are sick in bed).[3]

Internet users in general score three points higher in companionship and four points higher in instrumental support. A Facebook user who uses the site multiple

demography the study of people's vital statistics, such as age, race and ethnicity, and location

times per day tends to score an additional five points higher in total support, emotional support, and companionship than Internet users of similar demographic characteristics.[4]

At one time, Myspace had far more customers than Facebook. What enabled Facebook to grow so rapidly? The company has a different design philosophy than the rest of Silicon Valley. Instead of obsessing about making tasks like posting a photo easier or making the interface more beautiful, Facebook is getting its product out of the way. Most designers in the computer industry have focused on helping humans interact with machines. But Facebook is about human-to-human interaction. "We don't want people to remember their interactions with Facebook," says director of design Kate Aronowitz. "We want them to remember their interactions with their friends and family." Chris Cox, director of product, calls this "social design." "It's more like designing a plaza or a restaurant," he explains. "The best building is one where the people inside get it and work together and are connected. That connectivity is created by how everything is arranged."[5]

HOW FIRMS USE SOCIAL MEDIA There are many categories and types of social media that will be discussed in Chapter 16. You will learn how businesses are using these tools to engage and retain customers, acquire new customers, and understand the marketplace. There are several examples of how Facebook has been used successfully by businesses:

- **Target ran a Valentine's Day promotion called "Super Love Sender" that allowed people to send personalized valentines and to vote on (and track) the charity to which Target would donate $1 million.**
- **Corona put the faces of its Facebook fans onto a Times Square billboard, generating 1.5 million impressions per day and feeding into 200,000 more "likes" for the brand.**
- **L'Oréal's Salon Facebook Program provided a kit to local salons that the salons then used on their own Facebook pages. More than 6,000 salons now improve their own Facebook pages with L'Oréal-supplied elements such as how-to videos, an appointment booking engine, information on products, and a Facebook advertising credit. Was L'Oréal's Facebook program "worth it"? Since it has reached 1.7 million clients, it appears that it was.**
- **Bacardi created a promotion on Facebook called "Like It Live, Like It Together." In a six-week period, Bacardi fans "liked" randomly featured items on the brand's Facebook page (for example, one promotion asked people to "like" a pizza truck or a taco truck). The promotion gained Bacardi more than 145,000 fans in the United States and boosted its YouTube channel views by 67 percent.[6]**

None of these companies settled for simple "likes" for the company or brand. Instead, each found a creative way to engage customers and potential customers.

4-3 DEMOGRAPHIC FACTORS

Another uncontrollable variable in the external environment—also extremely important to marketing managers—is demography, the study of people's vital statistics, such as age, race and ethnicity, and location. Demographics are significant because the basis for any market is people. Demographic characteristics are strongly related to consumer buyer behavior in the marketplace.

4-3a Population

People are directly or indirectly the basis of all markets, making population the most basic statistic in marketing. The world's population hit 7 billion in 2012. China has the largest population with 1.3 billion persons; India is second with 1.2 billion.[7] The latest Census (2010) puts the U.S. population at 308 million. The country grew

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by 27 million from 2000 to 2010. But growth was unevenly distributed. Metropolitan areas, defined as the collection of small cities and suburbs that surround an urban core with at least 50,000 people, accounted for most of the gain, growing 10.8 percent over the decade to 257.7 million people.[8]

Rural areas, meanwhile, grew just 4.5 percent to 51 million. Many regions—from the Great Plains to the Mississippi delta to rural New England—saw population declines. About 46 percent of rural counties lost population in the decade, including almost 60 percent of rural counties that aren't adjacent to a metro area.[9]

Population is a broad statistic that is particularly useful when broken into smaller increments. Age groups present opportunities to focus on a section of the population and offer opportunities for marketers. These groups are called tweens, teens, Generation Y, Generation X, and baby boomers. You will find that each cohort group has its own needs, values, and consumption patterns.

Atkins is targeting Gen Y's active lifestyles and adventurous spirit with ads like this one.

© AP Images/PRNewsFoto/DZP Marketing Communications

4-3b Tweens

America's tweens (ages eight to twelve) are a population of more than 20 million. With attitudes, access to information, sophistication well beyond their years, and purchasing power to match, these young consumers spend over $200 billion annually. Tweens directly spend about $50 billion per year, and the remainder is spent by parents and family members for them.[10] For example, the average family budget for back-to-school clothes is $225.[11]

With such spending power, many markets are striving to attract this age group. One of the fastest-growing tween markets is home décor. Both boys and girls want their rooms to be more than just rooms, and retailers such as Pottery Barn, Pier 1 Imports, and other home goods retailers sell bedding, furniture, and wall art designed specifically for tweens. By introducing tweens to home furnishings at a younger age, these firms hope to keep their business as they change their fashion sense and need to furnish dorms or apartments for college.[12]

