

Part 1: Defining Marketing and the Marketing Process (Chapters 1–2)

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Analyzing the Marketing Environment

Chapter Preview In Part 1, you learned about the basic concepts of marketing and the steps in the marketing process for building profitable relationships with targeted consumers. In Part 2, we'll look deeper into the first step of the marketing process—understanding the marketplace and customer needs and wants. In this chapter, you'll see that marketing operates in a complex and changing environment. Other actors in this environment—suppliers, intermediaries, customers, competitors, publics, and others—may work with or against the company. Major environmental forces—demographic, economic, natural, technological, political, and cultural—shape marketing opportunities, pose

threats, and affect the company's ability to build customer relationships. To develop effective marketing strategies, you must first understand the environment in which marketing operates.

We start by looking at an American icon, Xerox. A half-century ago, this venerable old company harnessed changing technology to create a whole new industry—photocopying—and dominated that industry for decades. But did you know that, barely a decade ago, Xerox was on the verge of bankruptcy? Don't worry, the company is once again sound. But Xerox's harrowing experience provides a cautionary tale of what can happen when a company—even a dominant market leader—fails to adapt to its changing marketing environment.

Xerox: Adapting to the Turbulent Marketing Environment

Xerox introduced the first plain-paper office copier 50 years ago. In the decades that followed, the company that invented photocopying flat-out dominated the industry it had created. The name Xerox became almost generic for copying (as in "I'll Xerox this for you"). Through the years, Xerox fought off round after round of rivals to stay atop the fiercely competitive copier industry. In 1998, Xerox's profits were growing at 20 percent a year, and its stock price was soaring.

Then things went terribly wrong for Xerox. The legendary company's stock and fortunes took a stomach-churning dive. In only 18 months, Xerox lost some \$38 billion in market value. By mid-2001, its stock price had plunged from almost \$70 in 1999 to under \$5. The once-dominant market leader found itself on the brink of bankruptcy. What happened? Blame it on change or—rather—on Xerox's failure to adapt to its rapidly changing marketing environment. The world was quickly going digital, but Xerox hadn't kept up.

In the new digital environment, Xerox customers no longer relied on the company's flagship products—stand-alone copiers—to share information and documents. Rather than pumping out and distributing stacks of black-and-white copies, they created digital documents and shared them electronically. Or they popped out copies on their nearby networked printer. On a broader level, while Xerox was busy perfecting copy machines, customers were looking for more sophisticated "document management solutions." They wanted systems that would let them scan documents

in Frankfurt, weave them into colorful, customized showpieces in San Francisco, and print them on demand in London—even altering for American spelling.

As digital technology changed, so did Xerox's customers and competitors. Instead of selling copiers to equipment purchasing managers, Xerox found itself developing and selling document management systems to high-level information technology managers. Instead of competing head-on with copy machine competitors like Sharp, Canon, and Ricoh, Xerox was now squaring off against information technology companies like HP and IBM.

Xerox's large and long-respected sales force—made up of people in toner-stained shirts trained to sell and repair copy machines—simply wasn't equipped to deal effectively in the brave new world of digital document solutions. Xerox, the iconic "copier company," just wasn't cutting it in the new digital environment. Increasingly, Xerox found itself occupying the dusty and dying "copy machine" corner of the analog office.

Since those dark days on the brink, however, Xerox has rethought, redefined, and reinvented itself. The company has undergone a remarkable transformation. Xerox no longer defines itself as a "copier company." In fact, it doesn't even make stand-alone copiers anymore. Instead, Xerox bills itself as a leading global document-management and business-process technology and services enterprise. It wants to help companies and people "be smarter about their documents."

Documenting any communication used to mean committing it to paper, getting it down in black and white. Now communication is generally scanned, sent, searched, archived, merged, and personalized—often in color. It can move back and forth, many times, from physical to digital. So when we say our mission is to help people be smarter about their documents, it really means giving them a range of tools and techniques to capture, organize, facilitate, and enhance how they communicate. In any form. To an audience of one or many millions.

The Xerox transformation started with a new focus on the customer. Before developing new products, Xerox researchers held seemingly endless customer focus groups. Sophie Vandebroek, Xerox's chief technology officer, called this "dreaming with the customer." The goal, she argued, is "involving experts who know the technology with customers who know the pain points. . . . Ultimately innovation is about delighting the customer." The new Xerox believes that understanding customers is just as important as understanding technology.

As a result of this new thinking, Xerox now offers a broad portfolio of customer-focused products, software, and services that help its customers manage documents and information. Xerox has introduced more than 130 innovative new products in the past four years. It now offers digital products and systems ranging from network printers and multifunction devices to color printing and publishing systems, digital presses, and "book factories." It also offers an impressive array of print-management consulting and outsourcing services that help businesses develop online document archives, operate in-house print shops or mailrooms, analyze how employees can most efficiently share documents and knowledge, and build Web-based processes for personalizing direct mail, invoices, and brochures.

Thus, Xerox isn't an old, rusty copier company anymore. Thanks to a truly remarkable turnaround, Xerox is now on solid footing in today's digital world. Xerox's former chairman summed things up this way: "We have transformed Xerox into a business that connects closely with customers in a content-rich digital marketplace. We have expanded into new markets, created new businesses, acquired new capabilities, developed technologies that launched new industries—to ensure we make it easier, faster, and less costly for our customers to share information."

However, just as Xerox's turnaround seemed com-



Xerox invented photocopying and for decades flat-out dominated the industry it had created. But Xerox's experience provides a cautionary tale of what can happen when a company—even a dominant market leader—fails to adapt to its changing marketing environment.

plete, yet another challenging environmental force arose—the Great Recession. The recession severely depressed Xerox's core printing and copying equipment and services business, and the company's sales and stock price tumbled once again. So in a major move to maintain its transition momentum, Xerox recently acquired Affiliated Computer Services (ACS), a \$6.4 billion IT services company. With the ACS acquisition, Xerox can now help clients manage not only their document-related processes but also their even-faster growing IT processes. Xerox's newly expanded mission is to provide clients with the technologies and services they need to manage their documents, data, and work processes more efficiently and effectively. That leaves clients free to focus on what matters most—their real businesses.

Xerox knows that change and renewal are ongoing and never-ending. "The one thing that's predictable about business is that it's fundamentally unpredictable," says the company's most recent annual report. "Macroforces such as globalization, emerging technologies, and, most recently, depressed financial markets bring new challenges every day to businesses of all sizes." The message

is clear. Even the most dominant companies can be vulnerable to the often turbulent and changing marketing environment. Companies that understand and adapt well to their environments can thrive. Those that don't risk their very survival.¹

Xerox isn't an old, fusty copier company anymore. It now provides a broad portfolio of digital print-management and IT-processing equipment and services that help customers be "Ready for Real Business."

Objective OUTLINE

Objective 1

Describe the environmental forces that affect the company's ability to serve its customers.

The Microenvironment (66–69)

The Macroenvironment (70)

Objective 2

Explain how changes in the demographic and economic environments affect marketing decisions.

The Demographic Environment (70–77)

The Economic Environment (77–78)

Objective 3

Identify the major trends in the firm's natural and technological environments.

The Natural Environment (78–79)

The Technological Environment (80–81)

Objective 4

Explain the key changes in the political and cultural environments.

The Political and Social Environment (81–85)

The Cultural Environment (86–88)

Objective 5

Discuss how companies can react to the marketing environment.

Responding to the Marketing Environment (89–91)

Marketing environment

The actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers.

Microenvironment

The actors close to the company that affect its ability to serve its customers—the company, suppliers, marketing intermediaries, customer markets, competitors, and publics.

Macroenvironment

The larger societal forces that affect the microenvironment—demographic, economic, natural, technological, political, and cultural forces.

Author Comment | The microenvironment includes all the actors close to the company that affect, positively or negatively, its ability to create value for and relationships with its customers.

A company's marketing environment consists of the actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers. Like Xerox, companies constantly watch and adapt to the changing environment.

More than any other group in the company, marketers must be environmental trend trackers and opportunity seekers. Although every manager in an organization should watch the outside environment, marketers have two special aptitudes. They have disciplined methods—marketing research and marketing intelligence—for collecting information about the marketing environment. They also spend more time in customer and competitor environments. By carefully studying the environment, marketers can adapt their strategies to meet new marketplace challenges and opportunities.

The marketing environment consists of a *microenvironment* and a *macroenvironment*. The **microenvironment** consists of the actors close to the company that affect its ability to serve its customers—the company, suppliers, marketing intermediaries, customer markets, competitors, and publics. The **macroenvironment** consists of the larger societal forces that affect the microenvironment—demographic, economic, natural, technological, political, and cultural forces. We look first at the company's microenvironment.

The Microenvironment (pp 66–69)

Marketing management's job is to build relationships with customers by creating customer value and satisfaction. However, marketing managers cannot do this alone. ● **Figure 3.1** shows the major actors in the marketer's microenvironment. Marketing success requires building relationships with other company departments, suppliers, marketing intermediaries, competitors, various publics, and customers, which combine to make up the company's value delivery network.

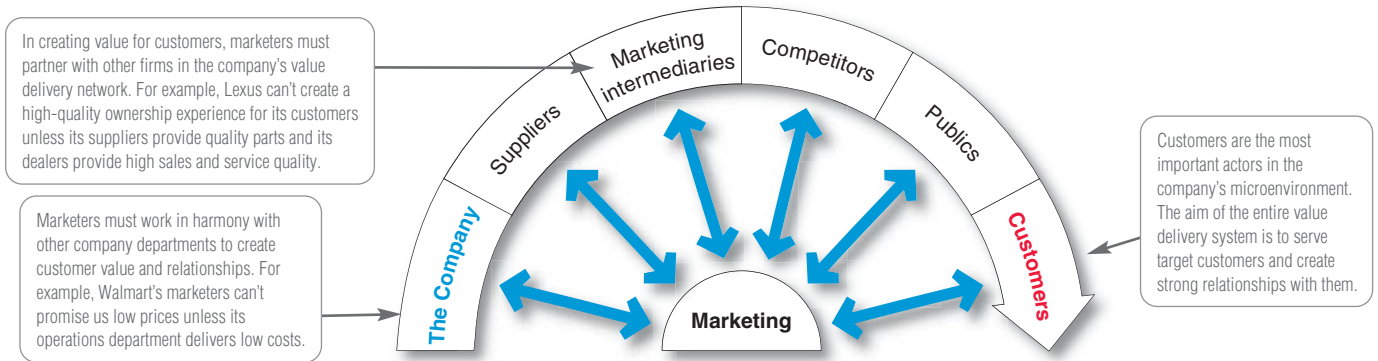


FIGURE | 3.1
Actors in the Microenvironment

The Company

In designing marketing plans, marketing management takes other company groups into account—groups such as top management, finance, research and development (R&D), purchasing, operations, and accounting. All of these interrelated groups form the internal environment. Top management sets the company’s mission, objectives, broad strategies, and policies. Marketing managers make decisions within the strategies and plans made by top management.

As we discussed in Chapter 2, marketing managers must work closely with other company departments. Other departments have an impact on the marketing department’s plans and actions. And, under the marketing concept, all of these functions must “think consumer.” According to a former Xerox CEO, to provide a great customer experience, Xerox must “find out what customers are facing—what their problems and opportunities are. Everyone at Xerox shares this responsibility. That includes people and departments that have not always been customer-facing, like finance, legal, and human resources.”²

Suppliers

Suppliers form an important link in the company’s overall customer value delivery network. They provide the resources needed by the company to produce its goods and services. Supplier problems can seriously affect marketing. Marketing managers must watch supply availability and costs. Supply shortages or delays, labor strikes, and other events can cost sales in the short run and damage customer satisfaction in the long run. Rising supply costs may force price increases that can harm the company’s sales volume.

Most marketers today treat their suppliers as partners in creating and delivering customer value. For example, Toyota knows the importance of building close relationships with its suppliers. In fact, it even includes the phrase *achieve supplier satisfaction* in its mission statement.

Toyota’s competitors often alienate suppliers through self-serving, heavy-handed dealings. According to one supplier, U.S. automakers “set annual cost-reduction targets [for the parts they buy]. To realize those targets, they’ll do anything. [They’ve unleashed] a reign of terror, and it gets worse every year.” By contrast, rather than bullying suppliers, Toyota partners with them and helps them meet its very high expectations. Toyota learns about their businesses, conducts joint improvement activities, helps train supplier employees, gives daily performance feedback, and actively seeks out supplier concerns. It even recognizes top performers with annual performance awards. High supplier satisfaction means that Toyota can rely on suppliers to help it improve its own quality, reduce costs, and quickly develop new products. Even after the recent massive recall following unanticipated acceleration problems with some Toyota models, the company didn’t point blame at the accelerator part supplier. Instead, Toyota took blame for a faulty part design and even issued a statement supporting the “long-term and valued supplier.” In all, creating satisfied suppliers helps Toyota produce lower-cost, higher-quality cars, which in turn results in more satisfied customers.³

Marketing Intermediaries

Marketing intermediaries

Firms that help the company to promote, sell, and distribute its goods to final buyers.

Marketing intermediaries help the company promote, sell, and distribute its products to final buyers. They include resellers, physical distribution firms, marketing services agencies, and financial intermediaries. *Resellers* are distribution channel firms that help the company find customers or make sales to them. These include wholesalers and retailers who buy and resell merchandise. Selecting and partnering with resellers is not easy. No longer do manufacturers have many small, independent resellers from which to choose. They now face large and growing reseller organizations, such as Walmart, Target, Home Depot, Costco, and Best Buy. These organizations frequently have enough power to dictate terms or even shut smaller manufacturers out of large markets.

Physical distribution firms help the company stock and move goods from their points of origin to their destinations. *Marketing services agencies* are the marketing research firms, advertising agencies, media firms, and marketing consulting firms that help the company target and promote its products to the right markets. *Financial intermediaries* include banks, credit companies, insurance companies, and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods.

Like suppliers, marketing intermediaries form an important component of the company's overall value delivery network. In its quest to create satisfying customer relationships, the company must do more than just optimize its own performance. It must partner effectively with marketing intermediaries to optimize the performance of the entire system.

