5. External considerations in marketing

Learning objectives

As you read through this chapter, you should develop an understanding of the external considerations in marketing planning. Specifically, you should:

- Understand the importance of analyzing the organization's external environment and the impact that the external environment has on strategic marketing planning.
- Realize that marketing organizations often work with external agencies that perform some of these marketing activities. These agencies include distributors, retailers, market research suppliers, advertising agencies, and materials suppliers.
- Appreciate the external factors that have an impact on marketing activities, including external agencies, competitors, legal/ethical issues, economic/political issues, technology, and social trends.
- Relate these external factors to the marketing planning process.

The car industry and technology

The EV1 is an electric car built by US based General Motors, marketed under the Saturn brand. The EV1 was introduced to California and Arizona in 1996 with an estimated USD 25 million marketing campaign.

In 1997, a clean air mandate went into effect in three US states—California, Massachusetts, and New York. The mandate requires that each year, a certain percentage of vehicles sold must be zero-emission vehicles. California has since pushed its deadline to the year 2003, but requires that 10 per cent of all vehicles sold be zero-emission. General Motors stayed with the original date and won acclaim for the zero-emission technology. General Motors is not the only company with an interest in developing electric-powered vehicles. Here are several other electric projects that are underway:

- Honda EV Plus, introduced in 1997 and marketed to families of four
- Chrysler EPIC
- Nissan Prairie Jay minivan
- Ford Ranger EV
- Chevy S-10 pickups
- Toyota RAV4-EV sport-utility vehicle

Production of electric vehicles was undertaken in response to voter mandates, a factor external to the firm. Now, auto producers are introducing electric vehicles in part to learn about customer reactions. There is still much to learn about electric-powered technology. Today, there are concerns about things like range, price, and refueling of electric vehicles. This is quite a drastic change from typical customer concerns like car phones, cup holders, and other frills associated with gas-powered vehicles. A few other facts about General Motors' EV1:

- It leases for between USD 399 and USD 549 monthly.

- Monthly payments on a typical purchase are around USD 500.
- They have limited range (about 120 miles or 193.21 Km between changes).
- Recharging takes several hours.
- They are currently best as a second vehicle.[17]

Introduction

When marketing organizations plan strategically, the key question is: "Does the strategic planning process raise the overall level of the organization's effectiveness, and does it provide the new strategic direction that is required for the future?" A good strategic plan must help marketing organizations recognize the interrelationships among various forces in the business environment. These interrelationships must be accounted for if the organization is to be capable of implementing its vision.

It is important to recognize that most existing planning processes have an internal focus. Internal planning processes ask questions like, "What are our strengths and weaknesses? "What comparative cost advantages do we have?" and "What product features provide us with an advantage?"

The external planning approach asks these same questions but also attempts to understand how all of the elements of the marketplace relate to each other. In this chapter, we focus on the external environmental factors that have an impact on the organization, especially the marketing function. In the chapters that follow, we consider the marketplace and its behavior.

As shown in Exhibit 12, marketing managers are confronted with many environmental concerns, including technology; customer; competitor; ethical/legal; and economic, political, demographic, and social trends. All organizations should continuously appraise their situation and adjust their strategy to adapt to the environment.

One technique used by organizations to monitor the environment is known as environmental scanning, which refers to activities directed toward obtaining information about events and trends that occur outside the organization and that can influence the organization's decision making. In a sense, such data collection scanning acts as an early warning system for the organization. It allows marketers to understand the current state of the environment and to predict trends. A formal but simple strategic information scanning system can enhance the effectiveness of the organization's environmental scanning efforts. An information system (part of marketing research) organizes the scanning effort so that information related to specific situations can be more readily obtained and used.

17 *Sources*: "OM's Advanced Auto Technologies Showcased at Democratic National Convention," *Financial News*. August 13,2000; Jon Pepper, "California Mandate for Electric Cars Means OM Has a Lot to Explain," *The Detroit News*, August 23, 2000. p. 1; Paul Rogors, "California Air Officials Want Auto Makers to Deliver Electric Cars in Two Years," *San Jose Mercury News*, September 9, 2000.

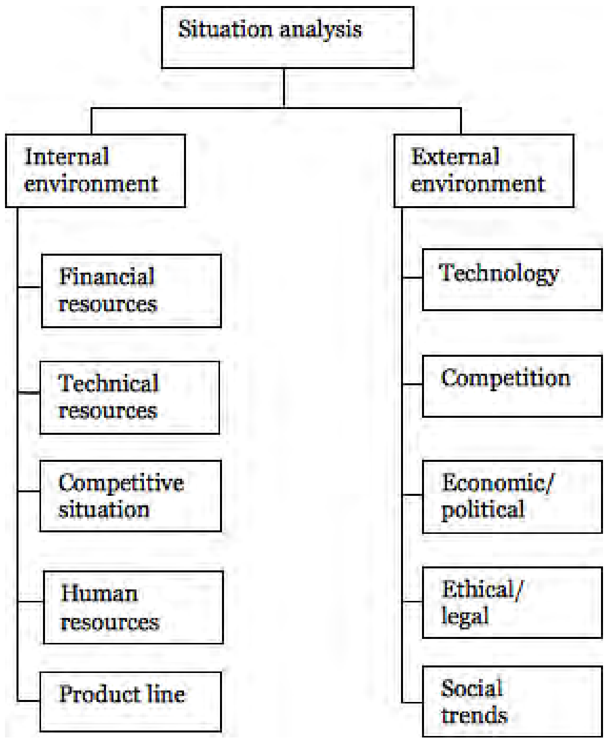

Exhibit 12: Environmental factors affecting the organization

A good strategic plan requires careful monitoring of the marketing organization's external environment. The external environment represents sources of opportunities and threats. If the marketing organization is to align its capabilities and resources with opportunities and threats, it must know what those threats are. It is important that marketing organizations have a strategy to uncover relevant strategic opportunities and threats early. As threats and opportunities appear, marketing organizations should develop strategies to deal with them.

Another problem is that at any one time, there may appear to be a great many opportunities and threats looming. Marketers must be able to prioritize these opportunities and threats according to such factors as their relevance to the organization, the cost effectiveness of strategies to deal with the threats and opportunities, and the urgency of the threat or opportunity. Organizations are inundated with information and must therefore have an effective mechanism for sorting out that information which is relevant to the organization.

Only after the marketing environment is thoroughly understood can an organization spot trends and determine whether they represent market opportunities or market threats.

External factors that affect planning

There are many marketplace changes occurring that marketers cannot control but affect what marketers do. Faced with these environmental uncertainties, successful marketers will be those who recognize the changes that are occurring and who make effective adjustments.

There are a number of external factors that constitute the external environment. Our approach is to attempt to present an all-encompassing view of the elements of the external environment. Rather, it is to briefly describe each of the components and show how external factors affect marketing strategy.

External surprises

Carol Wolfe and Jane Barnes have been friends for six years, sharing carpool responsibilities, a common love of sewing, and a belief that being self-employed would be a dream come true. After two years of tinkering, they produced a child carrier that they felt would appeal to devoted moms who wanted their baby to be physically attached to the parent in a secure and comfortable manner. They knew they would need lots of help getting this business off the ground, but never realized how difficult and complicated it would be to obtain such assistance.

They contacted the chairman of the marketing department at a local college and were told they could be considered as a student project for the capstone marketing course. One month later, they were given a preliminary report. The report began by listing the various agencies and intermediaries they would need to contact in order to start their business. The list included the following: personal attorney, patent attorney, accountant, commercial banker, raw materials providers (e.g. denim, thread, staples), distributors (wholesalers and retailers), advertising agency, marketing research firm, and fulfillment house. Further, they would have to understand the capabilities, options, and costs associated with each agency or intermediary.