4-3c Teens

There are approximately 25 million teens in the United States. They spend approximately seventy-two hours per week tuned in electronically. This includes television, Internet, music, video games, and cell phones. About 93 percent of U.S. teens are on the Internet, 75 percent own a cell phone, and 66 percent say they text. Seventy-three percent of teens in the United States are into social networking, and 50 million teens worldwide post their profiles on Facebook. Only 14 percent of American teens blog, but about half post comments on blogs. Only 8 percent of teens use Twitter.[13]

For teens, shopping has become a social sport whether online or at the mall, though most teens prefer to shop in stores instead of online.[14] The average teen spends about forty-five dollars per week (25 percent report working part time, and 70 percent work odd jobs).[15] Thirty-one percent of teen spending goes toward clothing, shoes, and accessories, and the biggest purchase influence comes from friends.[16]

Generation Y people born between 1979 and 1994

Generation X people born between 1965 and 1978

baby boomers people born between 1946 and 1964

4-3d Generation Y

Generation Y, also called the millennial generation, is made up of people born between 1979 and 1994. Initially, Generation Y was a smaller cohort than baby boomers (discussed below). However, due to immigration and the aging of the boomer generation, Gen Y passed the boomers in total population in 2010. Millennials are currently in two different stages of the life cycle. The youngest members of Gen Y, born in 1994, are in their late teens and fit the cohort group above. In contrast, the oldest Gen Yers, born in 1979, were thirty-four years old in 2013. They have started their careers, and many have become parents for the first time, leading to dramatic lifestyle changes. They care for their babies rather than go out, and they spend money on baby products. Gen Yers already spend more than $200 billion annually and over their lifetimes will likely spend about $10 trillion. No group was hit harder by the recent Great Recession than the Millennials. Many found their newly launched careers stalled or their jobs eliminated. An estimated 24 percent had to move home with their parents at least once.[17] The lucky ones have been able to keep their jobs during the difficult economic times and are making major purchasing decisions such as cars and homes; at the very least, they are buying computers, MP3 players, Smartphones, tablet computers, and sneakers.

Millennials may be the tech-savviest generation yet, spending more time surfing the Web and on social media than they do watching television, listening to radio, or reading newspapers, but they still use and value traditional media. Gen Yers expect brands to be on social media. Two-thirds say a brand being on social media shows it cares about their generation, and 56 percent think social media are a great way to find out what's new with brands they like. That may be why 64 percent have "liked" a brand on Facebook and follow an average of ten brands or companies.[18]

4-3e Generation X

Generation X—people born between 1965 and 1978—consists of 40 million consumers. It was the first generation of latchkey children—products of dual-career households or, in roughly half of the cases, of divorced or separated parents. Gen Xers often spent more time without adult support and guidance than any other age cohort. This experience made them independent, resilient, adaptable, cautious, and skeptical.[19]

Marketing to Gen Xers has often been described as difficult. Yet understanding their needs, wants, and attitudes can make the task much easier. Gen Xers, now in their thirties and forties, are reaching the age when they are planning to send their kids off to college. Seventy-one percent of Gen Xers still have children under the age of eighteen.[20] Gen Xers, like the Millennials, have also been hit hard by the Great Recession. As one Gen Xer noted, "I don't know anyone in my age group who's 'quote' where they want to be 'unquote' from a financial perspective." Around 18 percent of Gen Xers carry credit card debt exceeding 20 percent of their annual salary.[21] Difficult financial times have made Gen Xers big spenders at discounters such as Walmart.

© incamerastock/Alamy

4-3f Baby Boomers

In 2012, there were approximately 75 million **baby boomers** (persons born between 1946 and 1964). Today, their ages range from the late-forties to the mid-sixties. With average life expectancy at an all-time high of 77.4 years, more and more Americans over fifty consider middle age a new start on life. Boomers purchase iPads, redecorate, go on vacation, and postpone retirement.[22] They control about 80 percent of personal wealth in the United States and spend about $50 billion on their grandchildren alone.[23] Boomers spend $1.8 trillion annually on food, cars, personal care, and other personal products. In addition, they are willing to change brands and try new things, making them an ideal group—affluent, experienced, and flexible.[24] Clearly, boomers and seniors are still a huge market with significant needs. In fact, many advertisers are homing in on the boomer market. For example, Procter & Gamble teamed up with NBCUniversal to launch a group of Web sites targeted at boomers using the phrase "life goes strong." The sites cover topics such as technology and health, and hope to catch boomers' fancy as well as some of their $1 trillion in spending power.[25]

4-4 GROWING ETHNIC MARKETS

In 2015, it is estimated that Hispanics will wield $1.5 trillion in purchasing power. In the same year, African Americans will have $1.2 trillion, followed by Asian Americans at $775 billion. Native American spending is expected to increase more than 30 percent to $90.4 billion.[26]