Thus, today's marketers recognize the importance of working with their intermediaries as partners rather than simply as channels through which they sell their products. ● For example, when Coca-Cola signs on as the exclusive beverage provider for a fast-food chain, such as McDonald's, Wendy's, or Subway, it provides much more than just soft drinks. It also pledges powerful marketing support.⁴



● **Partnering with marketing intermediaries: Coca-Cola provides its retail partners with much more than just soft drinks. It also pledges powerful marketing support.**

Coca-Cola assigns cross-functional teams dedicated to understanding the finer points of each retail partner's business. It conducts a staggering amount of research on beverage consumers and shares these insights with its partners. It analyzes the demographics of U.S. zip code areas and helps partners determine which Coke brands are preferred in their areas. Coca-Cola has even studied the design of drive-through menu boards to better understand which layouts, fonts, letter sizes, colors, and visuals induce consumers to order more food and drink. Based on such insights, the Coca-Cola Food Service group develops marketing programs and merchandising tools that help its retail partners improve their beverage sales and profits. For example, Coca-Cola Food Service's Web site, www.CokeSolutions.com, provides retailers with a wealth of information, business solutions, and merchandising tips. "We know that you're passionate about delighting guests and enhancing their real experiences on every level," says Coca-Cola to its retail partners. "As your partner, we want to help in any way we can." Such intense partnering efforts have made Coca-Cola a runaway leader in the U.S. fountain soft-drink market.

Competitors

The marketing concept states that, to be successful, a company must provide greater customer value and satisfaction than its competitors do. Thus, marketers must do more than simply adapt to the needs of target consumers. They also must gain strategic advantage by positioning their offerings strongly against competitors' offerings in the minds of consumers.

No single competitive marketing strategy is best for all companies. Each firm should consider its own size and industry position compared to those of its competitors. Large firms with dominant positions in an industry can use certain strategies that smaller firms cannot afford. But being large is not enough. There are winning strategies for large firms, but there are also losing ones. And small firms can develop strategies that give them better rates of return than large firms enjoy.

Public

Any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives.

Publics

The company's marketing environment also includes various publics. A **public** is any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives. We can identify seven types of publics:

- *Financial publics.* This group influences the company's ability to obtain funds. Banks, investment analysts, and stockholders are the major financial publics.
- *Media publics.* This group carries news, features, and editorial opinion. It includes newspapers, magazines, television stations, and blogs and other Internet media.
- *Government publics.* Management must take government developments into account. Marketers must often consult the company's lawyers on issues of product safety, truth in advertising, and other matters.
- *Citizen-action publics.* A company's marketing decisions may be questioned by consumer organizations, environmental groups, minority groups, and others. Its public relations department can help it stay in touch with consumer and citizen groups.
- *Local publics.* This group includes neighborhood residents and community organizations. Large companies usually create departments and programs that deal with local community issues and provide community support. ● For example, the P&G Tide

Loads of Hope program recognizes the importance of community publics. It provides mobile laundromats and loads of clean laundry to families in disaster-stricken areas. P&G washes, dries, and folds clothes for these families for free because "we've learned [that] sometimes even the littlest things can make a difference."⁵

- *General public.* A company needs to be concerned about the general public's attitude toward its products and activities. The public's image of the company affects its buying.
- *Internal publics.* This group includes workers, managers, volunteers, and the board of directors. Large companies use newsletters and other means to inform and motivate their internal publics. When employees feel good about the companies they work for, this positive attitude spills over to the external publics.



● **Publics:** P&G's Tide Loads of Hope program recognizes the importance of community publics. It washes, dries, and folds loads of clothes for families struck by local disasters.

A company can prepare marketing plans for these major publics as well as for its customer

markets. Suppose the company wants a specific response from a particular public, such as goodwill, favorable word of mouth, or donations of time or money. The company would have to design an offer to this public that is attractive enough to produce the desired response.

Customers

As we've emphasized throughout, customers are the most important actors in the company's microenvironment. The aim of the entire value delivery network is to serve target customers and create strong relationships with them. The company might target any or all five types of customer markets. *Consumer markets* consist of individuals and households that buy goods and services for personal consumption. *Business markets* buy goods and services for further processing or use in their production processes, whereas *reseller markets* buy goods and services to resell at a profit. *Government markets* consist of government agencies that buy goods and services to produce public services or transfer the goods and services to others who need them. Finally, *international markets* consist of these buyers in other countries, including consumers, producers, resellers, and governments. Each market type has special characteristics that call for careful study by the seller.

Author Comment The macroenvironment consists of broader forces that affect the actors in the microenvironment.

The Macroenvironment (pp 70–88)

The company and all of the other actors operate in a larger macroenvironment of forces that shape opportunities and pose threats to the company. ● **Figure 3.2** shows the six major forces in the company’s macroenvironment. In the remaining sections of this chapter, we examine these forces and show how they affect marketing plans.

Author Comment Changes in demographics mean changes in markets, so they are very important to marketers. We first look at the biggest demographic trend—the changing age structure of the population.

The Demographic Environment

Demography is the study of human populations in terms of size, density, location, age, gender, race, occupation, and other statistics. The demographic environment is of major interest to marketers because it involves people, and people make up markets. The world population is growing at an explosive rate. It now exceeds 6.8 billion people and is expected to grow to more than 8 billion by the year 2030.⁶ The world’s large and highly diverse population poses both opportunities and challenges.

Changes in the world demographic environment have major implications for business. For example, consider China. Thirty years ago, to curb its skyrocketing population, the Chinese government passed regulations limiting families to one child each. As a result, China’s youth born after 1980—called “balinghou” or the “Me generation” by their elders—have been showered with attention and luxuries resulting in what’s known as the “little emperor” or “little empress” syndrome. As many as six adults, two parents, and four doting grandparents may be indulging the whims of each only child—all 600 million of them (almost twice the entire U.S. population). Parents with only one child at home now spend about 40 percent of their income on their cherished child.⁷

China’s Me generation, now ranging in age from newborns to their early 30s, is affecting markets for everything from children’s products to financial services, cell phone services, and luxury goods. ● For example, Starbucks is targeting China’s Me generation, positioning itself as new kind of informal but indulgent meeting place.⁸

China’s one-child rule created a generation of people who have been pampered by parents and grandparents and have the means to make indulgent purchases. Instead of be-

lieving in traditional Chinese collective goals, these young people embrace individuality. “Their view of this world is very different,” says the president of Starbucks Greater China. “They have never gone through the hardships of our generation.” Starbucks is in sync with that, he says, given its customized drinks, personalized service, and original music compilations. “In the U.S., most of Starbucks’ business is takeaway,” says one analyst. “It is the opposite in China. [Young] people go to [Starbucks] as a destination and spend hours there. They like to be seen as chic and cosmopolitan.”

Thus, marketers keep a close eye on demographic trends and developments in their markets—both at home and abroad. They analyze changing age and family structures, geographic population shifts, educational characteristics, and population diversity. Here, we discuss the most important demographic trends in the United States.



● **Demographics and business:** In China, Starbucks targets the “Me generation,” positioning itself as a new kind of informal but indulgent meeting place.

Baby boomers

The 78 million people born during years following World War II and lasting until 1964.

The Changing Age Structure of the Population

The U.S. population is currently about 310 million and may reach almost 364 million by 2030.⁹ The single most important demographic trend in the United States is the changing age structure of the population. The U.S. population contains several generational groups. Here, we discuss the three largest groups—the baby boomers, Generation X, and the Millennials—and their impact on today’s marketing strategies.

The Baby Boomers. The post–World War II baby boom produced 78 million **baby boomers**, who were born between 1946 and 1964. Over the years, the baby boomers have

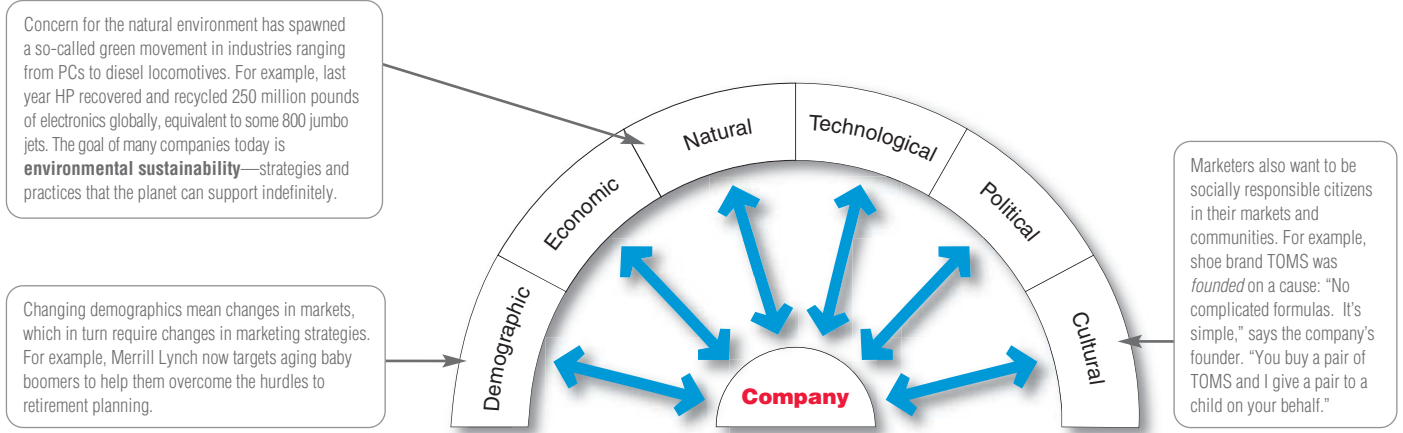


FIGURE | 3.2
Major Forces in the Company's Macroenvironment

been one of the most powerful forces shaping the marketing environment. The youngest boomers are now in their mid-forties; the oldest are in their sixties and approaching retirement. The maturing boomers are rethinking the purpose and value of their work, responsibilities, and relationships.

After years of prosperity, free spending, and saving little, the Great Recession hit many baby boomers hard, especially the preretirement boomers. A sharp decline in stock prices and home values ate into their nest eggs and retirement prospects. As a result, many boomers are now spending more carefully and planning to work longer. “You have a huge group of preretirement baby boomers, a huge number of people who are asking, ‘Can I live off my savings and Social Security for the rest of my life?’” says one economist. “A whopping 70 percent of Americans currently age 45 to 74 plan to work during their retirement years . . . both for enjoyment and because they need the money,” notes another.¹⁰

However, although some might be feeling the postrecession pinch, the baby boomers are still the wealthiest generation in U.S. history. Today’s baby boomers account for about 25 percent of the U.S. population but hold 75 percent of the nation’s financial assets and account for about 50 percent of total consumer spending. They spend about \$2 trillion a year.¹¹ As they reach their peak earning and spending years, the boomers will continue to constitute a lucrative market for financial services, new housing and home remodeling, travel and entertainment, eating out, health and fitness products, and just about everything else.

It would be a mistake to think of the older boomers as phasing out or slowing down. Today’s boomers think young no matter how old they are. One study showed that boomers, on average, see themselves 12 years younger than they actually are. And rather than viewing themselves as phasing out, they see themselves as entering new life phases. The more active boomers—sometimes called zoomers, or baby boomers with zip—have no intention of abandoning their youthful lifestyles as they age.¹²

“It is time to throw out the notion that the only things marketable to [the older boomers] are chiropractic mattresses, arthritis drugs, and [staid] cruises,” says one marketer. “Boomers have sought the fountain of youth through all stages of life and have incorporated aspects of play and fun into everything from careers to cars.”¹³ Toyota recognizes these changing boomer life phases. Ads for its Toyota Highlander show empty-nest boomers and declare “For your newfound freedom.” Similarly, Curves fitness centers targets boomer women. Curves’ older regulars “want to be strong and fit,” says one expert. “They just don’t want to go into Gold’s Gym and be surrounded by spandex-clad Barbie dolls.”¹⁴

Perhaps no one is targeting the baby boomers more fervently than the financial services industry. Collectively, the baby boomers have earned \$3.7 trillion, more than twice as much as members of the prior generation. They’ll also be inheriting \$7.2 trillion as their parents pass away. Thus, especially in the



Targeting Baby Boomers: Merrill Lynch's help2retire campaign aims to help boomers overcome the hurdles to retirement planning. It's not just about "the numbers" but also about "life goals."

aftermath of the Great Recession, the boomers will need lots of money management help as they approach retirement. Merrill Lynch recently launched a marketing campaign aimed at helping boomers with retirement planning:¹⁵

Stereotypical retirement ads from financial institutions show attractive older couples on the beach enjoying their idyllic golden years. “In this industry, everybody [most always] talks about the future and when you retire,” says the head of Merrill Lynch’s Wealth Management unit. But the new Merrill Lynch retirement planning campaign talks about now—about the retirement hurdles that people face in getting ready for retirement. ● Themed “help2retire _____” (read “help2retire blank”), the campaign encourages 50-plus year olds to “fill in the blank” with aspects of their current working and financial lives that they’d like so they can focus on what matters most in retirement planning. Different ads suggest words such as help2retire Confusion, or Cold Feet, or Guesswork. Merrill Lynch research shows that recession-tempered boomers are cautiously optimistic about retirement but need help planning for it. Merrill wants to provide that help in the form of personalized financial advice. Merrill is approaching the topic from both a rational and an emotional standpoint. It’s not just about “the numbers” but also about “life goals.” Says the head of Merrill Lynch Wealth Management: “It’s not just about aspiring to get a second home in a warm location [anymore]. It’s about spending more time with your family and friends and relieving the anxiety around the guesswork that so many [boomers] are feeling.”

Generation X

The 45 million people born between 1965 and 1976 in the “birth dearth” following the baby boom.