Since they lived in a relatively small city (population 185,000), many of these agencies or intermediaries were not readily available. A local attorney put them in touch with a patent attorney and a marketing research company in a nearby large city. The estimated cost of doing the patent search was USD 5,500 while the cost of preliminary research was USD 9,300. Their combined savings totaled USD 18,000. Clearly, they were underfunded. A quick call to the local bank produced another list of requirements they would have to meet in order to qualify for a business loan, including a business plan, a *pro forma* statement, and so forth.

The initial business plan developed by the student group indicated that there were several competitors selling a product very similar to Carol and Jane's baby carrier. Also, the sources for denim were limited and required a minimum purchase of 500 bolts of fabric. Finally, because most retailers selling similar products were already committed to other manufacturers, it was unlikely that they would find retail distributors. The expected cost of manufacturing and marketing 30,000 units the first year was USD 1.4 million with a maximum possible profit of USD 146,000. Carol and Jane gave up on their idea.

While this scenario is quite depressing, it is not that unusual. It is critical that a business identify and evaluate the various agencies and intermediaries with whom it must deal. Throughout this book, we will constantly identify these external agencies and attempt to assess their influence on a marketing organization.

Competitors

As with other external forces, management must also prioritize the importance of the factors that affect competition. The relationships between these elements and competition must be understood if the organization is to be able to develop and sustain a competitive advantage.

Competitive analysis focuses on opportunities and threats that may occur because of actual or potential competitive changes in strategy. It starts with identifying current and potential competitors. For example, who are General Motors' competitors? If you named companies like Toyota, Ford, Chrysler, and Honda, you are right, but you have just begun. Table 3 outlines some of General Motors' competitors, and Table 4 does the same with Nintendo's competitors.

It is essential that the marketer begin this assessment by answering the following question: "What criteria can be used to identify a salient set of competitors?"

Table 3: Analysis of General Motors' competitors

Transportation		**After-market**	
Autos	**Other**	**Repairs**	**Parts**
Toyota	Schwinn	Auto dealers	Pep-Boys
Ford	Delta Airlines	Sears	NAPA
Chrysler	American Airlines	Kmart	
Honda	Honda motorcycles	Local repair shops	
Audi	Mass transit		

Table 4: Analysis of Nintendo's competitors

Video games			**Entertainment**	
Game suppliers	**Game providers**	**In-home**	**Out-of-home**	**Hobbies**
Sega	The Tilt	Family time	Plitt Theaters	Hunting, fishing
Atari	Video game parlor	Parker brothers	The New York Mets	golf, Little league
Genesis	Mazzio's	Blockbuster Video	Six Flags	baseball, Girl Scouts

It is clear from these two examples that an accurate accounting of competitors is much broader than the obvious. If we define our competitors too narrowly, we risk the chance that an unidentified competitor will take market share away from us without our knowledge. For example, General Motors obviously competes against Ford, Chrysler, Toyota, and other auto manufacturers. They also compete against Sears in the repair market, the subway in large cities, the airlines, and Schwinn, among people for whom bicycle riding is popular. Nintendo competes against Sega in the video game market. They also compete against Blockbuster Video, the local gym, board games, the theater, and rock concerts. Competition focuses on the wants and needs being satisfied, not the product being produced. General Motors, then, is competing to satisfy your need for transportation. Nintendo is competing to satisfy your need for entertainment.

In addition to identifying a competitor from the perspective of the customer, other criteria might be the geographic location of competitors, relative size, history, channels of distribution, and common tactics.

A second question to consider is the following: "What criteria do we need to use to make sure that our competitors are 'correctly' identified?" One way of answering this question is to track the customers' perceptions of product groupings and substitution. Do they change over time? Likewise, tracking expected competitors over time may prove insightful.

Once competitors are correctly identified, it is helpful to assess them relative to factors that drive competition: entry, bargaining power of buyers and suppliers, existing rivalries, and substitution possibilities. These factors relate to a firm's marketing mix decisions and may be used to create a barrier to entry, increase brand awareness, or intensify a fight for market share.

Barriers to entry represent business practices or conditions that make it difficult for new or existing firms to enter the market. Our entrepreneurs, Carol and Jane, aced several barriers to entry. Typically, barriers to entry can be in the form of capital requirements, advertising expenditures, product identity, distribution access, or switching costs. Japan has been accused of having unofficial cultural-based barriers to the Japanese market.

In industries such as steel, automobiles, and computers, the power of buyers and suppliers can be very high. Powerful buyers exist when they are few in number, there are low switching costs, or the product represents a significant share of the buyer's total costs. This is common for large retailers such as Wal-Mart and Home Depot. A supplier gains power when the product is critical to the buyer and when it has built up the switching costs. Examples include Microsoft and BMW.

Existing competitors and *possible substitutes* also influence the dynamics of the competition. For example, in slow-growth markets, competition is more severe for any possible gains in market share. High fixed costs also create competitive pressure for firms to fill production capacity. For example hospitals are increasing their advertising in a battle to fill beds, which represents a high fixed cost.

Legal/ethical factors

Every marketing organization's activities are influenced by ethical and legal factors that establish the rules of the game. These laws, agencies, policies, and behavioral norms are established to ensure that marketers compete legally and ethically in their efforts to provide want and need-satisfying products and services. The various US legal issues with which marketers must be knowledgeable include the following:

- *Monetary and fiscal policy:* Marketing decisions are affected by factors like tax legislation, the money supply, and the level of government spending. The tendency of a Republican Congress to spend on defense materials and not on the environment is an example.
- *Federal legislation:* Federal legislation exists to ensure such things as fair competition, fair pricing practices, and honesty in marketing communications. Anti-tobacco legislation affects the tobacco and related industries.
- *Government/industry relationships:* Agriculture, railroads, shipbuilding, and other industries are subsidized by government. Tariffs and import quotas imposed by government affect certain industries (e.g. automobile). Other industries are regulated (or no longer regulated) by government (e.g. rail, trucking, and airlines). Deregulating the utilities industry had a tremendous negative effect on the California power industry in 2001.
- *Social legislation:* Marketers' activities are affected by broad social legislation like the civil rights laws, programs to reduce unemployment, and legislation that affects the environment (e.g. water and air pollution). The meat processing industry has spent billions of dollars trying to comply with water pollution legislation.
- *State laws:* State legislation affects marketers in different ways. For example, utilities in Oregon can spend only ½ per cent of their net income on advertising. California has enacted legislation to reduce the energy

consumption of refrigerators and air conditioners. In New Jersey, nine dairies have paid the state over USD 2 million to settle a price-fixing lawsuit.

- *Regulatory agencies:* State regulatory agencies (e.g. the US Attorney General's Office) actively pursue marketing violations of the law. Federal agencies like the US Federal Trade Commission and the Consumer Product Safety concern themselves with all facets of business.

Literally every facet of business is affected by one or more laws. It would be impossible to adequately cover them all in the space allotted. However, we will briefly discuss the three areas receiving the most notice in marketing: product liability, deregulation, and consumer protection.

Product liability

The courts are increasingly holding sellers responsible for the safety of their products. The US courts generally hold that the producer of a product is liable for any product defect that causes injury in the course of normal use. Liability can even result if a court or a jury decides that a product's design, construction, or operating instructions and safety warnings make the product unreasonably dangerous to use.[2.]

Two Maryland men decided to dry their hot air balloon in a commercial laundry dryer. The dryer exploded, injuring them. They sued the manufacturer and won.

A two-year-old child being treated for bronchial spasms suffered brain damage from a drug overdose. The hospital staff had clearly exceeded the dosage level prescribed by the drug manufacturer. The child's parents successfully sued the manufacturer.