The minority population of the United States reached 110 million in 2011. About one in three U.S. residents is a member of a minority group. By 2050, about one in three U.S. residents will be Hispanic. Currently, nonwhite minorities account for 49 percent of the children born in the United States.[27] Hawaii (75 percent), the District of Columbia (68 percent), New Mexico (58 percent), California (58 percent), and Texas (53 percent) are all majority-minority areas in the United States.[28] The United States will flip to "majority minority" in 2041, meaning whites of European ancestry will make up less than 50 percent of the population. Ten states are already there; in six of them—Arizona, Florida, Georgia, Maryland, Mississippi and Nevada—whites became a minority in the last decade.[29] Today there are more Hispanics living in the United States than there are Canadians in Canada. Hispanics accounted for most of the population growth in the 2010 census. Without Hispanics, America's under-eighteen population would have actually declined.[30]

As you'll see in the following sections, minority populations embrace other cultures while continuing to patronize companies that understand their native cultural preferences.[31] Smart marketers are reaching out and tapping these dynamic, growing markets with a wide range of products and targeted advertising. For example, JCPenney spent 16.4 percent of its media advertising budget on the Hispanic market.[32]

4-4a Marketing to Hispanic Americans

The term *Hispanic* encompasses people of many different backgrounds. Nearly 60 percent of Hispanic Americans are of Mexican descent. Puerto Ricans, the next largest group, make up just under 10 percent of Hispanics. Other groups, including Central Americans, Dominicans, South Americans, and Cubans, each account for less than 5 percent of all Hispanics.

The diversity of the Hispanic population and the language differences create many challenges for those trying to target this market. Hispanics, especially recent immigrants, often prefer products from their native country. Therefore, many retailers along the southern U.S. border

THE CHANGING HISPANIC MARKET

© AP Images/Univision

For many years, broadcast media have assumed that immigrants, as they settled into the United States, would move away from Hispanic channels to mainstream media. However, there are key changes in the Hispanic market that are challenging that assumption. Over the last decade, the largest growth in the Hispanic population has come from births, not immigration. With such a large number of children being raised inside the United States, it should come as little surprise to researchers that 80 percent of the Latino population prefers English or bilingual programming. Univision and Telemundo, the largest Hispanic broadcast television networks, both have English subtitles on their prime-time telenovelas, and Univision broke with its all-Spanish programming by interviewing Republican presidential hopefuls in English with a Spanish translation. The new assumption seems to be that Hispanics have acculturated and are maintaining the best parts of their cultures while adapting some aspects of American culture.

Source: Greg Allen, "Media Outlets Adapt to Growing Hispanic Audience," NPR, April 3, 2012, www.npr.org/2012/04/03/149845056/media-outlets-adapt-to-growing-hispanic-audience (Accessed April 10, 2012).

import goods from Mexico. If the brands found in their homeland are not available, Hispanics will choose brands that reflect their native values and culture.

Procter & Gamble has increasingly targeted Hispanic Americans, and as the Hispanic population continues to gain market share, additional companies are hoping to grab these consumers.

4-4b Marketing to African Americans

African Americans are nearly six years younger on average than all consumers; 47 percent are between eighteen and forty-nine years old, which is considered the top-spending age demographic by marketers. Although their population is smaller, there are more African American households in the United States than Hispanic households because the latter tend to have larger families.[33] Nearly 30 percent of African American households are headed by single women.[34]

Several companies owned by African Americans—such as SoftSheen-Carson and Pro-Line—target the African American market for health and beauty aids. Huge corporations like Revlon, Gillette, and Alberto Culver have either divisions or major product lines for this market as well. The promotional dollars spent on African Americans continue to rise, as does the number of black media choices. BET, the Black Entertainment Television network, has over 80 million viewers. The forty-five-year-old *Essence* magazine reaches one-third of all black females aged eighteen to forty-nine. African Americans spend considerable time with radio (an astounding 4 hours a day versus 2.8 hours for other groups), and urban audiences have an intensely personal relationship with the medium. ABC Radio Networks' Tom Joyner reaches an audience of more than 8 million in 115 markets, and Doug Banks is heard by 1.5 million listeners in 36 markets. Recent research shows that more African Americans than ever before are achieving the American dream. In 2012, there were 2.8 million African Americans earning more than $75,000 annually.[35]

4-4c Marketing to Asian Americans

Asian Americans, who represent only 5 percent of the U.S. population, have the highest average family income of all groups. At $68,780, it exceeds the average U.S. household income by roughly $15,000. Fifty percent of all Asian Americans have at least a bachelor's degree.[36] Because Asian Americans are younger (the average age is 34), better educated, and have higher incomes than average, they are sometimes called a "marketer's dream." Asian Americans are heavy users of technology. Moreover, they are early adopters of the latest digital gadgets. A staggering 95 percent of Asian Americans own PCs.[37]

A number of products have been developed specifically for the Asian American market. For example, the Kayla Beverly Hills salon draws Asian American consumers because the firm offers cosmetics formulated for them. Cultural diversity within the Asian American market complicates promotional efforts, however, and marketers must understand the differences among the Chinese, Filipino, Japanese, Vietnamese, Korean, Indian, and Pakistani markets.