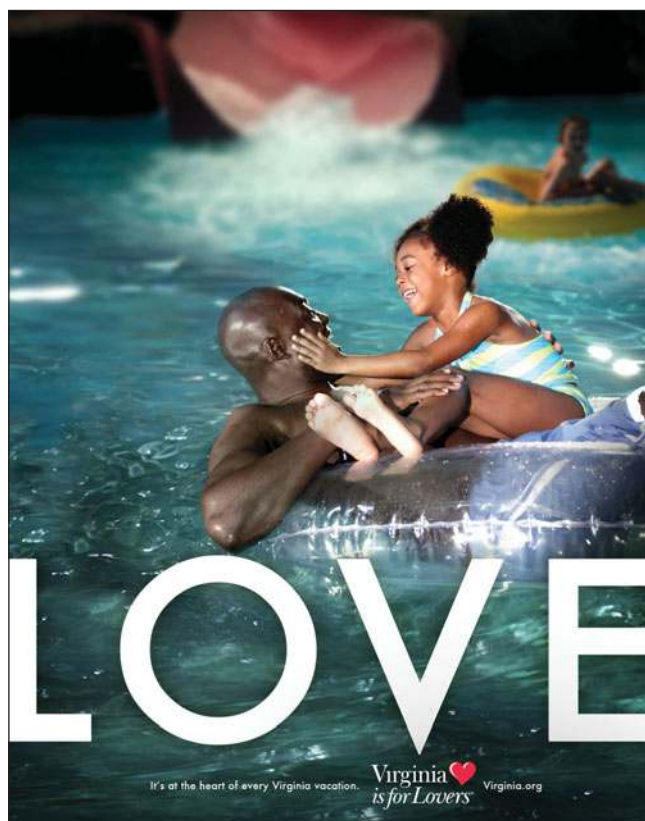
Generation X. The baby boom was followed by a “birth dearth,” creating another generation of 49 million people born between 1965 and 1976. Author Douglas Coupland calls them **Generation X** because they lie in the shadow of the boomers and lack obvious distinguishing characteristics.

The Generation Xers are defined as much by their shared experiences as by their age. Increasing parental divorce rates and higher employment for their mothers made them the first

generation of latchkey kids. Although they seek success, they are less materialistic; they prize experience, not acquisition. For many of the Gen Xers who are parents, family comes first—both children and their aging parents—and career second. From a marketing standpoint, the Gen Xers are a more skeptical bunch. They tend to research products before they consider a purchase, prefer quality to quantity, and tend to be less receptive to overt marketing pitches.

Once labeled as “the MTV generation” and viewed as body-piercing slackers who whined about “McJobs,” the Gen Xers have grown up and are now taking over. They are increasingly displacing the lifestyles, culture, and values of the baby boomers. They are moving up in their careers, and many are proud homeowners with young, growing families. They are the most educated generation to date, and they possess hefty annual purchasing power. However, like the baby boomers, the Gen Xers now face growing economic pressures. Like almost everyone else these days, they are spending more carefully.¹⁶

Still, with so much potential, many brands and organizations are focusing on Gen Xers as a prime target segment. ● For example, the Virginia Tourism Corporation, the state’s tourism arm, is now targeting Gen X families:¹⁷



● **Targeting Gen Xers:** Virginia tourism now aims its well-known “Virginia is for Lovers” campaign at Gen X families, who want new experiences close to home. “Love: It’s at the heart of every Virginia vacation.”

Virginia’s 40-year romance with the baby boomer generation is waning. The Virginia Tourism Corporation (VTC), best known for its enduring “Virginia is for Lovers” campaign, is now wooing a new audience: Generation X. They’re younger and more adventuresome, and they spend more money on travel in Virginia. VTC research showed that Generation X households contribute about 45 percent of the \$19.2 billion spent on travel in Virginia each year. Whereas most boomers

are done or almost done with child rearing and lean toward more exotic travel locations farther from home, “the Generation Xers are new families who need new experiences close to home,” says Alisa Bailey, CEO and president of VTC. “They want beaches, good places to relax, warm, friendly people. They love amusement and theme parks, and they want places that are good for what we call soft adventure, like canoeing, and hiking.” Don’t worry; the slogan won’t change. “What *will* change,” explains Bailey, “is our strategy toward the younger market. We will be showing more Gen X families in our marketing. It will be a more family-oriented campaign.” VTC plans to use Facebook, Twitter, and blogs to help reach Generation X households.

Millennials (or Generation Y)

The 83 million children of the baby boomers, born between 1977 and 2000.

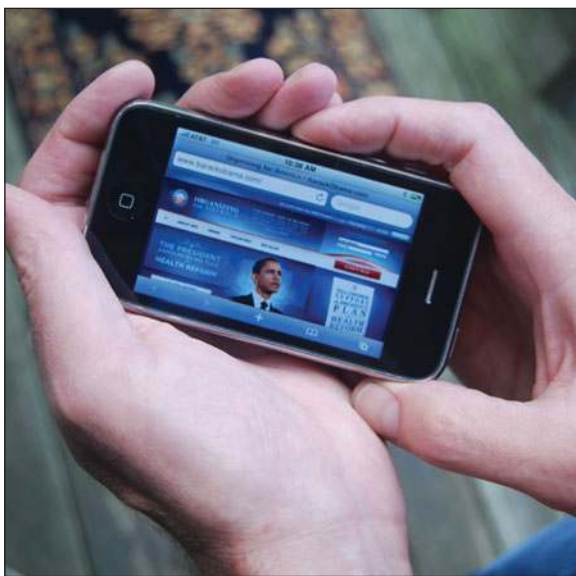
Millennials. Both the baby boomers and Gen Xers will one day be passing the reins to the **Millennials** (also called **Generation Y** or the echo boomers). Born between 1977 and 2000, these children of the baby boomers number 83 million, dwarfing the Gen Xers and larger even than the baby boomer segment. This group includes several age cohorts: *tweens* (ages 10–12), *teens* (13–18), and *young adults* (19–33). With total purchasing power of more than \$733 billion, the Millennials are a huge and attractive market.¹⁸

One thing that all the Millennials have in common is their utter fluency and comfort with digital technology. They don’t just embrace technology; it’s a way of life. The Millennials were the first generation to grow up in a world filled with computers, cell phones, satellite TV, iPods, and online social networks. A recent study found that 91 percent of Millennials are on the Web, making up 32 percent of all U.S. Internet users. According to another study, 77 percent of Millennials frequent social-networking sites, and 71 percent use instant messaging. “All generations are comfortable with technology, but this is the generation that’s been formed by technology,” says a Yahoo! executive. For them, “it’s not something separate. It’s just something they do.”¹⁹

Marketers of all kinds now target the Millennials segment, from automakers to political campaigns. The Millennials are bombarded with marketing messages coming at them from all directions. However, rather than having mass marketing messages pushed at them, they prefer to seek out information and engage in two-way brand conversations. Thus, reaching these message-saturated consumers effectively requires creative marketing approaches. ● Consider how the Barack Obama presidential campaign succeeded in reaching this group.²⁰

“Barack Obama was the first presidential candidate to be marketed like a high-end consumer brand,” observed a *Newsweek* reporter. His rising-sun logo echoes the one-world icons of PepsiCo, AT&T, and Apple. But what really set the Obama campaign apart was its immense appeal to Millennials, the country’s youngest voters. The campaign’s mastery of cutting-edge social media, such as the www.my.barackobama.com Web site, was optimized for Millennial appeal. For this generation, “the new pronoun is me, my,” says a marketing expert. “Young people want to be in control of their relationship with a brand. They want to customize and personalize.” The Obama campaign site allowed just that, with its use of tagging, discussion boards, photo uploads, and other interactive elements.

In addition, Obama enlisted eight million volunteers using social-networking sites, attracted two million friends on Facebook, and drew 90 million viewers to his video presentations on YouTube. On Election Day, the Obama team sent text messages to millions of young supporters. The Obama campaign didn’t merely use young volunteers, as most campaigns do. It created a campaign specifically designed by and for today’s tech-happy Millennial generation, using the communication tools young people rely on and trust. The result? Young people turned out at the polls in record numbers, with fully 66 percent favoring Obama, turning the tide his way in several key states.



● Reaching Millennials: The Barack Obama presidential campaign’s mastery of cutting-edge social media, such as www.my.barackobama.com, was optimized for Millennial appeal. It still is. You can connect with “Obama everywhere.”

Generational Marketing. Do marketers need to create separate products and marketing programs for each generation? Some experts warn that marketers need to be careful about turning off one generation each time

they craft a product or message that appeals effectively to another. Others caution that each generation spans decades of time and many socioeconomic levels. For example, marketers often split the baby boomers into three smaller groups—leading-edge boomers, core boomers, and trailing-edge boomers—each with its own beliefs and behaviors. Similarly, they split the Millennials into tweens, teens, and young adults.

Thus, marketers need to form more precise age-specific segments within each group. More important, defining people by their birth date may be less effective than segmenting them by their lifestyle, life stage, or the common values they seek in the products they buy. We will discuss many other ways to segment markets in Chapter 7.

The Changing American Family

The traditional household consists of a husband, wife, and children (and sometimes grandparents). Yet, the once American ideal of the two-child, two-car suburban family has lately been losing some of its luster.

In the United States today, married couples with children represent only 22 percent of the nation's 117 million households, married couples without children represent 29 percent, and single parents are another 11 percent. A full 38 percent are nonfamily households—singles living alone or adults of one or both sexes living together.²¹ More people are divorcing or separating, choosing not to marry, marrying later, or marrying without intending to have children. Marketers must increasingly consider the special needs of nontraditional households because they are now growing more rapidly than traditional households. Each group has distinctive needs and buying habits.

The number of working women has also increased greatly, growing from under 40 percent of the U.S. workforce in the late 1950s to 59 percent today. Both husband and wife work in 59 percent of all married-couple families. Meanwhile, more men are staying home with their children, managing the household while their wives go to work. According to the U.S. Census Bureau, the number of stay-at-home dads has risen 18 percent since 1994—some 158,000 fathers now stay at home.²²

The significant number of women in the workforce has spawned the child day-care business and increased the consumption of career-oriented women's clothing, financial services, and convenience foods and services. Royal Caribbean targets time-crunched working moms with budget-friendly family vacations that are easy to plan and certain to wow the family. Royal Caribbean estimates that, although vacations are a joint decision, 80 percent of all trips are planned and booked by women—moms who are pressed for time, whether they work or not. "We want to make sure that you're the hero, that when your family comes on our ship, it's going to be a great experience for all of them," says a senior marketer at Royal Caribbean, "and that you, mom, who has done all the planning and scheduling, get to enjoy that vacation."²³

Geographic Shifts in Population

This is a period of great migratory movements between and within countries. Americans, for example, are a mobile people, with about 15 percent of all U.S. residents moving each year. Over the past two decades, the U.S. population has shifted toward the Sunbelt states. The West and South have grown, whereas the Midwest and Northeast states have lost population.²⁴ Such population shifts interest marketers because people in different regions buy differently. For example, people in the Midwest buy more winter clothing than people in the Southeast.

Also, for more than a century, Americans have been moving from rural to metropolitan areas. In the 1950s, they made a massive exit from the cities to the suburbs. Today, the migration to the suburbs continues. And more and more Americans are moving to "micropolitan areas," small cities located beyond congested metropolitan areas, such as Bozeman, Montana; Natchez, Mississippi; and Torrington, Connecticut. Drawing refugees from rural and suburban America, these smaller micros offer many of the advantages of metro areas—jobs, restaurants, diversions, community organizations—but without the population crush, traffic jams, high crime rates, and high property taxes often associated with heavily urbanized areas.²⁵

The shift in where people live has also caused a shift in where they work. For example, the migration toward micropolitan and suburban areas has resulted in a rapid increase

● Cisco targets the growing telecommuter market with WebEx, which lets people meet and collaborate online, no matter what their work location.

in the number of people who “telecommute”—work at home or in a remote office and conduct their business by phone, fax, modem, or the Internet. This trend, in turn, has created a booming SOHO (small office/home office) market. An increasing number of people are working from home with the help of electronic conveniences such as PCs, smartphones, and broadband Internet access. One recent study estimates that more than one-half of American businesses now support some kind of telecommuting program, and 5.9 million Americans work solely from home.²⁶

Many marketers are actively courting the lucrative telecommuting market. ● For example, WebEx, the Web-conferencing division of Cisco, helps overcome the isolation that often accompanies telecommuting. With WebEx, people can meet and collaborate online via computer or smartphone, no matter what their work location. “All you need to run effective online meetings is a browser and a phone,” says the company.

With WebEx, people working anywhere can interact with other individuals or small groups to make presentations, exchange documents, and share desktops, complete with audio and full-motion video.²⁷

A Better-Educated, More White-Collar, More Professional Population

The U.S. population is becoming better educated. For example, in 2007, 87 percent of the U.S. population over age 25 had completed high school, and 30 percent had completed college, compared with 69 percent and 17 percent, respectively, in 1980. Moreover, nearly two-thirds of high school graduates now enroll in college within 12 months of graduating.²⁸ The rising number of educated people will increase the demand for quality products, books, travel, computers, and Internet services.

The workforce also is becoming more white collar. Between 1983 and 2007, the proportion of managers and professionals in the workforce increased from 23 percent to more than 36 percent. Job growth is now strongest for professional workers and weakest for manufacturing workers. Between 2008 and 2018, the number of professional workers is expected to increase 17 percent, while manufacturing workers are expected to decline more than 24 percent.²⁹

Increasing Diversity

Countries vary in their ethnic and racial makeup. At one extreme is Japan, where almost everyone is Japanese. At the other extreme is the United States, with people from virtually all nations. The United States has often been called a melting pot, where diverse groups from many nations and cultures have melted into a single, more homogenous whole. Instead, the United States seems to have become more of a “salad bowl” in which various groups have mixed together but have maintained their diversity by retaining and valuing important ethnic and cultural differences.

Marketers now face increasingly diverse markets, both at home and abroad as their operations become more international in scope. The U.S. population is about 63 percent white, with Hispanics at about 16 percent and African Americans at about 13.6 percent. The U.S. Asian American population now totals about 4.9 percent of the population, with the remaining 2.5 percent being American Indian, Eskimo, Aleut, or people of two or more races. Moreover, more than 34 million people living in the United States—more than 12 percent of the population—were born in another country. The nation’s ethnic populations are expected to explode in coming decades. By 2050, Hispanics are expected to be an estimated 24 percent of the population, African Americans will hold steady at about 13 percent, and Asians will almost double to 9 percent.³⁰

Most large companies, from P&G, Walmart, Allstate, and Bank of America to Levi Strauss and Volkswagen, now target specially designed products, ads, and promotions to

one or more of these groups. For example, Volkswagen recently ran an award-winning campaign to introduce its new Routan minivan to the Hispanic community:³¹

Research in core markets with Hispanic minivan prospects showed that, contrary to the happy serenity competitors' campaigns show, chaos rules inside a minivan on family outings. So Volkswagen built a Spanish-language campaign to show how it's Routan minivan could help Hispanic families in "managing mayhem." The campaign tells the story of the Routan as a comfortable, multifeature vehicle engineered with the whole family in mind. In a spot called "Spill," one kid spills a bottle of water on her brother, who strips off his wet clothes and stows them in a storage compartment. In "Frog," a frog escapes from its shoe box and hops all over the car, from the roomy storage compartment to the soft leather seats, until the father takes advantage of the smooth steering and suspension to quickly stop the car and eject the frog. The mayhem campaign created a unique positioning for the Routan within the Hispanic community. Initial sales of the minivan to Hispanics were proportionally much higher than Volkswagen's overall Hispanic sales (which account for almost 10 percent total U.S. VW sales). Volkswagen later extended the campaign in English to non-Hispanic markets as well.