In Australia, about 20,000 kangaroos are killed or injured by motor vehicles each year. Vehicles are equipped with bullbars to limit damage to kangaroos. The problem is that the bullbars often confuse computer sensors, causing airbags to deploy unnecessarily. To solve the problem, General Motors-Holden's Automotive is experimenting with Robo-roo, a crash dummy that is made in the image of a 60-kg kangaroo. Robo-roo is used to test various bullbars in an effort to find one that prevents injury to the kangaroos and is often safe with regard to airbags.[3.]

While examples such as these are devastating, many feel that product liability law is now as it should be—in favor of the injured product user. Consumer advocates like Ralph Nader argue that for too long, product liability favored producers at the expense of the product user. They claim that the threat of lawsuits and huge settlements and restitutions force companies to make safe products. While a discussion of all aspects of products liability is beyond the scope of this text, it is clear that liability has and will continue to have tremendous impact on consumers and manufacturers alike. And these two groups are not the only ones affected. Retailers, franchises, wholesalers, sellers of mass-produced homes, and building site developers and engineers are all subject to liability legislation.

Deregulation

Deregulation means the relaxation or removal of government controls over industries that were thought to be either "natural monopolies", such as telephones, or essential public services like airlines and trucking. When regulated, industries got protection against renegade competition. For 40 years, the US Civil Aeronautics Board (CAB) barred the creation of any major new airline and carriers could fly only over routes awarded them by the CAB.

With time, the bargain grew increasingly bad. Insulated from competition, regulated industries had little reason to lower costs. They concentrated on influencing the regulators to make favorable decisions. There was an unhealthy tension and costs rose, industries sought price increases, and regulators resisted, often depressing industry profits. That, in turn, reduced new investment and perpetuated high costs and poor service.

Industries such as the airlines, banking railroads, communications, and trucking have long been subject to government regulation. A market place shock wave hit these industries as they were deregulated. Each of these industries saw the birth of many new competitors attempting to take advantage of market opportunities uncovered by deregulation. For example, US Airways Midway, People Express, AirCal, Golden West, Muse Air, and Texas Air all started after the airline industry was deregulated. Not all of them survived. The result was that competition intensified, prices were lowered (sometimes below cost), and many once-stable organizations suffered huge financial losses.

As deregulation unfolded—new competition was permitted, rate regulation was loosened or abandoned—the vicious cycle began to reverse itself. For example, AT&T had been slow to adopt fiber-optic cable. In 1985, there were only 352,000 km of it in AT&T's system. Sprint and MCI had more. AT&T responded. By 1994, it had 3.3 million kilometers of fiber cable (slightly more than MCI and Sprint). Airlines, freed of the CAB's routine restrictions, organized "hub and spoke" systems–outing passengers via major transfer points that provided more connections. In 1978, about 14 per cent of all passengers had to change airlines to reach their destination; by 1995, this number fell to about 1 per cent.[4.]

Consumer protection

Since the beginning of the twentieth century, there has been a concerted effort in the US to protect the consumer. For example, the *US Food, Drug, and Cosmetic Act* (1938) was aimed principally at preventing the adulteration or misbranding of the three categories of products. The various federal consumer protection laws include more than 30 amendments and separate laws relating to food, drugs, and cosmetics, such as the *US Infant Formula Act* (1980) and the *US Nutritional Labeling and Education Act* (1990). Perhaps the most significant period in consumer protection was the 1960s, with the emergence of *consumerism*. This was a grassroots movement intended to increase the influence, power, and rights of consumers in dealing with the institutions. The US *Consumer Product Safety Act* (1972) established the Consumer Product Safety Commission.

Ethics is generally referred to as the set of moral principles or values that guide behavior. There is a general recognition that many, if not most, business decisions involve some ethical judgement. Consider the following dilemma. An athletic shoe company is considering whether to manufacture shoes in a country with a very poor record on human rights. The new facility will improve the company's competitive position, but the host government will also make a considerable profit, a profit that will be enjoyed by the ruling elite, not by the people of the country who will be employed at meager wages. Will the firm support a corrupt government in order to make higher profits?

Firms hope that a consideration of ethical issues during the decision-making process will be helpful in preventing or at least decreasing the frequency of unethical behavior. Having a corporate ethics policy also seems to facilitate the process of recovery after an ethical scandal—although firms may wish otherwise, unethical acts do occur and do not often go unnoticed. The lack of respect many people feel towards business today, the press's propensity for investigative reporting, and the willingness of many insiders to blow the whistle on unethical corporate behavior increase the likelihood that such behaviors will eventually be discovered. See Exhibit 13.

Ethical problems faced by marketing professionals stem from conflicts and disagreements. They tend to be relationship problems. Each party in a marketing transaction brings a set of expectations regarding how the business relationship will exist and how transactions should be conducted. For example, when you as a consumer wish to purchase something from a retailer, you bring the following expectations about the transaction: (a) you want to be treated fairly by the salesperson, (b) you want to pay a reasonable price, (c) you want the product to be available as advertising says it will and in the indicated condition, and (d) you want it to perform as promised. Unfortunately, your expectations might not be in agreement with those of the retailer. The retail salesperson may not "have time for you", or the retailer's notion of a "reasonable" price may be higher than yours, or the advertising for the product may be misleading. A summary of ethic issues related to marketing is shown in Table 5.

Business Week/Harris Poll

Surveys of 1035 adults conducted Aug. 25-29, 2000, 1009 adults conducted June 29-July 5, 2000, 1010 adults conducted Dec. 9-12, 1999, and 1004 adults on Feb. 23-26, 1996. Results should be accurate within 3 percentage points. Results for 2000 are from June unless otherwise noted.

Corporate America: Some Credit, More Blame

American business should be given most of the credit for the prosperity that has prevailed during most of the 1990s.

	Agree Strongly	Somewhat Agree	Somewhat Disagree	Disagree Strongly	Not Sure/ No Answer
2000	26%	42%	19%	10%	2%
1996	55%*		44%*		

Business has gained too much power over too many aspects of American life.

	Agree Strongly	Somewhat Agree	Somewhat Disagree	Disagree Strongly	Not Sure/ No Answer
2000 (Aug.)	40%	32%	15%	9%	4%
2000 (June)	52%	30%	12%	4%	2%
1996	71%*		28%*		

In general, what is good for business is good for most Americans.

	Agree Strongly	Somewhat Agree	Somewhat Disagree	Disagree Strongly	Not Sure/ No Answer
2000(Aug.)	14%	33%	27%	22%	4%
2000(June)	17%	35%	23%	24%	1%
1996	32%	39%	20%	8%	1%

How much confidence do you have in those running big business?

	2000	**1999**
Great deal	19%	15%
Only some	58%	69%
Hardly any	17%	13%
Not sure/No answer	5%	3%

Having large profits is more important to big business than developing safe, reliable, quality products for consumers.

	Agree Strongly	Somewhat Agree	Somewhat Disagree	Disagree Strongly	Not Sure/ No Answer
2000(Aug.)	38%	28%	14%	17%	3%

* Question asked only agree or disagree

Gore's Big Score

At the recent Democratic convention, Vice-President Al Gore criticized a wide range of large corporations, including "big tobacco, big oil, the big polluters, the pharmaceutical companies, the HMOs." Do you agree or disagree with Gore's sentiments?

Strongly agree.......39% Strongly disagree............13%

Somewhat agree.....35% Do not know/

Somewhat disagree...9% No answer........................4%

Sector By Sector

Low Marks from Consumers
How would you rate these industries in serving their consumers?