4-5 ECONOMIC FACTORS

In addition to social and demographic factors, marketing managers must understand and react to the economic environment. The three economic areas of greatest concern to most marketers are consumers' incomes, inflation, and recession.

4-5a Consumers' Incomes

As disposable (or after-tax) incomes rise, more families and individuals can afford the "good life." In recent years, however, U.S. incomes have risen at a rather slow pace. The annual median household income in the United States in 2012 was approximately $50,000, though the median household income varies widely from state to state. This means half of all U.S. households earned less, and the other half earned more.[38] Two percent of the U.S. population earns $250,000 a year or more.[39]

Education is the primary determinant of a person's earning potential. For example, only 1 percent of those with only a high school education earn over $100,000 annually. By comparison, 13 percent of college-educated workers earn six figures or more. People with a bachelor's degree take home an average of 38 percent more than those with just a high school diploma. Over a lifetime, an individual with a bachelor's degree will earn twice as much total income as a nondegree holder.[40] Along with "willingness to buy," or "ability to buy," income is a key determinant of target markets. A marketer who knows where the money is knows where the markets are. If you are seeking a new store location for Dollar General, a retail chain that caters to lower-income consumers, you would probably concentrate on the South and Midwest, because most households with annual incomes of less than $45,000 are concentrated in these areas.

4-5b Purchasing Power

Rising incomes don't necessarily mean a higher standard of living. Increased standards of living are a function of purchasing power. **Purchasing power** is measured by comparing income to the relative cost of a standard set of goods and services in different geographic areas, usually referred to as the cost of living. Another way to think of purchasing power is income minus the cost of living (i.e., expenses). In general, a cost of living index takes into account housing, food and groceries, transportation, utilities, health care, and miscellaneous expenses such as clothing, services, and entertainment. HomeFair.com's salary calculator uses these metrics when it figures that the cost of living in New York City is almost three times the cost of living in Youngstown, Ohio. This means that a worker living in New York City must earn nearly $279,500 to have the same standard of living as someone making $100,000 in Youngstown.

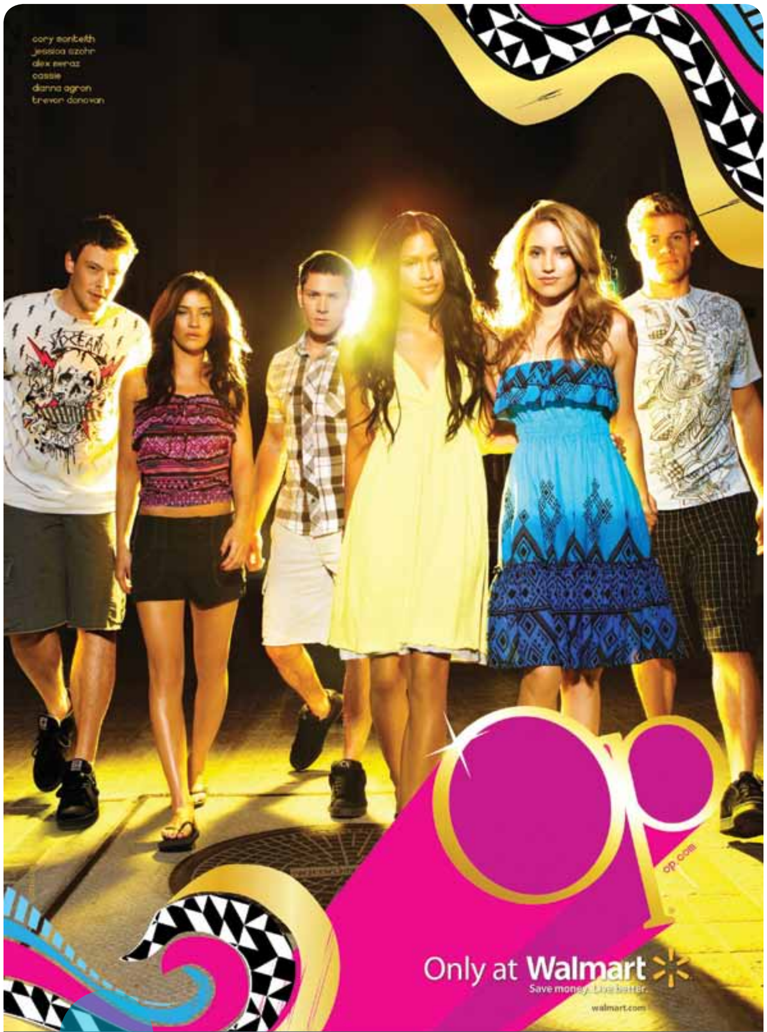
When income is high relative to the cost of living, people have more discretionary income. That means they have more money to spend on nonessential items (in other words, on wants rather than needs). This information is important to marketers for obvious reasons. Consumers with high purchasing power can afford to spend more money without jeopardizing their budget for necessities like food, housing, and utilities. They also have the ability to purchase higher-priced necessities—for example, a more expensive car, a home in a more expensive neighborhood, or a designer handbag versus a purse from a discount store.