Diversity goes beyond ethnic heritage. For example, many major companies explicitly target gay and lesbian consumers. According to one estimate, the 6–7 percent of U.S. adults who identify themselves as lesbian, gay, bisexual, and transgender (LGBT) have buying power of \$712 billion. A Simmons Research study of readers of the National Gay Newspaper Guild's 12 publications found that, compared to the average American, LGBT respondents are 12 times more likely to be in professional jobs, almost twice as likely to own a vacation home, eight times more likely to own a notebook computer, and twice as likely to own individual stocks. More than two-thirds have graduated from college, and 21 percent hold a master's degree.³²

As a result of TV shows like *Modern Family*, *Ugly Betty*, and *The Ellen DeGeneres Show* and Oscar-winning movies like *Brokeback Mountain* and *Milk*, the LGBT community has increasingly emerged into the public eye. A number of media now provide companies with access to this market. For example, Planet Out Inc., a leading global media and entertainment company that exclusively serves the LGBT community, offers several successful magazines (*Out*, the *Advocate*, *Out Traveler*) and Web sites (Gay.com and Planet Out.com). And media giant Viacom's MTV Networks introduced LOGO, a cable television network aimed at gays and lesbians and their friends and family. LOGO is now available in 33 million U.S. households. More than 100 mainstream marketers have advertised on LOGO, including Ameriprise Financial, Anheuser-Busch, Continental Airlines, Dell, Levi Strauss, eBay, J&J, Orbitz, Sears, Sony, and Subaru.

Companies in a wide range of industries are now targeting the LGBT community with gay-specific marketing efforts. For example, American Airlines has a dedicated LGBT sales team, sponsors gay community events, and offers a special gay-oriented Web site (www.aa.com/rainbow) that features travel deals, an e-newsletter, podcasts, and a gay events calendar.

The airline's focus on gay consumers has earned it double-digit revenue growth from the LGBT community each year for more than a decade.³³

Another attractive diversity segment is the nearly 60 million U.S. adults with disabilities—a market larger than African Americans or Hispanics—representing more than \$200 billion in annual spending power. Most individuals with disabilities are active consumers. For example, one study found that more than two-thirds of adults with disabilities had traveled at least once for business or pleasure during the preceding two years. Thirty-one percent had booked at least one flight, more than half had stayed in hotels, and 20 percent had rented a car. More than 75 percent of people with disabilities dine out at least once a week.³⁴

How are companies trying to reach consumers with disabilities? Many marketers now recognize that the worlds of people with disabilities and those without disabilities are one in



● Targeting consumers with disabilities: Samsung features people with disabilities in its mainstream advertising and signs endorsement deals with Paralympic athletes.

the same. Marketers such as McDonald's, Verizon Wireless, Nike, Samsung, and Honda have featured people with disabilities in their mainstream advertising. For instance, Samsung and Nike sign endorsement deals with Paralympic athletes and feature them in advertising.

Other companies use specially targeted media to reach this attractive segment. The Web site www.Disaboom.com reaches people with disabilities through social-networking features akin to Facebook combined with relevant information, everything from medical news to career advice, dating resources, and travel tips. Several large marketers, including J&J, Netflix, Avis, GM, and Ford advertise on Disaboom.com. Ford uses the site to highlight its Mobility Motoring Program. Among other things, the program provides \$1,000 allowances for new car buyers to defray costs of adding adaptive equipment, such as wheelchair or scooter lifts, pedal extensions, and steering wheel knobs. Marketing on Disaboom.com has "been a new concept for us and we are pleased with the performance so far," says Ford's mobility motoring manager.³⁵

As the population in the United States grows more diverse, successful marketers will continue to diversify their marketing programs to take advantage of opportunities in fast-growing segments.

Economic environment

Economic factors that affect consumer purchasing power and spending patterns.

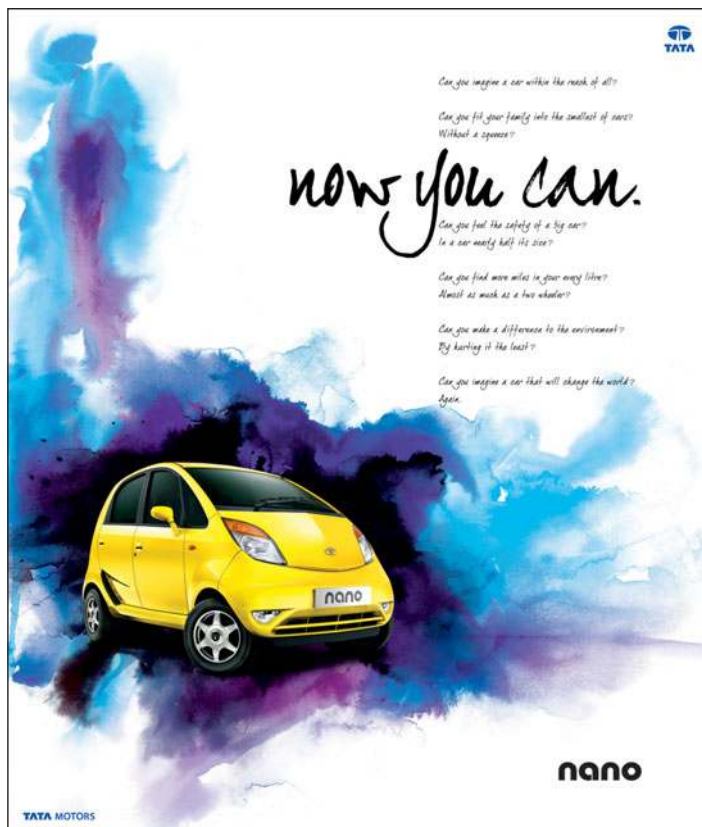
Author Comment | The economic environment can offer both opportunities and threats. For example, facing a still-uncertain economy, luxury car maker Infiniti now promises to "make luxury affordable."

The Economic Environment

Markets require buying power as well as people. The **economic environment** consists of economic factors that affect consumer purchasing power and spending patterns. Marketers must pay close attention to major trends and consumer spending patterns both across and within their world markets.

Nations vary greatly in their levels and distribution of income. Some countries have *industrial economies*, which constitute rich markets for many different kinds of goods. At the other extreme are *subsistence economies*; they consume most of their own agricultural and industrial output and offer few market opportunities. In between are *developing economies* that can offer outstanding marketing opportunities for the right kinds of products.

Consider India with its population of more than 1.1 billion people. In the past, only India's elite could afford to buy a car. In fact, only one in seven Indians now owns one. But recent dramatic changes in India's economy have produced a growing middle class and rapidly rising incomes. Now, to meet the new demand, European, North American, and Asian automakers are introducing smaller, more-affordable vehicles in India. But they'll have to find a way to compete with India's Tata Motors, which markets the least expensive car ever in the world, the Tata Nano. Dubbed "the people's car," the Nano sells for just over 100,000 rupees (about US\$2,500). It can seat four passengers, gets 50 miles per gallon, and travels at a top speed of 60 miles per hour. The ultralow-cost car is designed to be India's Model T—the car that puts the developing nation on wheels. "Can you imagine a car within the reach of all?" asks a Nano advertisement. "Now you can," comes the answer. Tata hopes to sell one million of these vehicles per year.³⁶



● **Economic environment:** To capture India's growing middle class, Tata Motors introduced the small, affordable Tata Nano. "Can you imagine a car within the reach of all?" asks this advertisement. "Now you can."

Changes in Consumer Spending

Economic factors can have a dramatic effect on consumer spending and buying behavior. For example, until fairly recently, American consumers spent freely, fueled by income growth, a boom in the stock market, rapid increases in housing values, and other economic good fortunes. They bought and bought, seemingly without caution, amassing record levels of debt. However, the free spending and high expectations of those days were dashed by the Great Recession. Says one economist, "For a generation that . . . substituted rising home

equity and stock prices for personal savings, the . . . economic meltdown [was] psychologically wrenching after a quarter century of unquestioned prosperity.”³⁷

As a result, as discussed in Chapter 1, consumers have now adopted a back-to-basics frugality in their lifestyles and spending patterns that will likely persist for years to come. They are buying less and looking for greater value in the things that they do buy. In turn, *value marketing* has become the watchword for many marketers. Marketers in all industries are looking for ways to offer today’s more financially cautious buyers greater value—just the right combination of product quality and good service at a fair price.

You’d expect value pitches from the makers of everyday products. For example, alongside milk mustache ads featuring glamorous celebrities, such as Brooke Shields and Beyoncé Knowles, you now see one featuring celebrity financial advisor Suze Orman, telling consumers how to “Milk your budget.” And discounter Kohl’s offers “style and savings inspiration.” However, these days, even luxury-brand marketers are emphasizing good value. For instance, upscale car brand Infiniti now promises to “make luxury affordable.”

Income Distribution

Marketers should pay attention to *income distribution* as well as income levels. Over the past several decades, the rich have grown richer, the middle class has shrunk, and the poor have remained poor. The top 5 percent of American earners get more than 21 percent of the country’s adjusted gross income, and the top 20 percent of earners capture 49 percent of all income. In contrast, the bottom 40 percent of American earners get just 13 percent of the total income.³⁸

This distribution of income has created a tiered market. Many companies—such as Nordstrom and Neiman Marcus—aggressively target the affluent. Others—such as Dollar General and Family Dollar—target those with more modest means. In fact, dollar stores are now the fastest-growing retailers in the nation. Still other companies tailor their marketing offers across a range of markets, from the affluent to the less affluent. For example, outfitter L.L.Bean, long known for timeless, affordable apparel and accessories, recently broadened its appeal by introducing an upscale Signature Collection. Shaped by designer Alex Carleton, the new line competes with the more fashion-forward wares of J.Crew and Ralph Lauren’s Rugby line. The collection—everything from chinos to evening wear and the Bean’s Heritage Tote—hints of L.L.Bean’s Maine roots but has an edgier look and feel and, of course, higher prices. The Heritage Tote, for example, sells for \$189.³⁹

Changes in major economic variables, such as income, cost of living, interest rates, and savings and borrowing patterns have a large impact on the marketplace. Companies watch these variables by using economic forecasting. Businesses do not have to be wiped out by an economic downturn or caught short in a boom. With adequate warning, they can take advantage of changes in the economic environment.

Author Comment | Today’s enlightened companies are developing *environmentally sustainable* strategies in an effort to create a world economy that the planet can support indefinitely.

The Natural Environment

The **natural environment** involves the natural resources that are needed as inputs by marketers or that are affected by marketing activities. Environmental concerns have grown steadily over the past three decades. In many cities around the world, air and water pollution have reached dangerous levels. World concern continues to mount about the possibilities of global warming, and many environmentalists fear that we soon will be buried in our own trash.

Marketers should be aware of several trends in the natural environment. The first involves growing shortages of raw materials. Air and water may seem to be infinite resources, but some groups see long-run dangers. Air pollution chokes many of the world’s large cities, and water shortages are already a big problem in some parts of the United States and the world. By 2030, more than one in three of the world’s population will not have enough water to drink.⁴⁰ Renewable resources, such as forests and food, also have to be used wisely. Nonrenewable resources, such as oil, coal, and various minerals, pose a serious problem. Firms making products that require these scarce resources face large cost increases, even if the materials remain available.

A second environmental trend is *increased pollution*. Industry will almost always damage the quality of the natural environment. Consider the disposal of chemical and nuclear

Natural environment

Natural resources that are needed as inputs by marketers or that are affected by marketing activities.

wastes; the dangerous mercury levels in the ocean; the quantity of chemical pollutants in the soil and food supply; and the littering of the environment with nonbiodegradable bottles, plastics, and other packaging materials.

A third trend is *increased government intervention* in natural resource management. The governments of different countries vary in their concern and efforts to promote a clean environment. Some, such as the German government, vigorously pursue environmental quality. Others, especially many poorer nations, do little about pollution, largely because they lack the needed funds or political will. Even richer nations lack the vast funds and political accord needed to mount a worldwide environmental effort. The general hope is that companies around the world will accept more social responsibility and that less expensive devices can be found to control and reduce pollution.

In the United States, the Environmental Protection Agency (EPA) was created in 1970 to create and enforce pollution standards and conduct pollution research. In the future, companies doing business in the United States can expect continued strong controls from government and pressure groups. Instead of opposing regulation, marketers should help develop solutions to the material and energy problems facing the world.

Concern for the natural environment has spawned the so-called green movement. Today, enlightened companies go beyond what government regulations dictate. They are developing strategies and practices that support **environmental sustainability**—an effort to create a world economy that the planet can support indefinitely. They are responding to consumer demands with more environmentally responsible products.

For example, GE is using its “ecomagination” to create products for a better world—cleaner aircraft engines, cleaner locomotives, cleaner fuel technologies. Taken together, for instance, all the GE Energy wind turbines in the world could produce enough power for 2.4 million U.S. homes. And in 2005, GE launched its Evolution series locomotives, diesel engines that cut fuel consumption by 5 percent and emissions by 40 percent compared to locomotives built just a year earlier. Up next is a triumph of sheer coolness: a GE hybrid diesel-electric locomotive that, just like a Prius, captures energy from braking and will reduce fuel consumption by 15 percent and emissions by as much as 50 percent compared to most locomotives in use today.⁴¹

Other companies are developing recyclable or biodegradable packaging, recycled materials and components, better pollution controls, and more energy-efficient operations. For example, PepsiCo—which owns brands ranging from Frito-Lay and Pepsi to Quaker, Gatorade, and Tropicana—is working to dramatically reduce its environmental footprint.