	Only Poor	Pretty Fair	Good	Excellent	Do not know/ No Answer
HMOs	43%	28%	15%	3%	11%
Tobacco Comp.	43%	30%	14%	5%	8%
Oil Comp.	39%	35%	16%	3%	7%
Insurance Comp.	32%	41%	21%	3%	3%

43% think HMOs serve their customers POORLY

Pharmaceutical Comp.	27%	37%	26%	5%	5%
Airlines	22%	41%	25%	3%	9%
Telephone Comp.	20%	42%	31%	6%	1%
News Org.	18%	38%	33%	6%	5%
Hospitals	15%	35%	38%	9%	3%
Entertainment Comp.	14%	33%	38%	9%	6%
Automobile Comp.	12%	42%	37%	6%	3%
Financial Service Firms	12%	40%	34%	5%	9%
Computer Comp.	4%	30%	40%	10%	16%

Good Products, Poor Practices

What corporations do well- and not so well
How would you rate large US companies on each of the following?

Making good products and competing in a global economy

	Excellent	Pretty Good	Only Fair	Poor	Do not Know/ No Answer
2000	18%	50%	26%	5%	1%
1996	14%	44%	33%	9%	*

Exhibit 13: How business rates: by the numbers.

While ethics deal with the relationship between buyer and seller, there are also instances when the activities of marketing influence society as a whole. For example, when you purchase a new refrigerator, there is a need to discard your old refrigerator. Thrown in a trash dump, the old refrigerator may pose a safety risk, or contaminate the soil, and certainly will contaminate the aesthetics of the countryside, thus requiring society to bear part of the cost of your purchase. This example illustrates the issue of social responsibility, the idea that organizations are part of a larger society and are accountable to society for their actions. The well-being of society at large should also be recognized in an organization's marketing decisions. In fact, some marketing experts stress the societal marketing concept, the view that an organization should discover and satisfy the needs of its consumers in a way that also provides for society's well-being. A definition for social marketing is provided by Alan Andreasen:

Social marketing is the adaptation of commercial marketing technologies to programs designed to influence the voluntary behavior of target audiences to improve their personal welfare and that of the society of which they are a part.5.

There is little doubt that the importance of social marketing is growing, and that for many marketers, it will become part of their competitive advantage.

Economic/political issues

Various economic forces influence an organization's ability to compete and consumer's willingness and ability to buy products and services. The state of the economy is always changing. Interest rates rise and fall. Inflation increases and decreases. Consumers' ability and willingness to buy changes. The economy goes through fluctuations. Two aspects of the economy are consumer's buying power and the business cycle.

Table 5: Ethical issues in marketing

Issue		**Per cent of marketing professionals responding**
Bribery	Gifts from outside vendors, payment of questionable commissions, "money under the table"	15%
Fairness	Unfairly placing company interests over family obligations, taking credit for the work of others, inducing customers to use services not needed, manipulation of others	14%
Honesty	Lying to customers to obtain orders, misrepresenting services and capabilities	12%
Price	Differential pricing, charging higher prices than firms with similar products while claiming superiority,	12%

	meeting competitive prices	
Product	Product safety, product and brand infringement, exaggerated performance claims, products that do not benefit consumers	11%
Personnel	Firing, hiring, employee evaluation	10%
Confidentiality	Temptations to use or obtain classified, secret, or competitive information	5%
Advertising	Crossing the line between exaggeration and misrepresentation, misleading customers	4%
Manipulation of Data	Falsifying figures or misusing statistics or information, distortion	4%
Purchasing	Reciprocity in the selection of suppliers	3%

Marketing professionals were asked to describe the most difficult ethical issue they face.

Source: Lawrence B. Chonko and Shelby D. Hunt, "Ethics and Marketing Management: An Empirical Examination," *Journal of Business Research*, Vol. 13, 1985, pp. 339-359.

Consumer buying power

A consumer's buying power represents his or her ability to make purchases. The economy affects buying power. For example, if prices decline, consumers have greater buying power. If the value of the dollar increases relative to foreign currency, consumers have greater buying power. When inflation occurs, consumers have less buying power. A list of several aspects of consumer buying power is presented next. Each can be measured relative to a marketer's external environment.

- *Buying power*: A consumer's ability to make purchases.
- *Income*: The amount of money an individual receives from wages, rents, investments, pensions, and/or subsidies.
- *Disposable income*: The income available for spending after taxes have been paid.
- *Discretionary income*: Disposable income available for spending or saving after basic necessities (e.g. food, housing, clothing) have been purchased.
- *Credit*: An individual's ability to buy something now and pay for it later.
- *Wealth*: The accumulation of past income and other assets including savings accounts, jewelry, investments, real estate, and the like.

- *Willingness to spend*: An individual's choice of how much disposable income to spend and what to spend it on.
- *Consumer spending patterns*: Amount of money spent on certain kinds of products and services each year.
- *Comprehensive spending patterns*: The amount of income individuals allocate to expenditures for classes of products and services.
- *Product spending patterns*: The amount of income spent for specific products in a product class.

Several of these concepts are illustrated in the Newsline that follows.

Newsline: Everyone seems to have money

It's been called mystery prosperity. The nation's economy is growing at a rate not seen since the 1960s, unemployment and inflation are the lowest in decades, and the stock market is setting records with regularity. Some economists explain our good fortune by claiming a new economy is at work, one driven by deficit reduction, low interest rates, and technological advances. Others point to things like the Asian contagion and the inevitable limits of the bull market, and wonder how long this can last (in fact it ended in 2000).

But despite market jitters, at least we can take comfort in knowing that the economy may be more stable than many fear, if only because consumer spending—which accounts for two-thirds of the nation's economic output—has been considerably muted in the past decade. Talk about unconventional wisdom. How can this be? Hasn't the media been trumpeting America's runaway spending spree?

It's true that consumer spending has been growing, but only at the aggregate level: the population is growing, the number of households is increasing, and the baby-boom generation—the youngest of which is now 35—has entered its peak spending years. But a close look at trends in spending by individual households tells a different story. Despite low unemployment levels and rising wages, the average American household's spending has been cautious, if not downright miserly, in the last decade. The average household spent 13 per cent less on food away from home in 1997 than in 1987, after adjusting for inflation. It spent 25 per cent less on major appliances; 24 per cent less on alcoholic beverages; 18 per cent less on newspapers. books, and magazines; and 15 per cent less on clothing.

The most important predictor of spending is lifecycle stage. Typically, households headed by twenty-somethings spend less than average on most products and services because their households are small and their incomes are low. Spending hits a maximum in middle age as family size increases and incomes peak, then falls again in older age as household size and income decline.

These stages, combined with the baby booms and busts of past decades, have made consumer marketing a complex endeavor. Add a fundamental change in the lifecycle pattern of spending, and marketers are discovering that doing business today is a lot like building a house in an earthquake zone.[18]

18 *Sources*: "The New Consumer Paradigm," *American Demographics,* April 1999, pp. 50-58; Edwin S. Rubenstein, "Inequality," *Forbes,* January 2000, pp. 32-33; "Cutting a Pie," *Forbes*, September 4. 2000, p. 86;

The business cycle

Fluctuations in our economy follow a general pattern known as the business cycle. The fluctuations in economic conditions affect supply and demand, consumer buying power, consumer willingness to spend, and the intensity of competitive behavior. The four stages in the business cycle are prosperity, recession, depression, and recovery.

Prosperity

Prosperity represents a period of time during which the economy is growing. Unemployment is low, consumers' buying power is high, and the demand for products is strong. During prosperity consumer disposable incomes are high and they try to improve their quality of life by purchasing products and services that are high in quality and price. The US economy was in a period of prosperity from 1991 to 2000. For marketers, opportunities were plentiful during prosperity, and they attempted to expand product lines to take advantage of consumers' increased willingness to buy.

Recession

Recession is characterized by a decrease in the rate of growth of the economy. Unemployment rises and consumer buying power declines. Recession tends to occur after periods of prosperity and inflation. During a recession, consumers' spending power is low, as they are busy paying off debts incurred through credit purchases during more prosperous time. During recessions, marketing opportunities are reduced. Because of reduced buying power, consumers become more cautious, seeking products that are more basic and functional.