4-5c Inflation

Inflation is a measure of the decrease in the value of money, generally expressed as the percentage reduction in value since the previous year, which is the rate of inflation. Thus, in simple terms, an inflation rate of 5 percent means you will need 5 percent more units of money than you would have needed last year to buy the same basket of products. If inflation is 5 percent, you can expect that, on average, prices have risen by about 5 percent since the previous year. Of course, if pay raises are matching the rate of inflation, then employees will be no worse off in terms of the immediate purchasing power of their salaries.

purchasing power a comparison of income versus the relative cost of a standard set of goods and services in different geographic areas

inflation a measure of the decrease in the value of money, expressed as the percentage reduction in value since the previous year



Walmart is known as a low-price retailer, but brands such as OP are often found in Walmart stores serving higher-income markets.

© AP Images/PRNewsFoto/Iconix Brand Group, Inc.

recession a period of economic activity characterized by negative growth, which reduces demand for goods and services

basic research pure research that aims to confirm an existing theory or to learn more about a concept or phenomenon

applied research research that attempts to develop new or improved products

In times of low inflation, businesses seeking to increase their profit margins can do so only by increasing their efficiency. If they significantly increase prices, no one will purchase their goods or services. The recent recession brought inflation rates to almost zero.

In creating marketing strategies to cope with inflation, managers must realize that, regardless of what happens to the seller's cost, the buyer is not going to pay more for a product than the subjective value he or she places on it. No matter how compelling the justification might be for a 10 percent price increase, marketers must always examine its impact on demand. Many marketers try to hold prices level for as long as is practical.

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4-5d Recession

A **recession** is a period of economic activity characterized by negative growth. More precisely, a recession is defined as occurring when the gross domestic product falls for two consecutive quarters. Gross domestic product is the total market value of all final goods and services produced during a period of time. The official beginning of the 2007–2009 recession was December 2007. While the causes of the recession are very complex, this one began with the collapse of inflated housing prices. Those high prices led people to take out mortgages they couldn't afford from banks that should have known the money would not be repaid. By 2008, the recession had spread around the globe. A very slow economic recovery began in July 2009.

The 2007–2009 recession, called "the Great Recession" by some, was the largest economic downturn since the Great Depression of 1929 to 1939. Unemployment rose from slightly over 4 percent to over 10 percent.[41] The unemployment rate has been slowly falling since mid-2010 due to job creation and people leaving the workforce entirely. Uncertain economic times have caused many consumers to shift to store brands—60 percent of shoppers buy only private label bread or baked goods![42] More consumers than ever before are using coupons. Researchers found that during the recession, consumers were sticking very close to shopping lists and doing their best to completely empty their pantries before restocking. Also, consumers were going to fewer stores but selecting stores where they could get the widest array of products at the best value. Many people, for the first time, prepared their lunches to take to work.[43]

4-6 TECHNOLOGICAL FACTORS

The recent economic downturn and slow recovery have had an impact on research and development (R&D) spending. In order to cut costs and boost short-term profits, many companies, particularly in the auto and drug industries, slashed R&D, product design, and laboratory spending. Other firms have taken a different tack and either increased or held R&D spending steady, hoping that they will be able to compete more effectively when the economy improves. Companies such as 3M, Microsoft, Google, Intel, and Cisco Systems have followed this strategy. Without investment in R&D, the United States cannot compete in a knowledge-based global economy.

4-6a Research

The United States, historically, has excelled at both basic and applied research. **Basic research** (or *pure research*) attempts to expand the frontiers of knowledge but is not aimed at a specific, pragmatic problem. Basic research aims to confirm an existing theory or to learn more about a concept or phenomenon. For example, basic research might focus on high-energy physics. **Applied research**, in contrast, attempts to develop new or improved products. The United States has dramatically improved its track record in applied research. For example, the United States leads the world in applying basic research to aircraft design and propulsion systems.