PepsiCo markets hundreds of products that are grown, produced, and consumed worldwide. Making and distributing these products requires water, electricity, and fuel. In 2007, the company set as its goal to reduce water consumption by 20 percent, electricity consumption by 20 percent, and fuel consumption by 25 percent per unit of production by 2015. It’s already well on its way to meeting these goals. ●

For example, a solar-panel field now generates power for three-quarters of the heat used in Frito-Lay’s Modesto, California, SunChips plant and SunChips themselves come in the world’s first 100 percent combustible package. A wind turbine now supplies more than two-thirds of the power at PepsiCo’s beverage plant in Mamandur, India. On the packaging front, PepsiCo recently introduced new half-liter bottles of its Lipton iced tea, Tropicana juice, Aquafina FlavorSplash, and Aquafina Alive beverages that contain 20 percent less plastic than the original packaging. Aquafina has trimmed the amount of plastic used in its bottles by 35 percent since 2002, saving 50 million pounds of plastic annually.⁴²

Companies today are looking to do more than just good deeds. More and more, they are recognizing the link between a healthy ecology and a healthy economy. They are learning that environmentally responsible actions can also be good business.

Environmental sustainability

Developing strategies and practices that create a world economy that the planet can support indefinitely.



● **Environmental sustainability:** PepsiCo is working to reduce its environmental footprint. For example, solar power now provides three-quarters of the heat used in Frito-Lay’s Modesto, California, SunChips plant and SunChips themselves come in the world’s first 100 percent compostable package.

Author Comment | Technological advances are perhaps the most dramatic forces affecting today's marketing strategies. Just think about the tremendous impact of the Web—which emerged in the mid-1990s—on marketing. You'll see examples of the fast-growing world of online marketing throughout every chapter, and we'll discuss it in detail in Chapter 17.

The Technological Environment

The **technological environment** is perhaps the most dramatic force now shaping our destiny. Technology has released such wonders as antibiotics, robotic surgery, miniaturized electronics, smartphones, and the Internet. It also has released such horrors as nuclear missiles, chemical weapons, and assault rifles. It has released such mixed blessings as the automobile, television, and credit cards. Our attitude toward technology depends on whether we are more impressed with its wonders or its blunders.

New technologies can offer exciting opportunities for marketers. For example, what would you think about having tiny little transmitters implanted in all the products you buy, which would allow tracking of the products from their point of production through use and disposal? On the one hand, it would provide many advantages to both buyers and sellers. On the other hand, it could be a bit scary. Either way, it's already happening:

Envision a world in which every product contains a tiny transmitter, loaded with information. As you stroll through supermarket aisles, shelf sensors detect your selections and beam ads to your shopping cart screen, offering special deals on related products. As your cart fills, scanners detect that you might be buying for a dinner party; the screen suggests a wine to go with the meal you've planned. When you leave the store, exit scanners total up your purchases and automatically charge them to your credit card. At home, readers track what goes into and out of your pantry, updating your shopping list when stocks run low. For Sunday dinner, you pop a Butterball turkey into your "smart oven," which follows instructions from an embedded chip and cooks the bird to perfection. Seem far-fetched? Not really. In fact, it might soon become a reality, thanks to radio-frequency identification (RFID) transmitters that can be embedded in the products you buy.

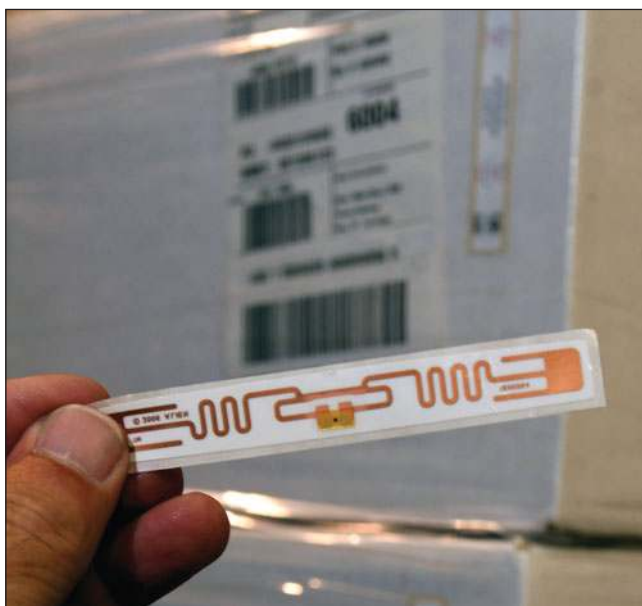
Many firms are already using RFID technology to track products through various points in the distribution channel. For example, Walmart has strongly encouraged suppliers shipping products to its distribution centers to apply RFID tags to their pallets. So far, more than 600 Walmart suppliers are doing so. And clothing retailer American Apparel uses RFID to manage inventory in many of its retail stores. ● Every stocked item carries an RFID tag, which is scanned at the receiving docks as the item goes into inventory. American Apparel puts only one of each item on the store floor at a time. When the item is sold, a point-of-sale RFID reader alerts the inventory system and prompts employees to bring a replacement onto the floor. Another RFID reader located between the stockroom and the store floor checks to see that this was done. In all, the system creates inventory efficiencies and ensures that the right items are always on the sales floor. As a result, American Apparel stores with RFID systems average 14 percent higher sales but 15 percent lower stockroom inventories than other stores. And the chain's RFID stores require 20–30 percent fewer staff because employees don't have to spend five or more hours a day doing manual inventory checks.⁴³

The technological environment changes rapidly. Think of all of today's common products that were not available 100 years ago—or even 30 years ago. Abraham Lincoln did not know about automobiles, airplanes, radios, or the electric light. Woodrow Wilson did not know about television, aerosol cans, automatic dishwashers, air conditioners, antibiotics, or computers. Franklin Delano Roosevelt did not know about xerography, synthetic detergents, birth control pills, jet engines, or earth satellites. John F. Kennedy did not know about PCs, cell phones, the Internet, or Google.

New technologies create new markets and opportunities. However, every new technology replaces an older technology. Transistors hurt the vacuum-tube industry, CDs hurt phonograph records, and digital photography hurt the film business. When old industries fought or ignored new technologies, their businesses declined. Thus, marketers should watch the technological environment

Technological environment

Forces that create new technologies, creating new product and market opportunities.



● **Technological environment:** American Apparel uses RFID to track and manage inventory in many of its retail stores.

closely. Companies that do not keep up will soon find their products outdated. And they will miss new product and market opportunities.

The United States leads the world in R&D spending. Total U.S. R&D spending reached an estimated \$389 billion last year. The federal government was the largest R&D spender at about \$114 billion.⁴⁴ Scientists today are researching a wide range of promising new products and services, ranging from practical solar energy, electric cars, and paint-on computer and entertainment video displays to powerful computers that you can wear or fold into your pocket to go-anywhere concentrators that produce drinkable water from the air.

Today's research usually is carried out by research teams rather than by lone inventors like Thomas Edison or Alexander Graham Bell. Many companies are adding marketing people to R&D teams to try to obtain a stronger marketing orientation. Scientists also speculate on fantasy products, such as flying cars and space colonies. The challenge in each case is not only technical but also commercial—to make *practical, affordable* versions of these products.

As products and technology become more complex, the public needs to know that these are safe. Thus, government agencies investigate and ban potentially unsafe products. In the United States, the Food and Drug Administration (FDA) has created complex regulations for testing new drugs. The Consumer Product Safety Commission (CPSC) establishes safety standards for consumer products and penalizes companies that fail to meet them. Such regulations have resulted in much higher research costs and longer times between new product ideas and their introduction. Marketers should be aware of these regulations when applying new technologies and developing new products.

Author Comment | Even the most liberal free-market advocates agree that the system works best with at least some regulation. But beyond regulation, most companies *want* to be socially responsible. If you look at almost any company's Web site, you'll find long lists of good deeds and environmentally responsible actions. For example, check out the Nike Responsibility page (www.nikebiz.com/responsibility/). We'll dig deeper into marketing and social responsibility in Chapter 20.

The Political and Social Environment

Marketing decisions are strongly affected by developments in the political environment. The **political environment** consists of laws, government agencies, and pressure groups that influence or limit various organizations and individuals in a given society.

Legislation Regulating Business

Even the most liberal advocates of free-market economies agree that the system works best with at least some regulation. Well-conceived regulation can encourage competition and ensure fair markets for goods and services. Thus, governments develop *public policy* to guide commerce—sets of laws and regulations that limit business for the good of society as a whole. Almost every marketing activity is subject to a wide range of laws and regulations.

Increasing Legislation. Legislation affecting business around the world has increased steadily over the years. The United States has many laws covering issues such as competition, fair trade practices, environmental protection, product safety, truth in advertising, consumer privacy, packaging and labeling, pricing, and other important areas (see ● **Table 3.1**). The European Commission has been active in establishing a new framework of laws covering competitive behavior, product standards, product liability, and commercial transactions for the nations of the European Union.

Understanding the public policy implications of a particular marketing activity is not a simple matter. For example, in the United States, there are many laws created at the national, state, and local levels, and these regulations often overlap. Aspirins sold in Dallas are governed by both federal labeling laws and Texas state advertising laws. Moreover, regulations are constantly changing; what was allowed last year may now be prohibited, and what was prohibited may now be allowed. Marketers must work hard to keep up with changes in regulations and their interpretations.

Business legislation has been enacted for a number of reasons. The first is to *protect companies* from each other. Although business executives may praise competition, they sometimes try to neutralize it when it threatens them. So laws are passed to define and prevent unfair competition. In the United States, such laws are enforced by the FTC and the Antitrust Division of the Attorney General's office.

The second purpose of government regulation is to *protect consumers* from unfair business practices. Some firms, if left alone, would make shoddy products, invade consumer privacy, mislead consumers in their advertising, and deceive consumers through their

Political environment

Laws, government agencies, and pressure groups that influence and limit various organizations and individuals in a given society.

● TABLE | 3.1 Major U.S. Legislation Affecting Marketing

Legislation	Purpose
Sherman Antitrust Act (1890)	Prohibits monopolies and activities (price fixing, predatory pricing) that restrain trade or competition in interstate commerce.
Federal Food and Drug Act (1906)	Created the Food and Drug Administration (FDA). It forbids the manufacture or sale of adulterated or fraudulently labeled foods and drugs.
Clayton Act (1914)	Supplements the Sherman Act by prohibiting certain types of price discrimination, exclusive dealing, and tying clauses (which require a dealer to take additional products in a seller's line).
Federal Trade Commission Act (1914)	Established the Federal Trade Commission (FTC), which monitors and remedies unfair trade methods.
Robinson-Patman Act (1936)	Amends the Clayton Act to define price discrimination as unlawful. Empowers the FTC to establish limits on quantity discounts, forbid some brokerage allowances, and prohibit promotional allowances except when made available on proportionately equal terms.
Wheeler-Lea Act (1938)	Makes deceptive, misleading, and unfair practices illegal regardless of injury to competition. Places advertising of food and drugs under FTC jurisdiction.
Lanham Trademark Act (1946)	Protects and regulates distinctive brand names and trademarks.
National Traffic and Safety Act (1958)	Provides for the creation of compulsory safety standards for automobiles and tires.
Fair Packaging and Labeling Act (1966)	Provides for the regulation of packaging and the labeling of consumer goods. Requires that manufacturers state what the package contains, who made it, and how much it contains.
Child Protection Act (1966)	Bans the sale of hazardous toys and articles. Sets standards for child resistant packaging.
Federal Cigarette Labeling and Advertising Act (1967)	Requires that cigarette packages contain the following statement: "Warning: The Surgeon General Has Determined That Cigarette Smoking Is Dangerous to Your Health."
National Environmental Policy Act (1969)	Establishes a national policy on the environment. The 1970 Reorganization Plan established the Environmental Protection Agency (EPA).
Consumer Product Safety Act (1972)	Established the Consumer Product Safety Commission and authorizes it to set safety standards for consumer products as well as exact penalties for failing to uphold those standards.
Magnuson-Moss Warranty Act (1975)	Authorizes the FTC to determine rules and regulations for consumer warranties and provides consumer access to redress, such as the class action suit.
Children's Television Act (1990)	Limits the number of commercials aired during children's programs.
Nutrition Labeling and Education Act (1990)	Requires that food product labels provide detailed nutritional information.
Telephone Consumer Protection Act (1991)	Establishes procedures to avoid unwanted telephone solicitations. Limits marketers' use of automatic telephone dialing systems and artificial or prerecorded voices.
Americans with Disabilities Act (1991)	Makes discrimination against people with disabilities illegal in public accommodations, transportation, and telecommunications.
Children's Online Privacy Protection Act (2000)	Prohibits Web sites or online services operators from collecting personal information from children without obtaining consent from a parent and allowing parents to review information collected from their children.
Do-Not-Call Implementation Act (2003)	Authorizes the FTC to collect fees from sellers and telemarketers for the implementation and enforcement of a National Do-Not-Call Registry.
CAN-SPAM Act (2003)	Regulates the distribution and content of unsolicited commercial e-mail.
Financial Reform Law (2010)	Creates the Bureau of Consumer Financial Protection, which writes and enforces rules for the marketing of financial products to consumers. It is also responsible for enforcement of the Truth-in-Lending Act, the Home Mortgage Disclosure Act, and other laws designed to protect consumers.

packaging and pricing. Unfair business practices have been defined and are enforced by various agencies.

The third purpose of government regulation is to *protect the interests of society* against unrestrained business behavior. Profitable business activity does not always create a better quality of life. Regulation arises to ensure that firms take responsibility for the social costs of their production or products.

Changing Government Agency Enforcement. International marketers will encounter dozens, or even hundreds, of agencies set up to enforce trade policies and regulations. In the

United States, Congress has established federal regulatory agencies, such as the FTC, the FDA, the Federal Communications Commission, the Federal Energy Regulatory Commission, the Federal Aviation Administration, the Consumer Product Safety Commission, the Environmental Protection Agency, and hundreds of others. Because such government agencies have some discretion in enforcing the laws, they can have a major impact on a company's marketing performance.

New laws and their enforcement will continue to increase. Business executives must watch these developments when planning their products and marketing programs. Marketers need to know about the major laws protecting competition, consumers, and society. They need to understand these laws at the local, state, national, and international levels.

Increased Emphasis on Ethics and Socially Responsible Actions

Written regulations cannot possibly cover all potential marketing abuses, and existing laws are often difficult to enforce. However, beyond written laws and regulations, business is also governed by social codes and rules of professional ethics.