Depression

Depression represents the most serious economic downturn. Unemployment increases, buying power decreases, and all other economic indicators move downward. Consequently, consumers are unable or reluctant to purchase products, particularly big-ticket items. Also, consumers tend to delay replacement purchases. Although many marketers fail during this period, insightful marketers can gain market share.

Recovery

Recovery is a complicated economic pattern, in that some economic indicators increase while others may stay low or even decrease. Much of what happens during a recovery may be a result of intangibles, such as consumer confidence or the perception of businesses that things will get better. Tentative marketers take serious risks. Premature marketers may face dire consequences.

For marketers, an important task is to attempt to determine how quickly the economy will move into a situation of prosperity. Improper forecasting can lead some firms to overextend themselves, as consumers may be slow to change purchase habits they have been accustomed to in the more difficult economic times.

The economy is cyclical in nature. We know that the cycles will occur. We just cannot predict exactly when or how severe the cycles will be. Assumptions must be made about money, people, and resources. For example, many organizations become less aggressive when they believe the economy is not going to grow. If they are right, they may do well. If they are wrong, those organizations that are more aggressive can perform very well often at the expense of the conservative organizations. Assumptions must also be made about such economic factors as interest rates, inflation, the nature and size of the workforce, and the availability of resources such as energy and raw materials.

Susan Jacoby, "Money," *Modern Maturity*, July-August 2000, pp. 36-41.

Technology

Is the car of the future the electric car? They are called zero-emission vehicles by their advocates, but they do not have zero emissions according to some experts. While an electric car does not emit exhaust, the technology required to charge their batteries does, according to the US Environmental Protection Agency (EPA).6. Critics argue that the more electric cars that are driven, the more pollution from smokestacks at the plants that provide the electric power. You are familiar with the complaints about gas-driven automobiles, but, if the electric-powered auto is no different in terms of its impact on the environment, then there could be some interesting battles ahead between proponents of the electric car and environmental groups. In fact, some auto industry executives felt that the EPA report did not go far enough in discrediting the electric car.

Technology is the knowledge of how to accomplish tasks and goals. Technology affects marketers in several ways. First, aggressively advancing technology is spawning new products and processes at an accelerating rate that threatens almost every existing product. Second, competition continues to intensify from broad and new organizations and many substitute technologies compete with established products. Third, product innovations that result in superior performance or cost advantages are the best means of protecting or building market position without sacrificing profit margins. This is especially true in today's world, when many markets are experiencing flat or slow growth and when excess capacity is commonplace.

History provides many examples of companies that have lost their competitive advantage–and perhaps even their entire business–because a competitor came into the market with a product that had superior cost advantage or performance characteristics. These examples are not limited to small or weak companies; even industrial giants like IBM, General Electric, and AT&T have seen certain parts of their markets eroded by competition that surprised them with a distinctly superior product. IBM, despite its dominant position in the computer market, lost position in the late 1970s to several smaller companies that were first to develop powerful minicomputers to replace the larger mainframe computers that were the cornerstone of IBM's business.

All organizations must make assumptions about the future in technology and its impact on their business activities. The results of technology cannot be ignored. For example, the Japanese promote the use of electronic circuits and have used them almost exclusively in their controls. However, US based organizations have been slower to change and many have continued to use electromechanical controls in their products.

Everyone enjoys thinking about the future and the kinds of technology that will evolve. Let us fast forward a few years to see what opportunities technology will open up for marketers:

- How about ads that are targeted not to a demographic or psychographic group, but to you specifically—ads that know what you need and what you want?
- How about a house of smart appliances with Internet connections—refrigerators that tell you when you are running out of milk and dryers that know to call the repairman when they break?
- How about a cell phone that knows where you are and can direct you to a great new Korean restaurant, or a Palm handheld device that delivers streaming video right to your hand?
- How about a TV that airs a pizza ad from which you can order at the click of a button, with total integration between a channel and its Web site?
- How about underwear that knows your glucose level is rising and automatically injects you with insulin or clothing that senses a heart attack coming and tells you to take a pill?

Integrated marketing

Not in love with online—imagine!

There are people who are Net-free, and they plan to stay that way. This seems to be especially true with many of the rich and famous. Mark McCormack, agent to Tiger Woods and tennis phenoms Venus and Serena Williams, surrounds himself with tech-savvy folks but has never used a computer himself. Actress Daryl Hannah has a computer, but has not turned it on in three years. Author Harlan Ellison, who churns out novels and short stories by typing with two fingers on a manual typewriter, is simply turned off by the Internet. "It is a massive waste of time," he says. "Does Skippy peanut butter really need a website?"

Lest you think these are the attitudes of the slightly demented, a report conducted by Pew Internet and American Life Project indicate that half of US adults are not online and the majority of those non-users are unlikely to hit the Net any time soon:

Fifty-seven per cent have little or no interest in getting online.

More than one in ten adults who are not online tried the Net before disconnection.

More than 14 per cent of Americans have computers but are not online.

The results seem to contradict predictions that Internet growth will continue to boom in coming years. "It may take another generation", says Lee Rainie, director of the Pew Project, "before the Net becomes as ubiquitous and essential as the telephone and television are today."

To study the 94 million Americans who are not online, interviewers questioned 1,158 non-Internet and non-computer users in depth. Findings included the following:

Thirty-two per cent or 31 million Americans, said they "definitely will not" go online.

Twenty-five per cent say they "probably will not" venture online.

Twenty-nine per cent "probably will" get Internet access.

Twelve per cent say they "definitely will" get Internet access.

Those surveyed by Pew said their primary reasons for shunning the Internet are fear and lack of interest. More than half of those not online believe that the Internet is a dangerous thing and that they are not missing anything by staying away.[19]

All these miracles are possible in the amazing world of tomorrow. These are not technologies in a lab, but working prototypes, many just about to hit the market. The potential for marketers in just five years makes today's Web offerings look like a warm up act. While these services will rely on the Internet to communicate between newfangled gadgets and more intelligent servers, most of the services will not be based on HTML, for practical reasons. For example, you cannot effectively run a Web browser on a cell phone screen, and you do not want one inside your shirt.

The pitfalls for marketers are also obvious. While today's Web is open, each of these new technologies has a potential gatekeeper cell phone operators, cable companies, appliance makers, and, as noted in “Integrated marketing”, consumers who are not enthralled with the computer.

19 *Sources*: Karen Thomas, "Not Everyone's E-Namored With the Net," *USA Today*, September 25, 2000, p. 3D; Dana Blankenhorn, "Hype Blasters," *Advertising Age*, June 9, 2000, pp. 58-62.

Social trends

The *social environment* includes all factors and trends related to groups of people, including their number, characteristics, behavior, and growth projections. Since consumer markets have specific needs and problems, changes in the social environment can affect markets differently. Trends in the social environment might increase the size of some markets, decrease the size of others, or even help to create new markets. We discuss here two important components of the social environment: the demographic environment and the cultural environment.

Demographic changes

Whereas beliefs, values, and customs describe the characteristics of the culture and subculture, *demographics* describe the observable characteristics of individuals living in the culture. Demographics include our physical traits, such as gender, race, age, and height; our economic traits, such as income, savings, and net worth; our occupation-related traits, including education; our location-related traits; and our family-related traits, such as marital status and number and age of children. Demographic trait compositions are constantly changing, and no American, Japanese, or Brazilian is "typical" anymore. There is no average family, no ordinary worker, no everyday wage and no traditional middle class.

