Chapter 4: The Marketing Environment

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Designed by Eric Brengle, B-books, Ltd.
Learning Outcomes

LO¹ Discuss the external environment of marketing, and explain how it affects a firm

LO² Describe the social factors that affect marketing

LO³ Explain the importance to marketing managers of current demographic trends
Learning Outcomes

LO4: Explain the importance to marketing managers of multiculturalism and growing ethnic markets

LO5: Identify consumer and marketer reactions to the state of the economy

LO6: Identify the impact of technology on a firm
Learning Outcomes

LO\textsuperscript{7} Discuss the political and legal environment of marketing

LO\textsuperscript{8} Explain the basics of foreign and domestic competition
LO1

Discuss the external environment of marketing, and explain how it affects a firm.
Target Market

Target market- A defined group most likely to buy a firm’s product.
Review Learning Outcome

External Environment of Marketing

LO1

Internal (within the organization) Marketing mix

External Environment (uncontrollable)

Demographics

Social Change

Ever-Changing Marketplace

Economic Conditions

Political & Legal Factors

Target Market

Competition

Technology

Environmental Scanning

Product
Place
Promotion
Price

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Describe the social factors that affect marketing.
Social Factors

- Attitudes
- Values
- Lifestyle
Social Factors Influence:

- Products purchased
- Prices paid for products
- Effectiveness of promotions
- How, where, and when people purchase
Social Factors

Core American Values

- Self-Sufficiency
- Upward Mobility
- Work Ethic
- Conformity
The Influence of Values on Buying Habits

<table>
<thead>
<tr>
<th>Ranked Characteristics of Product Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability</td>
</tr>
<tr>
<td>Durability</td>
</tr>
<tr>
<td>Easy maintenance</td>
</tr>
<tr>
<td>Ease of use</td>
</tr>
<tr>
<td>Trusted brand name</td>
</tr>
<tr>
<td>Low price</td>
</tr>
</tbody>
</table>
The practice of choosing goods and services that meet one’s diverse needs and interests rather than conforming to a single, traditional lifestyle.
Role of Families and Working Women

• Growth of dual-income families results in increased purchasing power

• Approximately 63% of work-age females are in the workforce

• Women expect different things in life
  – purchase bulk of technology products
  – second largest group of home buyers after couples

• Single households outnumber married households with kids
Review Learning Outcome

Social Factors that Affect Marketing

- Time pressure
- Component lifestyles
- Changing role of women
- Values

Social Factors
Demographic Factors

LO³

Explain the importance to marketing managers of current demographic trends.
Demographic Factors

Demography- The study of people’s vital statistics, such as their age, race and ethnicity, and location.
Tweens

- Pre- and early adolescents, age 9 to 14
- Population of 20 million
- Purchasing power of $21 billion in 2008
- View TV ads as “just advertising”
- Emerging as “the richest generation” and the “most influential generation in history”
Teens

- Population of 25 million in U.S.
- Purchasing power of $195 billion annually
- Approximately 72 hours per week tuned in electronically
- 68 percent of teens have created profiles on MySpace, Zanga, or Facebook
- Shopping has become social sport: 62 percent love to shop
Generation Y

- Born between 1979 and 1994
- Population of 73 million
- Purchasing power of $200 billion annually
- Researchers have found Gen Yers to be:
  - Impatient
  - Family-oriented
  - Inquisitive
  - Opinionated
  - Diverse
  - Time managers
  - “Street Smart”
  - Connected
Generation X

- Born between 1965 and 1978
- Population of 40 million
- Savvy and cynical consumers
- More protective and involved with their kids
- Value the importance of education
- Avid buyers of the latest clothes, technology, and recreational products
Baby Boomers

- Born between 1946 and 1964
- Population of 77 million—the largest demographic segment
- Boomers are postponing retirement – The 2007-2009 downturn has resulted in loss of $2 trillion.
- Income will continue to grow as they keep working
- Four segments of baby boomers:
  "Looking for balance"
  "Confident and living well"
  "At ease"
  "Overwhelmed"
### Current Demographic Trends

<table>
<thead>
<tr>
<th>Age</th>
<th>Tweens</th>
<th>Teens</th>
<th>Gen Y</th>
<th>Gen X</th>
<th>Baby Boom</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20 million</td>
<td>25 million</td>
<td>73 million</td>
<td>40 million</td>
<td>77 million</td>
</tr>
</tbody>
</table>
Growing Ethnic Markets

LO⁴

Explain the importance of marketing managers of multiculturalism and growing ethnic markets.

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Growing Ethnic Markets

- Spending power of ethnic markets in 2008:
  - Hispanics--$1 trillion
  - African Americans--$921 billion
  - Asian Americans--$526 billion

- Diversity can result in bottom-line benefits to companies.
Marketing to Hispanic Americans

- The population’s diversity creates challenges for targeting this group.

- Hispanics tend to be brand loyal, but are not aware of many U.S. brands.

- 68% of U.S. Hispanics have home Internet access.
Many firms are creating products for the African American market.