Socially Responsible Behavior. Enlightened companies encourage their managers to look beyond what the regulatory system allows and simply “do the right thing.” These socially responsible firms actively seek out ways to protect the long-run interests of their consumers and the environment.

The recent rash of business scandals and increased concerns about the environment have created fresh interest in the issues of ethics and social responsibility. Almost every aspect of marketing involves such issues. Unfortunately, because these issues usually involve conflicting interests, well-meaning people can honestly disagree about the right course of action in a given situation. Thus, many industrial and professional trade associations have suggested codes of ethics. And more companies are now developing policies, guidelines, and other responses to complex social responsibility issues.

The boom in Internet marketing has created a new set of social and ethical issues. Critics worry most about online privacy issues. There has been an explosion in the amount of personal digital data available. Users, themselves, supply some of it. They voluntarily place highly private information on social-networking sites, such as Facebook or LinkedIn, or on genealogy sites that are easily searched by anyone with a computer or a smartphone.

However, much of the information is systematically developed by businesses seeking to learn more about their customers, often without consumers realizing that they are under the microscope. Legitimate businesses plant cookies on consumers' PCs and collect, analyze, and share digital data from every move consumers make at their Web sites. Critics are concerned that companies may now know *too* much and might use digital data to take unfair advantage of consumers. Although most companies fully disclose their Internet privacy policies and most work to use data to benefit their customers, abuses do occur. As a result, consumer advocates and policymakers are taking action to protect consumer privacy. In Chapter 20, we discuss these and other societal marketing issues in greater depth.

Cause-Related Marketing. To exercise their social responsibility and build more positive images, many companies are now linking themselves to worthwhile causes. These days, every product seems to be tied to some cause. Buy a pink mixer from KitchenAid and support breast cancer research. Purchase a special edition bottle of Dawn dishwashing detergent, and P&G will donate a dollar to help rescue and rehabilitate wildlife affected by oil spills. Go to Staples' DoSomething101 Web site or Facebook page and fill a virtual backpack with essential school supplies needed by school children living in poverty. Pay for these purchases with the right charge card and you can support a local cultural arts group or help fight heart disease.

In fact, some companies are founded entirely on cause-related missions. Under the concept of “value-led business” or “caring capitalism,” their mission is to use business to make the world a better place. For example, TOMS Shoes was founded as a for-profit company—it wants to make money selling shoes. But the company has an equally important not-for-profit mission—putting shoes on the feet of needy children around the world. For every pair of shoes you buy from TOMS, the company will give another pair to a child in need on your behalf (see Real Marketing 3.1).

Real Marketing 3.1

TOMS Shoes: “Be the Change You Want to See in the World”

If the world were a village of 1,000 people, 140 of the 1,000 would be illiterate, 200 would be malnourished, 230 would drink polluted water, 250 would have no shelter, 330 would have no electricity, and 400 would have no shoes. In 2006, these stark facts, especially the last one, struck Blake Mycoskie up close and personally as he visited Argentina to learn how to play polo, practice his tango, and do some community service work. While there, the sight of barefooted children, too poor to have shoes, stunned him.

So in May 2006, Mycoskie launched TOMS Shoes with \$300,000 of his own money. The founding concept was this: For every pair of TOMS shoes that customers bought, the company would donate another pair of shoes to a child in need around the world. Mycoskie had previously started five successful strictly for-profit businesses. “But I was ready to do something more meaningful,” says Mycoskie. “I always knew I wanted to help others. Now, it was time to do something that wasn’t just for profit.” Mycoskie remembered Mahatma Gandhi’s saying: “Be the change you want to see in the world.”

“Doing good” is an important part of TOMS’ mission. But so is “doing well”—the company is very much a for-profit venture. However, at TOMS Shoes, the two missions go hand in hand. Beyond being socially admirable, the buy-one-give-one-away concept is also a good business proposition. In addition to scratching Mycoskie’s itch to help people, “the timing was perfect for the American consumer, too,” he says. “With the rise of social and eco-consciousness and the economy in a downturn, people were looking for innovative and affordable ways to make the world a better place.”

With all these “do good” and “do well” goals swirling in his head, Mycoskie returned home from his Argentina trip, hired an intern, and set about making 250 pairs of shoes in the loft of his Santa Monica, California, home. Stuffing the shoes into three duffel bags, he made the fledgling company’s first “Shoe Drop” tour, returning to the Argentine village

and giving one pair of shoes to each child. Mycoskie arrived back home to find an article about his project on the front page of the *Los Angeles Times* Calendar section. TOMS had been in business for only two weeks, but by that very afternoon, he had orders for 2,200 pairs of shoes on his Web site.

By October 2006, TOMS had sold 10,000 pairs of shoes. True to the company’s one-for-one promise, Mycoskie undertook a second TOMS Shoe Drop tour. Consistent with his new title, “Chief Shoe Giver of TOMS Shoes,” he led 15 employees and volunteers back to Argentina, where they went from school to school, village to village and gave away another 10,000 pairs of shoes.

“We don’t just drop the shoes off, as the name might imply,” says Mycoskie. “We place the shoes on each child’s feet so that we can establish a connection, which is such an important part of our brand. We want to give the children the feeling of love, and warmth, and experience. But we also get those feelings as we give the shoes.”

The one-for-one idea caught fire. As word spread about TOMS, a not-for-profit organization called “Friends of TOMS” formed to “create avenues for individuals to volunteer and experience [the TOMS] mission,” participate in Shoe Drops, and “perform good works in their own communities and their own lives.” *Vogue* magazine and other major publications ran stories on the company’s philosophy and good works. In November 2007, 40 TOMS employees and volunteers embarked on the third Shoe Drop, travelling to South Africa to place shoes on the feet of 50,000 more children.

Next, TOMS Shoes turned its attention to Ethiopia, where 11 million people are at risk

for podoconiosis, a disease often caused by silica in volcanic soils. Children’s bare feet absorb the silica, which can cause elephantitis, severe swelling of the legs and feet. The disease progresses until surgery is required. The simple preventive cure? Shoes. As part of the Christmas season in 2008, TOMS offered gift card packages, which included a certificate for a pair of shoes and a DVD telling the TOMS story. The goal was to give 30,000 pairs of shoes to Ethiopian children in 30 days.

TOMS has also focused on needy children in the United States, stepping in to help children whose families were still recovering from natural disasters, such as Hurricane Katrina in Louisiana. Also in the United States, TOMS started a grassroots marketing movement called “TOMS Vagabonds.” These traveling groups of TOMS disciples hit the road in vans full of TOMS shoes and help to organize events on college and school campuses and in communities all around the country. The Vagabonds’ goal is to raise awareness about TOMS, sell shoes, and inspire more people to get involved with the company’s movement. The Vagabonds chronicle their travels on TOMS’ Facebook page (www.facebook.com/TOMSVagabonds), blog (www.tomsshoesblog.com), and Twitter site (<http://twitter.com/tomsshoes>).

By mid-2010, TOMS had provided more than 600,000 pairs of shoes to children in need around the world, selling their counterparts at roughly \$55 each. That rings up to \$33



Cause-related marketing: TOMS pledges: “No complicated formulas, it’s simple . . . you buy a pair of TOMS and we give a pair to a child on your behalf.” Here, TOMS founder and CEO Blake Mycoskie gives out shoes in Argentina.”

million worth of shoes. Retailers such as Nordstroms, Urban Outfitters, and even Whole Foods Market are now offering TOMS in more than 400 U.S. outlets. In fact, Whole Foods Market is the company's biggest customer.

TOMS' rapid growth is the result of purchases by caring customers who then tell the TOMS story to their friends. Whereas the typical shoe company spends about 20 percent of sales on traditional advertising and promotion, TOMS hasn't spent a single dollar on it. It hasn't had to. "Ultimately, it is our customers who drive our success," says Mycoskie. "Giving not only makes you feel good, but it actually is a very good business strategy, especially in this day and age. Your customers become your marketers."

Moreover, as TOMS' success shows, consumers like to feel good. A recent global study

found that 71 percent of consumers said that despite the recession they had given just as much time and money to causes they deemed worthy. Fifty-five percent of respondents also indicated they would pay more for a brand if it supported a good cause.

TOMS Shoes is a great example of cause-related marketing—of "doing well by doing good." Mycoskie hopes that his com-

pany will inspire people to think differently about business. "My thinking was that TOMS would show that entrepreneurs no longer had to choose between earning money or making a difference in the world," he says. "Business and charity or public service don't have to be mutually exclusive. In fact, when they come together, they can be very powerful."

Sources: Quotes and other information from Tamara Schweitzer, "The Way I Work," *Inc.*, June 2010, pp. 112–116; Stacy Perman, "Making a Do-Gooder's Business Model Work," *BusinessWeek*, January 26, 2009, accessed at www.businessweek.com/smallbiz/content/jan2009/sb20090123_264702.htm; Blake Mycoskie, "Shoes for a Better Tomorrow," presentation made March 13, 2009, accessed at www.clintonschoolspeakers.com/lecture/view/toms-shoes-better-tomorrow; Michael Bush, "Consumers Continue to Stand by Their Causes During Downturn," *Advertising Age*, November 17, 2008, p. 4; Jessica Sambora, "How TOMS Shoes Founder Blake Mycoskie Got Started," *Fortune*, March 16, 2010, accessed at http://money.cnn.com/2010/03/16/smallbusiness/toms_shoes_blake_mycoskie.fortune/index.htm; Christina Binkley, "Style—On Style: Charity Gives Shoe Brand Extra Shine," *Wall Street Journal*, April 1, 2010, p. D7; and information found at www.toms.com and <http://friendsoftoms.org>, accessed November 2010.

● **Cause-related marketing:** The Pepsi Refresh Project is awarding \$20 million in grants to fund hundreds of worthwhile ideas by individuals and communities that will "refresh the world."

Cause-related marketing has become a primary form of corporate giving. It lets companies "do well by doing good" by linking purchases of the company's products or services with fund-raising for worthwhile causes or charitable organizations. Companies now sponsor dozens of cause-related marketing campaigns each year. Many are backed by large budgets and a full complement of marketing activities. ● For example, PepsiCo's year-long Pepsi Refresh Project is awarding \$20 million in grants to fund hundreds of worthwhile ideas by individuals and communities that will "refresh the world." "What do you care about?" asks one Pepsi Refresh ad. "Maybe it's green spaces. Or educational comics. Maybe it's teaching kids to rock out." PepsiCo is spending millions of dollars on a full-blown multimedia campaign promoting the cause-related marketing program.⁴⁵

Cause-related marketing has stirred some controversy. Critics worry that cause-related marketing is more a strategy for selling than a strategy for giving—that "cause-related" marketing is really "cause-exploitative" marketing. Thus, companies using cause-related marketing might find themselves walking a fine line between increased sales and an improved image and facing charges of exploitation.

However, if handled well, cause-related marketing can greatly benefit both the company and the cause. The company gains an effective marketing tool while building a more positive public image. The charitable organization or cause gains greater visibility and important new sources of funding and support. Spending on cause-related marketing in the United States skyrocketed from only \$120 million in 1990 to more than \$1.6 billion in 2010.⁴⁶

Author Comment | Cultural factors strongly affect how people think and how they consume. So marketers are keenly interested in the cultural environment.

The Cultural Environment

The **cultural environment** consists of institutions and other forces that affect a society's basic values, perceptions, preferences, and behaviors. People grow up in a particular society that shapes their basic beliefs and values. They absorb a worldview that defines their relationships with others. The following cultural characteristics can affect marketing decision making.

Cultural environment

Institutions and other forces that affect society's basic values, perceptions, preferences, and behaviors.

The Persistence of Cultural Values

People in a given society hold many beliefs and values. Their core beliefs and values have a high degree of persistence. For example, most Americans believe in individual freedom, hard work, getting married, and achievement and success. These beliefs shape more specific attitudes and behaviors found in everyday life. *Core* beliefs and values are passed on from parents to children and are reinforced by schools, churches, business, and government.

Secondary beliefs and values are more open to change. Believing in marriage is a core belief; believing that people should get married early in life is a secondary belief. Marketers have some chance of changing secondary values but little chance of changing core values. For example, family-planning marketers could argue more effectively that people should get married later than not getting married at all.

Shifts in Secondary Cultural Values

Although core values are fairly persistent, cultural swings do take place. Consider the impact of popular music groups, movie personalities, and other celebrities on young people's hair-styling and clothing norms. Marketers want to predict cultural shifts to spot new opportunities or threats. Several firms offer "futures" forecasts in this connection. For example, the Yankelovich Monitor has tracked consumer value trends for years. Its annual State of the Consumer report analyzes and interprets the forces that shape consumers' lifestyles and their marketplace interactions. The major cultural values of a society are expressed in people's views of themselves and others, as well as in their views of organizations, society, nature, and the universe.

People's Views of Themselves. People vary in their emphasis on serving themselves versus serving others. Some people seek personal pleasure, wanting fun, change, and escape. Others seek self-realization through religion, recreation, or the avid pursuit of careers or other life goals. Some people see themselves as sharers and joiners; others see themselves as individualists. People use products, brands, and services as a means of self-expression, and they buy products and services that match their views of themselves.

Marketers can target their products and services based on such self-views. For example, TOMS Shoes appeals to people who see themselves as part of the broader world community. In contrast, Kenneth Cole shoes appeal to fashion individualists. ● In its ads, the company declares, "We all walk in different shoes," asserting that Kenneth Cole represents "25 years of nonuniform thinking."

People's Views of Others. In past decades, observers have noted several shifts in people's attitudes toward others. Recently, for example, many trend trackers have seen a new wave of "cocooning" or "nesting." Due in part to the uncertain economy, people are going out less with others and are staying home more. One observer calls it "Cocooning 2.0," in which people are "newly intent on the



● **People's self-views:** In its ads, Kenneth Cole targets fashion individualists. "25 years of nonuniform thinking."

simple pleasures of hearth and home.” Says another, “The instability of the economy . . . creates uncertainty for consumers, and this uncertainty tends to make them focus more on being home and finding ways to save money. It’s a return to more traditional values, like home-cooked meals.”⁴⁷

For example, the weaker economy of the past few years and increased nesting have given a boost to home appliances, such as high-end coffee makers and big-screen TVs. Consumer electronics chain Best Buy even ran an ad that cast the purchase of a 60-inch flat-screen HDTV not as self-indulgence but as an act of loving sacrifice and a practical alternative to other forms of entertainment.⁴⁸

In the ad, after a man sells his football season tickets to pay for the wedding, his grateful bride surprises him with a huge set so he can still watch the big game. A kindly salesman sums it up this way: “Another love story at Best Buy with a 60-inch TV in the middle.” Says a Samsung marketer, “People still have to live their lives. [They] may not spring for that 61-inch [TV], but they may get a 42-inch HDTV because they’re home and they’re with their families and they’ll spend \$5 on a movie rental, versus \$40 for the theater and \$80 for dinner.”