Still, marketing managers must understand consumers intimately. Often, the best they can do is take a snapshot and try to understand what is happening in US culture in the early years of this century. As we see next, some trends are old; others are new. For instance, the aging of the population has been going on for several decades, but births and birth rates in recent years have been much higher than expected. Immigration is also greater than predicted, and so is the backlash against it. In the US, interstate migration to the south and west are old trends. What is new is heavier movement in the US from the northeast rather than from the mid-West and rapid growth in the mountain states. Next, we examine nine demographic changes and how they affect marketing.

- *Households are growing more slowly and getting older*. About half of all households are aged 45 and older and growing at an annual rate of one per cent compared with nearly 2 per cent in the 1980s. Marketing communicators must plan for a greater number of middle-aged households, consumers who are experienced and have a better understanding of price and value. These consumers should have an interest in high-quality household goods and in-home health care.
- *The demise of the traditional family*. Married couples are a bare majority of US households. Only one-third of households have children under 18, and nearly one-fourth of households are people who live alone. However, married couples dominate the affluent market as the vast majority of very high-income households are married couples. The long-term trend of high growth in nontraditional types of households and lack of growth among married couples can only mean further segmentation of an already segmented marketplace.

  A phenomenon that speaks to the change in the traditional family structure is known as the "sandwich generation". These are a growing group of adults who are caring for aging parents while raising their own children. According to a study from the National Alliance for Caregiving and the American Association of Retired Persons, there are more than 9 million Americans in this situation, 40 per cent of them between 35 and 49. The stress of belonging to the sandwich generation is taking a toll countrywide. "All of a sudden you are struggling with this huge balancing act," says Beth Willogen McLeod, author of

Caregiving: The Spiritual Journey of Love, Loss, and Renewal. "How do you fulfill all your roles? How do you balance your marriage, your children, your work and elder care?"

- *The continued increase in education*. Most adults in the United States still have not completed college (approximately 67 per cent), but that number continues to decline. More and more people have attended some college or have an associate or technical degree. More skilled workers mean more knowledgeable and sophisticated consumers who expect more information about product attributes and benefits before making a purchase.
- *Nonphysical jobs keep growing*. Jobs that do not require physical strength keep growing in number. Virtually all job growth during the next 10 years will take place among service providers, especially in health care and social services. Because providing services requires little investment compared with producing consumer goods, we can expect continued high growth in small businesses, sole proprietorships, and other entrepreneurial activities, Also, the extremely high cost of employee benefits suggests that the use of temporary workers and independent contractors will continue to grow. Marketing managers must assess whether consumers who do not have corporate benefits will become more risk-averse because they lack the safety net of company-provided pension plans and medical insurance. If so, consumers may seek money-back guarantees or other product features that reduce risk. Marketing managers must also see whether people who work for themselves or for small firms are more time-conscious.
- *Growing faster than expected*. About 272 million people live in the United States. This is an increase of 18 million since 1990, and most of the growth has resulted from an unforeseen boom in births. The United States had about 20.4 million births between January 1990 and December 1994. This was more than in any five-year period since the last five years of the legendary baby boom (1960 to 1964), and 6 per cent more than in the late 1980s. The United States also experienced the highest five-year immigration total (4.6 million) since the turn of the century, an increase of 31 per cent over the previous five years. The annual influx of nearly 1 million new residents has led to an increasingly diverse consumer marketplace, particularly among young people.
- *The growth of minorities*. Although white non-Hispanics have been the biggest contributors to the US, population growth in the 1990s, Hispanics have been a close second. The number of Hispanics in the United States increased from 22 million in 1990 to 35 million in 2000. That number is nearly twice as many new residents as were added by African-Americans and Asians. If each minority segment keeps growing at current rates, Hispanics will outnumber African Americans in ten years. This trend will be particularly important for marketing communicators that target certain regions, because Hispanics and Asians are more geographically concentrated than African-Americans.
- *Baby boomers become middle-aged*. More than half of Americans are aged 35 or older, and the oldest baby boomers are now aged 55. The largest ten-year age group, people aged 41-50, has been growing as it absorbs the younger half of the baby boom generation. The number of people in this segment reached a peak in 2000 and then started to decline. The fastest-growing age group is middle-aged people aged 45-54 , the age at which income and spending peak. Middle-aged people are also the least likely of all age groups to change their residence. This combination of high growth, high income, and low mobility will provide

considerable lift to discretionary spending, particularly in the categories of home furnishings, education, and insurance.

- People in the US are moving south. More than half (54 per cent) of US residents live in the ten largest states, and more than half of US population growth between 1990 and 1999 occurred in these ten states. New York had the largest population of all states in 1950, but in the 1990s, fast-growing Texas pushed the barely growing New York to number three. One reason for the explosive growth in the southern states is the influx of people from other countries. More than half of the four million immigrants that located in the United States between 1990 and 1995 moved to California, Texas, or Florida.
- *The middle class gets hammered*. According to the US Census Bureau, the share of aggregate household income earned by the middle 60 per cent of households has shrunk from 52 per cent in 1973 to 49 per cent 25 years later. Meanwhile, the share of such income earned by the top 20 per cent (average income USD 98,600) increased from 44 per cent to 48 per cent. In other words, the total purchasing power of the top 20 per cent of US households now equals that of the middle 60 per cent.[7.]

Demographic groupings

In addition to understanding general US demographic trends, marketing communicators must also recognize demographic groupings that may turn out to be market segments because of their enormous size, similar socioeconomic characteristics, or shared values. We examine three examples of demographic groupings by age that have or will become dominant market segments: baby boomers, Generation X, and the baby boomlet.

The baby boom

The baby boom occurred from 1946 through 1964. During this 19-year time frame, 76.4 million babies were born in the United States. Today, approximately 70 million of these baby boomers are still alive. They represent about one-fourth of the total population. Because of their numbers and buying power, baby boomers have and will continue to influence the marketing mix for the services and products businesses offer and how these services and products are offered. For example, the majority of baby boomer women work full-time and view their job as a career. This trend has implications for childcare, fashion, automobiles, travel, and fast-food marketing. Health concerns will also grow as baby boomers age.

Generation X

Generation X, also known as the "baby busters" or the "shadow generation", is the group of people born from 1969 to 1980. This group has been labeled with a "slacker" stereotype. Imagine 45 million humans that are characterized as culturally illiterate, apathetic, and directionless. From a marketers' perspective, they have a total disposable income of USD 125 billion. In tune to the newest rage, Xers—highly steeped in a culture of sound bytes—seem to know instinctively what they want. More importantly, what they do not want.[8.]

Unfortunately, the more marketers learn about this group, the less it appears to be a market segment. For example, Xers' lifestyles range from the 10 million who are full-time college and postgraduate students to the 15 million who are married. They are also the most radically diverse generation in history. Yet their opinions about life in the United States mirror those of the general population. For instance, 52 per cent of Xers believe that "quality of life" is good compared with 53 per cent of the entire population, and 64 per cent of Xers are more "stressed about money this year", compared to 58 per cent of the general population.

Given the diversity of Generation X, what are the possibilities that an integrated marketing strategy can be targeted to this group? The key will be finding subsegments within this 45-million-person group. For example, level of education might be a point of distinction. Those in college or with a college degree are likely to be computer-literate and can be reached by online media. Their optimism and general concern for a simpler life suggests that non-condescending marketing messages through public relations or cause-related activities would prove effective.

The baby boomlet

Just like the baby boomers, the group of 72 million children of the baby boomers, called the "baby boomlet" or the "echo boom", is creating new waves of change. This group spans 1975 to the present. In 1995, the boomlet had 72 million people under age 19. It is 60 per cent larger than the baby boom. Even if 1995 is the final year for boomlet births, this generation will grow through immigration for several more decades. By 2015, the baby boomlet will again outnumber the boom.