4-6b Stimulating Innovation

Companies attempting to innovate often limit their searches to areas they are already familiar with. This can help lead to incremental progress but rarely leads to a dramatic breakthrough. Companies are now using several approaches to keeping innovation strong. These include:

- **BUILD SCENARIOS: Some firms use teams of writers to imagine detailed opportunities and threats for their companies, partners, and collaborators in future markets.**
- **ENLIST THE WEB: A few companies have created Web sites that act as literal marketplaces of ideas where they can go to look for help with scientific and business challenges.**
- **TALK TO EARLY ADOPTERS: Early adopters tend to be innovators themselves. They are risk takers and look for new things or wish for something better to help in daily tasks at home and work.**
- **USE MARKETING RESEARCH: Firms find out what customers like and dislike about their products and competitors' products.**
- **CREATE AN INNOVATIVE ENVIRONMENT: Companies let employees know that they have the "freedom to fail." They create intranets to encourage sharing ideas. Most importantly, top management must lead by example to create an atmosphere where innovation is encouraged and rewarded.**
- **CATER TO ENTREPRENEURS: Policies that reserve blocks of time for scientists or engineers to explore their own ideas have worked well at some companies. At 3M, scientists can spend 15 percent of their time on projects they dream up themselves, and the company has set procedures for taking bright ideas forward, including grants and venture funding.[44]**

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Although developing new technology internally is a key to creating and maintaining a long-term competitive advantage, external technology is also important to managers for two reasons. First, by acquiring the technology, the firm may be able to operate more efficiently or create a better product. Second, a new technology may render existing products obsolete.

Recently, China has been rolling out an array of interlocking regulations and state spending aimed at making the country a global technology powerhouse by 2020.

The new initiatives—shaped by rising nationalism and a belief that foreign companies unfairly dominate key technologies—range from big investments in national industries to patent laws that favor Chinese companies and mandates that essentially require foreign companies to transfer technology to China if they hope to sell in that market. The U.S. Chamber of Commerce, a business trade group, calls China's actions "an intricate web of new rules considered by many international technology companies to be a blueprint for technology theft on a scale the world has never seen before."[45] This issue promises to dominate relations between the two countries for years to come.

4-7 POLITICAL AND LEGAL FACTORS

Business needs government regulation to protect innovators of new technology, the interests of society in general, one business from another, and consumers. In turn, government needs business because the marketplace generates taxes that support public efforts to educate our youth, pave our roads, protect our shores, and the like.

Every aspect of the marketing mix is subject to laws and restrictions. It is the duty of marketing managers or their legal assistants to understand these laws and conform to them, because failure to comply with regulations can have major consequences for a firm. Sometimes just sensing trends and taking corrective action before a government agency acts can help avoid regulation.

Consumer Product Safety Commission (CPSC) a federal agency established to protect the health and safety of consumers in and around their homes

4-7a Federal Legislation

Federal laws that affect marketing fall into several categories of regulatory activity: competitive environment, pricing, advertising and promotion, and consumer privacy. The key pieces of legislation in these areas are summarized in Exhibit 4.1. The primary federal laws that protect consumers are shown in Exhibit 4.2.

In 2010, Congress passed the Restoring American Financial Stability Act that brought sweeping changes to bank and financial market regulations. The legislation created the Consumer Financial Protection Bureau to oversee checking accounts, private student loans, mortgages, and other financial products. The agency deals with unfair, abusive, and deceptive practices.

4-7b State Laws

Legislation that affects marketing varies state by state. Oregon, for example, limits utility advertising to 0.5 percent of the company's net income. California has forced industry to improve consumer products and has enacted legislation to lower the energy consumption of refrigerators, freezers, and air conditioners. Several states, including California and North Carolina, are considering levying a tax on all in-state commercial advertising.

Many states and cities are attempting to fight obesity by regulating fast-food chains and other restaurants. For example, California has passed a law banning trans fats in restaurants and bakeries, New York City chain restaurants must now display calorie counts on menus, and Boston has banned trans fats in restaurants.

4-7c Regulatory Agencies

Although some state regulatory bodies actively pursue violators of their marketing statutes, federal regulators generally have the greatest clout. The Consumer Product Safety Commission, the Federal Trade Commission, and the Food and Drug Administration are the three federal agencies most directly and actively involved in marketing affairs. These agencies, plus others, are discussed throughout the book, but a brief introduction is in order at this point.

The sole purpose of the **Consumer Product Safety Commission (CPSC)** is to protect the health and safety of consumers in and around their homes. The CPSC has the power to set mandatory safety standards for almost all products consumers use (about 15,000 items) and can

Exhibit 4.1

PRIMARY U.S. LAWS THAT AFFECT MARKETING

Legislation	Impact on Marketing
Sherman Act of 1890	Makes trusts and conspiracies in restraint of trade illegal; makes monopolies and attempts to monopolize misdemeanors.
Clayton Act of 1914	Outlaws discrimination in prices to different buyers; prohibits tying contracts (which require the buyer of one product to also buy another item in the line); makes illegal the combining of two or more competing corporations by pooling ownership of stock.
Federal Trade Commission Act of 1914	Created the Federal Trade Commission to deal with antitrust matters; outlaws unfair methods of competition.
Robinson-Patman Act of 1936	Prohibits charging different prices to different buyers of merchandise of like grade and quantity; requires sellers to make any supplementary services or allowances available to all purchasers on a proportionately equal basis.
Wheeler-Lea Amendments to FTC Act of 1938	Broadens the Federal Trade Commission's power to prohibit practices that might injure the public without affecting competition; outlaws false and deceptive advertising.
Lanham Act of 1946	Establishes protection for trademarks.
Celler-Kefauver Antimerger Act of 1950	Strengthens the Clayton Act to prevent corporate acquisitions that reduce competition.
Hart-Scott-Rodino Act of 1976	Requires large companies to notify the government of their intent to merge.
Foreign Corrupt Practices Act of 1977	Prohibits bribery of foreign officials to obtain business.