People’s Views of Organizations. People vary in their attitudes toward corporations, government agencies, trade unions, universities, and other organizations. By and large, people are willing to work for major organizations and expect them, in turn, to carry out society’s work.

The past two decades have seen a sharp decrease in confidence in and loyalty toward America’s business and political organizations and institutions. In the workplace, there has been an overall decline in organizational loyalty. Waves of company downsizings bred cynicism and distrust. In just the last decade, rounds of layoffs resulting from the recent recession, major corporate scandals, the financial meltdown triggered by Wall Street bankers’ greed and incompetence, and other unsettling activities have resulted in a further loss of confidence in big business. Many people today see work not as a source of satisfaction but as a required chore to earn money to enjoy their nonwork hours. This trend suggests that organizations need to find new ways to win consumer and employee confidence.

People’s Views of Society. People vary in their attitudes toward their society—patriots defend it, reformers want to change it, and malcontents want to leave it. People’s orientation to their society influences their consumption patterns and attitudes toward the marketplace. American patriotism has been increasing gradually for the past two decades. It surged, however, following the September 11, 2001, terrorist attacks and the Iraq war. For example, the summer following the start of the Iraq war saw a surge of pumped-up Americans visiting U.S. historic sites, ranging from the Washington D.C. monuments, Mount Rushmore, the Gettysburg battlefield, and the *USS Constitution* (“Old Ironsides”) to Pearl Harbor and the Alamo. Following these peak periods, patriotism in the United States still remains high. A recent global survey on “national pride” found Americans tied for number one among the 17 democracies polled.⁴⁹

Marketers respond with patriotic products and promotions, offering everything from floral bouquets to clothing with patriotic themes. Although most of these marketing efforts are tasteful and well received, waving the red, white, and blue can prove tricky. Except in cases where companies tie product sales to charitable contributions, such flag-waving promotions can be viewed as attempts to cash in on triumph or tragedy. Marketers must take care when responding to such strong national emotions.

People’s Views of Nature. People vary in their attitudes toward the natural world—some feel ruled by it, others feel in harmony with it, and still others seek to master it. A long-term

trend has been people's growing mastery over nature through technology and the belief that nature is bountiful. More recently, however, people have recognized that nature is finite and fragile; it can be destroyed or spoiled by human activities.

This renewed love of things natural has created a 63-million-person "lifestyles of health and sustainability" (LOHAS) market, consumers who seek out everything from natural, organic, and nutritional products to fuel-efficient cars and alternative medicine. This segment spends nearly \$300 billion annually on such products. In the green building market alone, consumers spent \$100 billion in 2008 on items such as certified homes, solar systems, and Energy Star appliances.⁵⁰

Food producers have also found fast-growing markets for natural and organic products. Consider Earthbound Farm, a company that grows and sells organic produce. It started in 1984 as a 2.5-acre raspberry farm in California's Carmel Valley. Founders Drew and Myra Goodman wanted to do the right thing by farming the land organically and producing food they would feel good about serving to their family, friends, and neighbors. Today, Earthbound Farm has grown to become the world's largest producer of organic vegetables, with 35,000 crop acres, annual sales of \$450 million, and products available in 75 percent of America's supermarkets.⁵¹

In total, the U.S. organic food market generated nearly \$27 billion in sales last year, more than doubling over the past five years. Niche marketers, such as Whole Foods Market, have sprung up to serve this market, and traditional food chains, such as Kroger and Safeway, have added separate natural and organic food sections. Even pet owners are joining the movement as they become more aware of what goes into Fido's food. Almost every major pet food brand now offers several types of natural foods.⁵²

People's Views of the Universe. Finally, people vary in their beliefs about the origin of the universe and their place in it. Although most Americans practice religion, religious conviction and practice have been dropping off gradually through the years. According to a recent poll, 16 percent of Americans now say they are not affiliated with any particular faith, almost double the percentage of 18 years earlier. Among Americans ages 18-29, 25 percent say they are not currently affiliated with any particular religion.⁵³

However, the fact that people are dropping out of organized religion doesn't mean that they are abandoning their faith. Some futurists have noted a renewed interest in spirituality, perhaps as a part of a broader search for a new inner purpose. People have been moving away from materialism and dog-eat-dog ambition to seek more permanent values—family, community, earth, faith—and a more certain grasp of right and wrong. "We are becoming a nation of spiritually anchored people who are not traditionally religious," says one expert.⁵⁴ This changing spiritualism affects consumers in everything from the television shows they watch and the books they read to the products and services they buy.

Our organic greens show their true colors long before they begin to peek through the soil. We raise our crops without harmful chemicals, in healthy soil that supports strong, nutrient-rich plants. Sure, organic farming can be more challenging in the short term, but the reward is delicious organic produce and a healthy planet. That's something we can all feel good about.

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ORGANIC
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● Riding the trend towards all things natural, Earthbound Farm has grown to become the world's largest producer of organic salads, fruits, and vegetables, with products in 75 percent of America's supermarkets.

Author Comment | Rather than simply watching and reacting, companies should take proactive steps with respect to the marketing environment.

Responding to the Marketing Environment (pp 89–91)

Someone once observed, “There are three kinds of companies: those who make things happen, those who watch things happen, and those who wonder what’s happened.” Many companies view the marketing environment as an uncontrollable element to which they must react and adapt. They passively accept the marketing environment and do not try to change it. They analyze environmental forces and design strategies that will help the company avoid the threats and take advantage of the opportunities the environment provides.

Other companies take a *proactive* stance toward the marketing environment. “Instead of letting the environment define their strategy,” advises one marketing expert, “craft a strategy that defines your environment.”⁵⁵ Rather than assuming that strategic options are bounded by the current environment, these firms develop strategies to change the environment. “Business history . . . reveals plenty of cases in which firms’ strategies shape industry structure,” says the expert, “from Ford’s Model T to Nintendo’s Wii.”

Even more, rather than simply watching and reacting to environmental events, these firms take aggressive actions to affect the publics and forces in their marketing environment. Such companies hire lobbyists to influence legislation affecting their industries and stage media events to gain favorable press coverage. They run “advertorials” (ads expressing editorial points of view) to shape public opinion. They press lawsuits and file complaints with regulators to keep competitors in line, and they form contractual agreements to better control their distribution channels.

By taking action, companies can often overcome seemingly uncontrollable environmental events. For example, whereas some companies view the seemingly ceaseless online rumor mill as something over which they have no control, others work proactively to prevent or counter negative word of mouth. Kraft foods did this when its Oscar Mayer brand fell victim to a potentially damaging e-mail hoax:⁵⁶

The bogus e-mail, allegedly penned by a Sgt. Howard C. Wright, claimed that Marines in Iraq had written Oscar Mayer saying how much they liked its hot dogs and requested that the company send some to the troops there. According to the e-mail, Oscar Mayer refused, saying that it supported neither the war nor anyone in it. The soldier called on all patriotic Americans to forward the e-mail to friends and boycott Oscar Mayer and its products.

As the e-mail circulated widely, rather than waiting and hoping that consumers would see through the hoax, Kraft responded vigorously with its own e-mails, blog entries, and a “Rumor and Hoaxes” Web page. It explained that Kraft and Oscar Mayer do, in fact, strongly support American troops, both in Iraq and at home. It works with the military to ensure that Kraft products are available wherever in the world troops are stationed. On the home front, Kraft explained, Oscar Mayer Weinermobiles visit about half of all major U.S. military bases each year, about 70 total. The offending e-mail turned out to be a nearly verbatim copy of a 2004 chain e-mail circulated against Starbucks, signed by the same fictitious soldier but with “Oscar Mayer” and “hot dog” substituted for “Starbucks” and “coffee.” Kraft’s proactive counter campaign quickly squelched the rumor, and Oscar Mayer remains America’s favorite hot dog.

Marketing management cannot always control environmental forces. In many cases, it must settle for simply watching and reacting to the environment. For example, a company would have little success trying to influence geographic population shifts, the economic environment, or major cultural values. But whenever possible, smart marketing managers will take a *proactive* rather than *reactive* approach to the marketing environment (see Real Marketing 3.2).

Real Marketing 3.2

YourCompanySucks.com

Marketers have hailed the Internet as the great new relational medium. Companies use the Web to engage customers, gain insights into their needs, and create customer community. In turn, Web-empowered consumers share their brand experiences with companies and with each other. All of this back-and-forth helps both the company and its customers. But sometimes, the dialog can get nasty. Consider the following examples:

MSN Money columnist Scott Burns accuses Home Depot of being a “consistent abuser” of customers’ time. Within hours, MSN’s servers are caving under the weight of 14,000 blistering e-mails and posts from angry Home Depot customers who storm the MSN comment room, taking the company to task for pretty much everything. It is the biggest response in MSN Money’s history.

Blogger Jeff Jarvis posts a series of irate messages to his BuzzMachine blog about the many failings of his Dell computer and his struggles with Dell’s customer support. The post quickly draws national attention, and an open letter posted by Jarvis to Dell founder Michael Dell becomes the third most linked-to post on the blogosphere the day after it appears. Jarvis’s headline—Dell Hell—becomes shorthand for the ability of a lone blogger to deliver a body blow to an unsuspecting business.

Systems engineer Michael Whitford wakes up one morning to find that his favorite-ever laptop, an Apple MacBook, still under warranty, has “decided not to work.” Whitford takes the machine to his local Apple store, where the counter

person obligingly sends it off for repairs. However, Whitford later gets a call from an Apple Care representative, who claims that the laptop has “spill damage” not covered by the warranty and says that repairs will cost him \$774. “I did not spill anything on my laptop,” declares Whitford. “Too bad,” says the Apple rep, and the MacBook is returned unrepaired. But that’s not the end of the story—far from it. A short time later, Whitford posts a video on YouTube (www.youtube.com/watch?v=hHbrQqrgVgg). In the video, a seemingly rational Whitford calmly selects among a golf club, an ax, and a sword before finally deciding on a sledgehammer as his weapon of choice for bashing his non-functioning MacBook to smithereens. More than 520,000 people have viewed the smashup on YouTube, and the video has been passed along on countless blogs and other Web sites.

Extreme events? Not anymore. The Internet has turned the traditional power relationship between businesses and consumers upside-down. In the good old days, disgruntled consumers could do little more than belittle a company service rep or shout out their complaints from a street corner. Now, armed with only a PC or a smartphone and a broadband connection, they can take it public, airing their gripes to millions on blogs, chats, online social networks, or even hate sites devoted exclusively to their least favorite corporations.

“I hate” and “sucks” sites are becoming almost commonplace. These sites target some highly respected companies with some highly *disrespectful* labels: PayPalSucks.com (aka No-PayPal); WalMart-blows.com; Mac-Sucks.com,

Microsucks.com; AmexSux.com (American Express); IHateStarbucks.com; DeltaREALLYsucks.com; and UnitedPackageSmashers.com (UPS), to name only a few. “Sucks” videos on YouTube and other video sites also abound. For example, a search of “Apple sucks” on YouTube turns up 4,660 videos; a similar search for Microsoft finds 4,820 videos. An “Apple sucks” search on Facebook links to 540 groups.

Some of these sites, videos, and other Web attacks air legitimate complaints that should be addressed. Others, however, are little more than anonymous, vindictive slurs that unfairly ransack brands and corporate reputations. Some of the attacks are only a passing nuisance; others can draw serious attention and create real headaches.

How should companies react to online attacks? The real quandary for targeted companies is figuring out how far they can go to protect their images without fueling the already raging fire. One point on which all experts seem to agree: Don’t try to retaliate in kind. “It’s rarely a good idea to lob bombs at the fire starters,” says one analyst. “Preemption, engagement, and diplomacy are saner tools.”

Some companies have tried to silence the critics through lawsuits, but few have succeeded. The courts have tended to regard such criticism as opinion and, therefore, protected speech. Given the difficulties of trying to sue consumer online criticisms out of existence, some companies have tried other strategies. For example, most big companies now routinely buy up Web addresses for their firm names preceded by the words “I hate” or followed by “sucks.com.” But this approach is easily thwarted, as Walmart learned when it registered ihatewalmart.com, only to find that someone else then registered ireallyhatewalmart.com.

In general, attempts to block, counterattack, or shut down consumer attacks may be shortsighted. Such criticisms are often based



Today, armed only with a PC and a broadband connection, the little guy can take it public against corporate America. By listening and proactively responding to such seemingly uncontrollable environmental events, companies can prevent the negatives from spiraling out of control or even turn them into positives.

on real consumer concerns and unresolved anger. Hence, the best strategy might be to proactively monitor these sites and respond to the concerns they express. “The most obvious thing to do is talk to the customer and try to deal with the problem, instead of putting your fingers in your ears,” advises one consultant.

For example, Home Depot CEO Francis Blake drew praise when he heeded the criticisms expressed in the MSN Money onslaught and responded positively. Blake posted a heartfelt letter in which he thanked critic Scott Burns, apologized to angry customers, and promised to make things better. And within a month of the YouTube video, Apple fessed up to its misdeeds and replaced Michael Whitford’s laptop. “I’m very happy now,” says Whitford. “Apple has regained my loyalty. I guess I finally got their attention.”

Many companies have now created teams of specialists that monitor Web conversations and engage disgruntled consumers. In the years since the Dell Hell incident, Dell has set up a 40-member “communities and conversation team,” which does outreach on Twitter and communicates with bloggers. The social media team at Southwest Airlines “includes a chief Twitter officer who tracks Twitter comments and monitors Facebook groups, an online representative who checks facts and interacts with bloggers, and another person

who takes charge of the company’s presence on sites such as YouTube, Flickr, and LinkedIn. So if someone posts a complaint in cyberspace, the company can respond in a personal way.”