The baby boomlets will acquire their own attitudes, often shaped by new technology and global changes. Global conversations on the Internet will change their outlook on the world. AIDS will change their attitudes toward relationship, marriage, and family. Real time information and the customization of the information will produce a very discerning consumer. Finally, their attitude will also be shaped by defining events. For instance, it will be a generation that expects terrorists acts, such as the Oklahoma City and the 1996 Olympics bombings. Memorable events will have a lasting effect on their outlook.

Cultures and subcultures

All of us are part of a cultural fabric that affects our behavior, including our behavior as consumers. Culture is the sum of learned beliefs, values, and customs that regulate the behavior of members of a particular society. Through our culture, we are taught how to adjust to the environmental, biological, psychological, and historical parts of our environment.

Beliefs and values are guides of behavior, and customs are acceptable ways of behaving. A belief is an opinion that reflects a person's particular knowledge and assessment of ("I believe that ..."). Values are general statements that guide behavior and influence beliefs and attitudes ("Honesty is the best policy"). A value system helps people choose between alternatives in everyday life. Customs are overt modes of behavior that constitute culturally approved ways of behaving in specific situations. Customs vary among countries, regions, and even families. In Arab societies, for instance, usury (payment of interest) is prohibited, so special Islamic banks exist that provide three types of accounts: non-profit accounts, profit sharing deposit accounts, and social service funds. A US custom is to eat turkey on Thanksgiving Day. However, the exact Thanksgiving Day menu may depend on family customs.

Dominant cultural values are referred to as *core values*; they tend to affect and reflect the core character of a particular society. For example, if a culture does not value efficiency but does value a sense of belonging and neighborliness, few people in the culture will want to use automatic teller machines. What do Americans value? Clearly, a catchall phrase such as the "Protestant work ethic" no longer captures the whole value system.

Core values are slow and difficult to change. Consequently, marketing communication strategies must accurately portray and reflect these values.

Secondary values also exist in any culture. Secondary values are less permanent values that can sometimes be influenced by marketing communications. In addition, secondary values are often shared by some people but not others. These values serve as a basis for subcultures.

A natural evolution that occurs in any culture is the emergence of subcultures. Core values are held by virtually an entire culture, whereas secondary values are not. A subculture is a group of people who share a set of secondary values. Examples include Generation X and environmentally concerned people. Many factors can place an individual in one or several subcultures. Five of the most important factors that create subcultures are:

- *Material culture*. People with similar income may create a subculture. The poor, the affluent, and the white-collar middle class are examples of material subcultures.
- *Social institutions*. Those who participate in a social institution may form a subculture. Examples include participation in marriage, parenthood, a retirement community, the army, and so on.
- *Belief systems*. People with shared beliefs may create a subculture, such as shared beliefs in religion or politics. For example, traditional Amish do not use several types of products, including electricity and automobiles. A whole set of factors has also been correlated with whether a person is a Democrat, Republican, Independent, Libertarian, or Socialist.
- *Aesthetics*. Artistic people often form a subculture of their own associated with their common interests, including art, music, dance, drama, and folklore.
- *Language*. People with similar dialects, accents, and vocabulary can form a subculture. Southerners and northerners are two traditional categories in the US.

Capsule 8: Review

- Environmental scanning refers to activities directed toward obtaining information about events and trends that occur outside the organization and that can influence the organization's decision making.
- The following external factors affect planning:
  - (a) external agencies
  - (b) competitors
  - (c) legal and ethical factors
  - (d) economic and political issues
  - (e) technology
  - (f) social trends

Understanding other cultures around the world

Adjusting to cultural differences is perhaps the most difficult task facing marketing communicators who operate in other countries. Before entering a foreign market, a company must decide to what extent it is willing to customize its marketing efforts to accommodate each foreign market. Naturally, the more the company standardizes its effort, the less trouble it incurs and the greater the assumed profitability. Is some customization inevitable? More is said about this in a later chapter.

Forecasts of the future

There are literally hundreds of companies and forecasters who claim to have a handle on the future. One that has an excellent track record is Roper Starch, a research firm that has been looking at trends for over 50 years. The 2000 Roper Report identified four concepts that help marketers understand Americans in the new millennium:[9]

- *"High Pace/High Peace: Americans' high-speed lifestyles create new goals and needs"*: Silicon Valley marketers often talk about a phenomenon called "high tech-high touch"; the more technology becomes part of people's lives (tech), the more the need for personal interaction (touch). We think a similar, possibly more powerful phenomenon, is unfolding today in today's frenetic, high-speed world of drive for success, "Internet time", "24/7" business, and multitasked lifestyles. As the pace of life is picking up (high pace), there is growing desire and demand for peace. The shift to "High Pace/High Peace" is evident in the marketplace. Increasingly, brands seem to be "high-pace" (efficiency-oriented, intense brands like the Internet broker E-Trade; personalities like Micro chief and bestselling author Bill Gates) or "high-peace" (relaxing, spa-pace brands like Banana Republic, Canyon Ranch; personalities like spiritual leader and bestselling author the Dalai Lama. The shift is reflected in Roper data as well). Americans are working harder than ever to get ahead. Work is spilling into all corners of life: a record 39 per cent of Americans say they often spend leisure time on work, a three-fold increase from the beginning of the decade. New technologies are making it possible to be ever more productive. Americans generally recognize that hard work is the price for getting ahead. At the same time, there is a growing yearning for peace. Most agree that the best leisure time is the time alone. Declining numbers are getting such time to rest, relax, and renew. More, instead, are feeling stressed out. This tension between high pace and high peace shows no sign that it will go away. At the same time, data suggest that there are opportunities for marketers to become a bridge to get people to both their high pace and high peace goals.

- *"Kinnections: The movement to connection in technology, relationships, and brands"*: The increasing pace of life is not the only characteristic of America since the turn of the new century. Empowered by new technology, the strong economy, and a growing command of self-reliance and other skills, Americans have begun to reach out and take the next step to extend their sense of connection. In a whole host of areas—from communications and computing to attitudes towards family and community—connections are up. These connections are different from the past. They can be fast changing and dynamic (kinetic). They appear to be part of a desire for a greater sense of association (kinship). The movement to connections, thus, is actually a move toward "kinnections". The results are reflected in the data. Communications technologies are taking off. This is most evident in the explosive growth of cellular communications. It is also apparent in the computer industry, where increasing interest in using computers to connect (e-mail, the Web) is driving interest. Many Americans say that these technologies are improving the quality of their connections, making it easier to stay in touch with friends and family, and, overall, "making life better". The growth in connections is reflected in personal relationships as well: Americans are feeling better about the family and more connected to their communities. Indeed, satisfaction with many aspects of community is at record levels. Many are pursuing spiritual connections. This sense of connection is apparent in the marketplace as well in cause-related marketing and a greater desire for brands to go beyond the basics like quality and value (which are now expected) to connect in new ways with consumers.
- "Diversity/Destiny": Diversity is destiny for America, not just in some far off future. The US increasingly is "the world's nation": our foreign-born population has almost tripled in the past 30 years. African-Americans, Hispanics, and other minorities make up the majority of the nation's population growth in the past decade—and will account for an even larger proportion of the nation's growth in the decade to come. The result is creating new, distinctive demographic segments that must be understood. It is also changing society. America is becoming multicultural. Americans are much more appreciative of ethnic customs and traditions compared to two decades ago. Where past generations may have defined the American character

in terms of pioneer heritage, Americans today see strength in our status as "a melting pot". Indeed, being a melting pot is now seen as a core source of America's greatness, almost equal to the work ethic, the free enterprise system, the Constitution and the system of government, and the nation's natural splendor. Multiculturalism defines the nation's tastes in areas from food to popular music. Roper analysis shows that Americans share many basic values and concerns across racial and ethnic groups. At the same time, the data suggest that there continue to be many distinctions as well. To succeed in this year of diversity/destiny, marketers need to know both sides.