fine offending firms up to $500,000 and sentence their officers to up to a year in prison. It can also ban dangerous products from the marketplace. The CPSC oversees about 400 recalls per year. In 2008, Congress passed the Consumer Product Safety Improvement Act. The law is aimed primarily at children's products, which are defined as those used by individuals twelve years old or younger. The law addresses items such as cribs, electronics and video games, school supplies, science kits, toys, and pacifiers. The law requires mandatory testing and labeling and increases fines and prison time for violators.

The **Food and Drug Administration (FDA)**, another powerful agency, is charged with enforcing regulations against selling and distributing adulterated, misbranded, or hazardous food and drug products. In 2009, the Tobacco Control Act was passed. This act gave the FDA authority to regulate tobacco products, with a special emphasis on preventing their use by children and young people and reducing the impact of tobacco on public health. Another recent FDA action is the "Bad Ad" program. It is geared toward health care providers to help them recognize misleading prescription drug promotions and gives them an easy way to report the activity to the FDA.

The **Federal Trade Commission (FTC)** consists of five members, each holding office for seven years. Over

Food and Drug Administration (FDA) a federal agency charged with enforcing regulations against selling and distributing adulterated, misbranded, or hazardous food and drug products

Federal Trade Commission (FTC) a federal agency empowered to prevent persons or corporations from using unfair methods of competition in commerce

Exhibit 4.2

PRIMARY U.S. LAWS PROTECTING CONSUMERS

Legislation	Impact on Marketing
Federal Food and Drug Act of 1906	Prohibits adulteration and misbranding of foods and drugs involved in interstate commerce; strengthened by the Food, Drug, and Cosmetic Act (1938) and the Kefauver-Harris Drug Amendment (1962).
Federal Hazardous Substances Act of 1960	Requires warning labels on hazardous household chemicals.
Kefauver-Harris Drug Amendment of 1962	Requires that manufacturers conduct tests to prove drug effectiveness and safety.
Consumer Credit Protection Act of 1968	Requires that lenders fully disclose true interest rates and all other charges to credit customers for loans and installment purchases.
Child Protection and Toy Safety Act of 1969	Prevents marketing of products so dangerous that adequate safety warnings cannot be given.
Public Health Smoking Act of 1970	Prohibits cigarette advertising on television and radio and revises the health hazard warning on cigarette packages.
Poison Prevention Labeling Act of 1970	Requires safety packaging for products that may be harmful to children.
National Environmental Policy Act of 1970	Established the Environmental Protection Agency to deal with various types of pollution and organizations that create pollution.
Public Health Cigarette Smoking Act of 1971	Prohibits tobacco advertising on radio and television.
Consumer Product Safety Act of 1972	Created the Consumer Product Safety Commission, which has authority to specify safety standards for most products.
Child Protection Act of 1990	Regulates the number of minutes of advertising on children's television.
Children's Online Privacy Protection Act of 1998	Empowers the FTC to set rules regarding how and when marketers must obtain parental permission before asking children marketing research questions.
Aviation Security Act of 2001	Requires airlines to take extra security measures to protect passengers, including the installation of stronger cockpit doors, improved baggage screening, and increased security training for airport personnel.
Homeland Security Act of 2002	Protects consumers against terrorist acts; created the Department of Homeland Security.
Do Not Call Law of 2003	Protects consumers against unwanted telemarketing calls.
CAN-SPAM Act of 2003	Protects consumers against unwanted e-mail, or spam.
Credit Card Act of 2009	Provides many credit card protections.
Restoring American Financial Stability Act of 2010	Created the Consumer Financial Protection Bureau to protect consumers against unfair, abusive, and deceptive financial practices.

the years, Congress has greatly expanded the powers of the FTC. Its responsibilities have grown so large that the FTC has created several bureaus to better organize its operations. One of the most important is the Bureau of Competition, which promotes and protects competition. The Bureau:

- **reviews mergers and acquisitions, and challenges those that would likely lead to higher prices, fewer choices, or less innovation;**
- **seeks out and challenges anti-competitive conduct in the marketplace, including monopolization and agreements between competitors;**
- **promotes competition in industries where consumer impact is high, such as health care, real estate, oil and gas, technology, and consumer goods; and**
- **provides information and holds conferences and workshops for consumers, businesses, and policy makers on competition issues for market analysis.[46]**

The FTC's Bureau of Consumer Protection works for the consumer to prevent fraud, deception, and unfair business practices in the marketplace. The Bureau claims that it:

- **enhances consumer confidence by enforcing federal laws that protect consumers,**
- **empowers consumers with free information to help them exercise their rights and to spot and avoid fraud and deception, and**
- **wants to hear from consumers who want to get information or file a complaint about fraud or identity theft.[47]**

Another important FTC Bureau is the Bureau of Economics. It provides economic analysis and support to antitrust and consumer protection investigations. Many consumer protection issues today involve the Internet.