Promotional dollars and media choices directed toward African Americans continue to increase.
Marketing to Asian Americans

- Younger, better educated, and have highest average income of all groups
  - Sometimes called a “marketer’s dream

- Many products have been developed for Asian American market.

- Cultural diversity within the Asian American market complicates promotional efforts.
Ethnic and Cultural Diversity

- Multiculturalism: occurs when all major ethnic groups in an area (city, county, or census tract) are roughly equally represented

- U.S. trend is toward greater multiculturalism

- America’s racial and ethnic patterns have taken on distinctly regional dimensions
Review Learning Outcome

Multiculturalism and Growing Ethnic Markets

All groups equally represented in given area.
Economic Factors

LO^5

Identify consumer and marketer reactions to the state of the economy.
Economic Factors

- Consumer’s Income
- Inflation
- Recession
Consumers’ Incomes

• Median U.S. household income in 2008 was approximately $49,000.

• Incomes have risen at a slow pace.

• Education is the primary determinant of earning potential.
Purchasing Power- A comparison of the relative cost of a set standard of goods and services in different geographic areas.
Inflation

Inflation - A measure of the decrease in the value of the money, expressed as the percentage reduction in value since the previous year.
Recession - A period of economic activity characterized by negative growth which reduces demand for goods and services.
Recession Marketing Strategies

• Improve existing products and introduce new ones

• Maintain and expand customer services

• Emphasize top-of-the-line products and promote product value
## Review Learning Outcome

### Economic Factors

<table>
<thead>
<tr>
<th>Income</th>
<th>Less $</th>
<th>College Education</th>
<th>More $$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>High</td>
<td>Low</td>
<td>Zero</td>
</tr>
<tr>
<td>Economic Activity</td>
<td>Recession</td>
<td>Growth</td>
<td></td>
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Technological Factors

LO6

Identify the impact of technology on a firm.
Research

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

Applied research – an attempt to develop new or improved products
Technological Factors

• U.S. excels at basic and applied research.

• Many firms use the marketing concept to guide research.

• New technology internally creates a long-term competitive advantage.

• External technology
  – Creates more efficient operation or better products
  – May render existing products obsolete
Technological Factors

• Innovation is becoming a global process.

• The most innovative firms have an average profit margin growth of 3 percent higher than the typical firm.
Review Learning Outcome

Impact of Technology on a Firm

- Basic Research
- Applied Research
- Technological Advances

Marketing Mix
Political and Legal Factors

Discuss the political and legal environment of marketing.
Political and Legal Factors

Laws and Regulations Protect:

- New technology
- Society
- Businesses
- Consumers
### Federal Legislation

| Regulate competitive environment | Sherman Act  
Clayton Act  
Federal Trade Commission Act  
Celler-Kefauver Antimerger Act  
Hart-Scott-Rodino Act |
<table>
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<tbody>
<tr>
<td>Regulate pricing practices</td>
<td>Robinson-Patman Act</td>
</tr>
<tr>
<td>Control false advertising</td>
<td>Wheeler-Lea Act</td>
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</tbody>
</table>
## Regulatory Agencies

<table>
<thead>
<tr>
<th>Agency</th>
<th>Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Product Safety Commission</td>
<td>Protects consumer safety in and around their homes</td>
</tr>
<tr>
<td>Federal Trade Commission</td>
<td>Prevents unfair methods of competition in commerce</td>
</tr>
<tr>
<td>Food &amp; Drug Administration</td>
<td>Enforces safety regulations for food and drug products</td>
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</tbody>
</table>
Powers of the FTC

- Cease-and-Desist Order
- Consent Decree
- Affirmative Disclosure
- Corrective Advertising
- Restitution
- Counteradvertising
### Consumer Privacy

#### Government Actions

<table>
<thead>
<tr>
<th>Federal Level</th>
<th>State Level</th>
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<tbody>
<tr>
<td>▪ <strong>Gramm-Leach-Bliley Act</strong></td>
<td>▪ <strong>California’s Notice of Security Breach Law</strong></td>
</tr>
<tr>
<td>▪ <strong>Health Insurance Portability and Accountability Act (HIPPA)</strong></td>
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Review Learning Outcome

Political and Legal Environment of Marketing

- **Federal**
  - Clayton Act
  - Robinson-Patman Act
  - Wheeler-Lea Amendments
  - All laws in Exhibit 4.5 and all items in Exhibit 4.6

- **State Municipal**

- **CPSC**
- **FDA**
- **FTC**

- **Federal**
  - Sherman Act
  - Lanham Act
  - Celler-Kefauver Act
  - Hart-Scott Rodino Act
  - Federal Trade Commission Act

- **State Municipal**

- **FDA**
- **FTC**
Competitive Factors

LO8

Explain the basics of foreign and domestic competition.
Competitive Factors

• How many competitors?
• How big are competitors?
• How interdependent is the industry?
Competitive Factors

Competition for Market Share and Profits

• Firms must work harder to maintain profits and market share.

Global Competition

• More foreign firms are entering U.S. market.

• Foreign firms in U.S. now compete on product quality.
Highly Competitive Marketplace

Mature Industries

Slow Growth / No Growth

Can only increase market share by taking it from a competitor.