- *"Marketing by life stage"*: Marketers have traditionally relied on standard demographics to understand and predict consumer behavior. Our research shows, however, that life stage can be a more powerful predictor of consumer attitudes and behavior than traditional demographic analysis. For example, a 49-year-old woman starting a second marriage and second career may have more in common with a 29-year-old woman starting her first marriage and first career than she does with another 49-year-old woman whose last child just moved out of the house. Classifying Americans by the life events they have experienced, rather than by demographic traits, can yield insights and understanding into a market that might otherwise have been overlooked. In conjunction with *Modern Maturity*, Roper has identified seven life stage segments that demonstrate the appeal and rewards of marketing to consumers by life stage.

The Wall Street Journal

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In practice

Internal planning processes in marketing organizations focus on an organization's strengths and weaknesses, but organizations must also consider the impact of external environmental factors. By understanding how external elements of the marketplace affect an organization's planning process, marketers can develop strategies that capitalize on opportunities and minimize threats.

Legal and ethical issues pose complex challenges for marketers. From product liability to deregulation, the external environment varies by state and country, The Interactive Journal helps you keep up with legal and ethical issues that affect organizations, On the **Front Section,** select **Marketplace**. On the left menu in **Marketplace**, select **Law**. Here you will find articles about discrimination suits, recent legal rulings, and product liability claims. Articles are both national and international in scope.

Economic and political issues are as variable as legal issues, and are impacted by government/industry relationships, consumer spending habits, and political leadership. The Interactive Journal helps you keep up with these issues as well. On the **Front Section**, select **Politics & Policy** under **In this Section** on the left menu. Here you will find articles about pending legislation, government mandates, tax proposals, and policy directives. These articles are also national and international in scope.

Technology is rapidly changing the external environment. The Interactive Journal provides you with in-depth information and analysis on technology in **Tech Center**. From the **Front Section**, select **Tech Center**. You can use this new menu to read the latest on tech stocks and personal technology. Select **Tech Briefs** to find out what is happening with leading companies. On the right side of your screen you will find headings with different topics. Page down to locate **Tech Resources**. Here you will find links to **Company Profiles, Issue Briefings,** and a **Dot-Com Layoffs** and **Shutdowns** list. Select one of these links now.

The Interactive Journal also features a weekly personal technology column. Under Free WSJ.com Sites on the **Front Section**, select **Personal Tech**.

Deliverable

Select *Microsoft* under the **Company Profiles** link in the **Tech Resources** Section of **Tech Center**. Also search the Interactive Journal by using the **Search** feature under **Journal Atlas** on the left menu for articles about Microsoft. Discuss the legal, ethical, and political issues in the antitrust suit filed against the company. Also discuss the implications of the suit on the company's technology.

- To what extent can marketers foresee opportunities and threats posed by the external environment? What factors can alter forecasts?
- What steps can organizations take to ensure external elements are factored into the strategic planning process?
- How can the information found in the Interactive Journal be utilized to help organizations take advantage of market opportunities? Divert threats?

Summary

In this chapter, the importance of understanding environmental forces was discussed. Marketing decisions are affected by external agencies, competitors, regulators, the economy, technology, and the social factors. Each of these elements of the marketing environment must be monitored continuously for changes that are taking place. Changes affect the way marketers go about providing want-and need-satisfying products.

Information about external forces must be gathered for each stage of the strategic marketing planning process. The purpose of collecting and analyzing this information is to reduce the uncertainty associated with marketing decision making. While experience is an important resource, new problems or old problems that need new solutions require marketers to stay abreast of marketplace developments so that they can continue to offer successful products and service to the marketplace.

Key terms

External environment Forces external to the organization that affect organization and marketing decision making.

External analysis The identification of trends, opportunities, and threats that will influence marketing strategy and tactics.

Marketing research supplier An external agency that specializes in the conduct of marketing research demography-the study of important population statistics such as age, income, sex, and location of people.

Business cycle The pattern that is generally followed by a fluctuating economy.

Prosperity A. period of time during which the economy is growing.

Recession A period of time that is characterized by a decrease in the rate of growth of the economy.

Depression A long-lasting recession during which unemployment is very high, buying power is very low, and consumers are unwilling to spend.

Recovery A period of time in which unemployment begins to decline, buying power increases, and consumers become more willing to purchase products.

Technology The knowledge of how to accomplish tasks and goals.

Buying power The ability of a consumer to make purchases.

Regulators The set of laws, agencies, and policies established to ensure that marketers compete legally in their efforts to provide want-and need-satisfying products and services.

Questions

- Describe the role of external analysis in the strategic marketing planning process.

- Of what importance is environmental scanning to marketing decision makers?
- Several external forces were presented in this chapter. Describe each and provide a brief statement as to the importance of each of these to the marketing planner.
- External agencies can provide valuable marketing services to marketing organizations. Under what circumstances do you think that a marketing organization might seek the services of an external agency like a distributor? A marketing research supplier? An advertising agency? A materials supplier?
- Comment on the impact that the decline of mass marketing might have on marketing strategists for companies that have typically mass marketed products.
- How should a marketing organization define its competition?
- What role do price competition and discount promotions play in the marketing of products? Do you think that the use of these strategies has been effective from the standpoint of organizations? Customers?
- Briefly describe the impact that each of the following has on marketing activity: regulators, the economy, and technology.

Project

Since Pathfinder touched down on Mars, much has been learned about the Red Planet. Did you know that sales of Mattel's Hot Wheels Mars Rover Action Pack skyrocketed and that sales of Mars bars increased dramatically?

The activities of the National Aeronautics and Space Administration (NASA) from Alan Shepard's first space flight to today's Pathfinder have spawned many new products and spurred the sales of many products. Track key NASA events, like landing on the moon, and see which products' sales were boosted by some of these events. Also, discover what new products entered into the marketplace as a result of developments in space technology.

Case application

Snapple is in a financial funk. Clearly Canadian is in a sales free-fall. Results are mixed for Pepsi's juice line. Coca-Cola's Fruitopia is off to a slow start.

These could have been headlines for these New Age beverages. They do accurately describe their performance. At the same time, "plain old" carbonated beverages were making a comeback after years of flat sales.

One reason cited for these results is the fading intensity of America's health kick. Consumers seem to have grown weary of sipping "all-natural" teas and juices. Many have returned to chugging sweet, fizzy colas. A second reason, according to taste researchers, is that people quickly get tired of the taste of distinctive juices and unusual teas. According to one industry expert, a third reason is that many consumers got caught up in the mystical, good-for-you, Generation X phenomenon. The phenomenon was cute and interesting for a while, but it had no staying power.

A fourth reason cited for waning consumer interests is in consumer perceptions. Originally, many consumers believe that all-natural sodas, teas, and juices were healthier than brown cola, However, it has been discovered that many of these alternative beverages contain more sugar than traditional colas.

Finally, the new generation of soft drinks has not pleased bottlers. Many bottlers spend millions of dollars to overhaul their product lines or change their distribution systems to accommodate the new soft drinks. Despite the many new products, New Age beverages have resulted in only small sales increases.

Sales of these alternative beverages are still growing, reaching a level of USD 5.36 billion in 1999. In that same year, the soft drink industry had total sales of about USD 51 billion.

Some industry experts are predicting an industry shakeout. Their reasoning is that New Age beverage sales are driven by trendy young consumers who are constantly seeking the latest drink. Tapping into this young generation, over 100 companies introduced a New Age beverage into the marketplace.

Questions

- Describe the external factors that have an impact on the soft drink industry.
- How would you assess the competitive situation in the soft drink industry?
- What marketing strategies might be appropriate for soft drink marketers in order to improve sales of New Age beverages?

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