CONSUMER PRIVACY The popularity of the Internet for direct marketing, for collecting consumer data, and as a repository for sensitive consumer data has alarmed privacy-minded consumers. The U.S. Congress passed the CAN-SPAM Act in an attempt to regulate unsolicited e-mail advertising. The act prohibits commercial e-mailers from using false addresses and presenting false or misleading information, among other restrictions.

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Internet users who once felt fairly anonymous when using the Web are now disturbed by the amount of information marketers collect about them and their children as they visit various sites in cyberspace. The FTC, with jurisdiction under the Children's Online Privacy Protection Act, requires Web site operators to post a privacy policy on the home page and a link to the policy on every page where personal information is collected. An area of growing concern to privacy advocates is called behavioral targeting, which is discussed in more detail in Chapter 9. Behavioral targeting is used by researchers to better target advertising to Web surfers and users of search engines and social media.

In 2012, the FTC called for online data collectors to adopt better privacy policies and asked Congress to pass comprehensive privacy legislation. The FTC wants data collectors to implement a "Do Not Track" button in Web browsers. "No one has the right to put anything on [your

THE EYES OF THE E-BOOK

Online privacy is a fairly common discussion today, particularly in U.S. legislation. But few people mention e-reader privacy, despite the ever increasing numbers of e-books sold each year. However, the companies that sell e-books are able to track how people read, what they read, the amount of time spent in each book, and even what passages they underline and bookmark. While Amazon touts this feature as a "collective intelligence," the Electronic Frontier Foundation (EFF) is concerned that this data could be used against individuals. In California, the EFF has worked to implement legislation requiring a warrant before personal e-reader data is released for investigation. The EFF hopes to encourage other states to enact the same legislation in order to safeguard consumer privacy.

Source: Alexandra Alter, "Your E-Book is Reading You," *Wall Street Journal*, July 19, 2012 (Accessed September 3, 2012) ~~HYPERLINK "http://online.wsj.com/article/SB10001424052702304870304577490950051438304.html"~~ http://online.wsj.com/article/SB10001424052702304870304577490950051438304.html.

computer] that you don't want," said Jon Leibowitz, chairman of the FTC.[48]

The agency also turned its attention to off-line data brokers—which buy and sell names, addresses, and other personal information—calling on them to create a centralized Web site providing consumers with better access to their data. The agency also wants legislation requiring data brokers to give consumers the right to see and make corrections to their information.[49]

4-8 COMPETITIVE FACTORS

The competitive environment encompasses the number of competitors a firm must face, the relative size of the competitors, and the degree of interdependence within the industry. Management has little control over the competitive environment confronting a firm.

4-8a Competition for Market Share and Profits

As U.S. population growth slows, global competition increases, costs rise, and available resources tighten, firms find that they must work harder to maintain their profits and market share regardless of the form of the competitive market. Sometimes technology advances can usher in a whole new set of competitors that can change a firm's business model. In the single-serve coffee brewing market, Keurig and Green Mountain have the lion's share of the market, but Starbucks is hoping to cash in on some of that market share by working with Green Mountain to package its super-premium coffee into the single-serve pods used in the Keurig machines. Dunkin' Donuts coffee is also offered by Green Mountain, but Starbucks would represent the only super-premium coffee offered by the company. This is one of several moves Starbucks is making to add profit growth by selling in consumer goods markets beyond its retail coffee shops.[50]

4-8b Global Competition

Boeing is a very savvy international business competitor. Many foreign competitors also consider the United States to be a ripe target market. Thus, a U.S. marketing manager can no longer focus only on domestic competitors. In automobiles, textiles, watches, televisions, steel, and many other areas, foreign competition has been strong. In the past, foreign firms penetrated U.S. markets by concentrating on price, but today the emphasis has switched to product quality. Nestlé, Sony, and Rolls-Royce are noted for quality, not cheap prices. Global competition is discussed in much more detail in Chapter 5.

STUDY TOOLS 4

LOCATED AT BACK OF THE TEXTBOOK

- ☐ *Rip out Chapter Review Card*

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- ☐ *Review Key Terms Flashcards (print or online)*
- ☐ *Download audio and visual summaries to review on the go*
- ☐ *Complete both Practice Quizzes to prepare for tests*
- ☐ *Play "Beat the Clock" and "Quizbowl" to master concepts*
- ☐ *Complete "Crossword Puzzle" to review key terms*
- ☐ *Watch Video on "Method" for a real company example*

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