Thus, by listening and proactively responding to seemingly uncontrollable events in the environment, companies can prevent the negatives from spiraling out of control or even turn them into positives. Who knows? With the right responses, Walmart-blows.com might even become Walmart-rules.com. Then again, probably not.

Sources: Quotes, excerpts, and other information from Todd Wasserman, “Tell Your Customers to Crowdfund This,” *Brandweek*, October 19, 2009, p. 26; Michelle Conlin, “Web Attack,” *BusinessWeek*, April 16, 2007, pp. 54–56; Jena McGregor, “Consumer Vigilantes,” *BusinessWeek*, March 3, 2008, p. 38; Christopher L. Marting and Nathan Bennett, “Corporate Reputation; What to Do About Online Attacks,” *Wall Street Journal*, March 10, 2008, p. R6; Carolyn Y. Johnson, *Boston Globe*, July 7, 2008, p. B6; and “Corporate Hate Sites,” New Media Institute, www.newmedia.org/articles/corporate-hate-sites—nmi-white-paper.html, accessed August 2010.

REVIEWING Objectives AND KEY Terms

In this chapter and the next three chapters, you’ll examine the environments of marketing and how companies analyze these environments to better understand the marketplace and consumers. Companies must constantly watch and manage the *marketing environment* to seek opportunities and ward off threats. The marketing environment consists of all the actors and forces influencing the company’s ability to transact business effectively with its target market.

Objective 1 Describe the environmental forces that affect the company’s ability to serve its customers. (pp 66–70)

The company’s *microenvironment* consists of actors close to the company that combine to form its value delivery network or that affect its ability to serve its customers. It includes the company’s *internal environment*—its several departments and management levels—as it influences marketing decision making. *Marketing channel firms*—suppliers and marketing intermediaries, including resellers, physical distribution firms, marketing services agencies, and financial intermediaries—cooperate to create customer value. *Competitors* vie with the company in an effort to serve customers better. Various *publics* have an actual or potential interest in or impact on the company’s ability to meet its objectives. Finally, five types of customer *markets* include consumer, business, reseller, government, and international markets.

The *macroenvironment* consists of larger societal forces that affect the entire microenvironment. The six forces making up the company’s macroenvironment include demographic, economic,

natural, technological, political/social, and cultural forces. These forces shape opportunities and pose threats to the company.

Objective 2 Explain how changes in the demographic and economic environments affect marketing decisions. (pp 70–78)

Demography is the study of the characteristics of human populations. Today’s *demographic environment* shows a changing age structure, shifting family profiles, geographic population shifts, a better-educated and more white-collar population, and increasing diversity. The *economic environment* consists of factors that affect buying power and patterns. The economic environment is characterized by more frugal consumers who are seeking greater value—the right combination of good quality and service at a fair price. The distribution of income also is shifting. The rich have grown richer, the middle class has shrunk, and the poor have remained poor, leading to a two-tiered market.

Objective 3 Identify the major trends in the firm’s natural and technological environments. (pp 78–81)

The *natural environment* shows three major trends: shortages of certain raw materials, higher pollution levels, and more government intervention in natural resource management. Environmental concerns create marketing opportunities for alert companies. The *technological environment* creates both opportunities and challenges. Companies that fail to keep up with technological change will miss out on new product and marketing opportunities.

Objective 4 Explain the key changes in the political and cultural environments. (pp 81–88)

The *political environment* consists of laws, agencies, and groups that influence or limit marketing actions. The political environment has undergone three changes that affect marketing worldwide: increasing legislation regulating business, strong government agency enforcement, and greater emphasis on ethics and socially responsible actions. The *cultural environment* consists of institutions and forces that affect a society's values, perceptions, preferences, and behaviors. The environment shows trends toward "cocooning," a lessening trust of institutions, increasing patriotism, greater appreciation

for nature, a changing spiritualism, and the search for more meaningful and enduring values.

Objective 5 Discuss how companies can react to the marketing environment. (pp 89–91)

Companies can passively accept the marketing environment as an uncontrollable element to which they must adapt, avoiding threats and taking advantage of opportunities as they arise. Or they can take a *proactive* stance, working to change the environment rather than simply reacting to it. Whenever possible, companies should try to be proactive rather than reactive.

KEY Terms

OBJECTIVE 1

Marketing environment (p 66)
Microenvironment (p 66)
Macroenvironment (p 66)
Marketing intermediaries (p 68)
Public (p 69)

OBJECTIVE 2

Demography (p 70)
Baby boomers (p 70)
Generation X (p 72)
Millennials (Generation Y) (p 73)
Economic environment (p 77)

OBJECTIVE 3

Natural environment (p 78)
Environmental sustainability (p 79)
Technological environment (p 80)

OBJECTIVE 4

Political environment (p 81)
Cultural environment (p 86)



- Check your understanding of the concepts and key terms using the mypearsonmarketinglab study plan for this chapter.
- Apply the concepts in a business context using the simulation entitled **The Marketing Environment**.

DISCUSSING & APPLYING THE Concepts

Discussing the Concepts

1. Describe the elements of a company's marketing environment and why marketers play a critical role in tracking environmental trends and spotting opportunities. (AACSB: Communication; Reflective Thinking)
2. List some of the demographic trends of interest to marketers in the United States and discuss whether these trends pose opportunities or threats for marketers. (AACSB: Communication; Reflective Thinking)
3. Discuss current trends in the economic environment that marketers must be aware of and provide examples of company responses to each trend. (AACSB: Communication; Reflective Thinking)
4. Discuss trends in the natural environment that marketers must be aware of and provide examples of company responses to them. (AACSB: Communication)
5. Compare and contrast core beliefs/values and secondary beliefs/values. Provide an example of each and discuss the potential impact marketers have on each. (AACSB: Communication; Reflective Thinking)
6. Explain how companies can take a proactive stance toward the marketing environment. (AACSB: Communication)

Applying the Concepts

1. China and India are emerging markets that will have a significant impact on the world in coming years. The term *Chindia* is used to describe the growing power of these two countries. In a small group, research demographic and economic trends related to Chindia's power and its impact on marketers in the United States. Write a brief report, supporting your discussion of these trends with statistics. (AACSB: Communication; Reflective Thinking)
2. In a small group, search the Internet for U.S. population distribution maps and create a PowerPoint presentation illustrating factors such as geographical population shifts, languages spoken, age distributions, and ancestry. Discuss the demographic implications for marketers. (AACSB: Communication; Use of IT; Diversity)
3. Various federal agencies impact marketing activities. Research each agency listed below, discuss the elements of marketing that are impacted by that agency, and present a recent marketing case or issue on which each agency has focused. (AACSB: Communication; Reflective Thinking)
 - a. Federal Trade Commission (www.ftc.gov)
 - b. Food and Drug Administration (www.fda.gov)
 - c. Consumer Product Safety Commission (www.cpsc.gov)

FOCUS ON Technology

If you really want to identify the zeitgeist, or “spirit of the times,” look at the top Web sites visited, the top videos watched on YouTube, the top songs downloaded, or the top Twitter feeds. Trend spotters such as Faith Popcorn and Tom Peters have been mainstays for marketers trying to understand cultural trends, but the Internet is now the new crystal ball for anyone wanting to predict where society is going in real time. The World Mind Network provides a clearinghouse of links to “top” lists at www.thetopeverything.net. In just a few minutes a day, you, too, can be up on what’s hot in today’s culture.

1. Visit www.thetopeverything.net and review the Web sites identified. What can you learn about culture and cultural trends from these sources? Write a brief report on your conclusions. (AACSB: Communication; Use of IT; Reflective Thinking)
2. Do you think these sources accurately reflect cultural trends? Identify other Web sites that might be useful in learning about cultural trends. (AACSB: Communication; Use of IT; Reflective Thinking)

FOCUS ON Ethics

You’ve probably heard of some specific heart procedures, such as angioplasty and stents, that are routinely performed on adults. But such heart procedures, devices, and related medications are not available for infants and children, despite the fact that almost 40,000 children are born in the United States each year with heart defects that often require repair. This is a life or death situation for many young patients, yet doctors must improvise by using devices designed and tested on adults. For instance, doctors use an adult kidney balloon in an infant’s heart because it is the appropriate size for a newborn’s aortic valve. However, this device is not approved for the procedure. Why are specific devices and medicines developed for the multibillion-dollar cardiovascular market not also designed for children’s health care? It’s a matter of economics; this segment of young consumers is just too small. One lead-

ing cardiologist attributed the discrepancy to a “profitability gap” between the children’s market and the much more profitable adult market for treating heart disease. Although this might make good economic sense for companies, it is little comfort to the parents of these small patients.

1. Discuss the environmental forces acting on medical device and pharmaceutical companies that are preventing them from meeting the needs of the infant and child market segment. Is it wrong for these companies to not address the needs of this segment? (AACSB: Communication; Reflective Thinking; Ethical Reasoning)
2. Suggest some solutions to this problem. (AACSB: Communication; Reflective Thinking)

MARKETING & THE Economy

Netflix

Although the recent down economy has taken its toll on the retail industry as a whole, the stars are still shining on Netflix. Business has been so good that Netflix met its most recent new subscriber goal weeks before the deadline. In early 2009, Netflix surpassed 10 million subscribers—a remarkable feat. Eighteen months later, that number had grown by 50 percent to 15 million subscribers. Clearly, all these new customers are good for the company’s financials. Customers are signing up for the same reasons they always have—the convenience of renting movies without leaving home, a selection of more than 100,000 DVD titles, and low monthly fees. But

the company’s current good fortunes may also be the result of consumers looking for less expensive means of entertainment. They may even be the result of consumers escaping the gloom of financial losses and economic bad news. Whatever the case, Netflix appears to have a product that thrives in bad times as well as in good.

1. Visit www.netflix.com. After browsing the Web site and becoming more familiar with the company’s offerings, assess the macroenvironmental trends that have led to Netflix’s success in recent years.
2. Which trends do you think have contributed most to Netflix’s current growth following recent economic woes?

MARKETING BY THE Numbers

Many marketing decisions boil down to numbers. An important question is this: What is the market sales potential in a given segment? If the sales potential in a market is not large enough to warrant pursuing that market, then companies will not offer products and services to that market, even though a need may exist. Consider the market segment of infants and children discussed above in Focus on Ethics. Certainly there is a need for medical products to save children’s lives. Still, companies are not pursuing this market.

1. Using the chain ratio method described in Appendix 2, estimate the market sales potential for heart catheterization

products to meet the needs of the infant and child segment. Assume that of the 40,000 children with heart defects each year, 60 percent will benefit from these types of products and only 50 percent of their families have the financial resources to obtain such treatment. Also assume the average price for a device is \$1,000. (AACSB: Communication; Analytical Reasoning)

2. Research the medical devices market and compare the market potential you estimated to the sales of various devices. Are companies justified in not pursuing the infant and child segment? (AACSB: Communication; Reflective Thinking)

VIDEO Case

TOMS Shoes

“Get involved: Changing a life begins with a single step.” This sounds like a mandate from a nonprofit volunteer organization. But in fact, this is the motto of a for-profit shoe company located in Santa Monica, California. In 2006, Tom Mycoskie founded TOMS Shoes because he wanted to do something different. He wanted to run a company that would make a profit while at the same time helping the needy of the world.

Specifically, for every pair of shoes that TOMS sells, it gives a pair of shoes to a needy child somewhere in the world. So far, the company has given away tens of thousands of pairs of shoes and is on track to give away hundreds of thousands. Can TOMS succeed and thrive based on this idealistic concept? That all depends

on how TOMS executes its strategy within the constantly changing marketing environment.

After viewing the video featuring TOMS Shoes, answer the following questions about the marketing environment:

1. What trends in the marketing environment have contributed to the success of TOMS Shoes?
2. Did TOMS Shoes first scan the marketing environment in creating its strategy, or did it create its strategy and fit the strategy to the environment? Does this matter?
3. Is TOMS’ strategy more about serving needy children or about creating value for customers? Explain.

COMPANY Case

Target: From “Expect More” to “Pay Less”

When you hear the term *discount retail*, two names that usually come to mind: Walmart and Target. The two have been compared so much that the press rarely covers one without at least mentioning the other. The reasons for the comparison are fairly obvious. These corporations are two of the largest discount retailers in the United States. Category for category, they offer very similar merchandise. They tend to build their stores in close proximity to one another, even facing each other across major boulevards.

But even with such strong similarities, ask consumers if there’s a difference between the two, and they won’t even hesitate. Walmart is all about low prices; Target is about style and fashion. The “cheap chic” label applied by consumers and the media over the years perfectly captures the long-standing company positioning: “Expect More. Pay Less.” With its numerous designer product lines, Target has been so successful with its brand positioning that for a number of years it has slowly chipped away at Walmart’s massive market share. Granted, the difference in the scale for the two companies has always been huge. Walmart’s most recent annual revenues of \$408 billion are more than six times those of Target. But for many years, Target’s business grew at a much faster pace than Walmart’s.

In fact, as Walmart’s same-store sales began to lag in the mid-2000s, the world’s largest retailer unabashedly attempted to become more like Target. It spruced up its store environment, added more fashionable clothing and housewares, and stocked organic and gourmet products in its grocery aisles. Walmart even experimented with luxury brands. After 19 years of promoting the slogan, “Always Low Prices. Always.” Walmart replaced it with the very Target-esque tagline, “Save Money. Live Better.” None of those efforts seemed to speed up Walmart’s revenue growth or slow down Target’s.

But oh what a difference a year or two can make. As the global recession began to tighten its grip on the world’s retailers in 2008, the dynamics between the two retail giants reversed almost overnight. As unemployment rose and consumers began pinching their pennies, Walmart’s familiar price “rollbacks” resonated with consumers, while Target’s image of slightly better stuff for slightly higher prices did not. Target’s well-cultivated “upscale discount” image was turning away customers who believed that its fashionable products and trendy advertising meant steeper prices. By mid-2008, Target had experienced three straight quarters of flat same-store sales growth and a slight dip in store traffic. At the same time, Walmart was defying the economic

slowdown, posting quarterly increases in same-store sales of close to 5 percent along with substantial jumps in profits.

SAME SLOGAN, DIFFERENT EMPHASIS

In fall 2008, Target acknowledged the slide and announced its intentions to do something about it. Target CEO Gregg Steinhafel succinctly summarized the company’s new strategy: “The customer is very cash strapped right now. And in some ways, our greatest strength has become somewhat of a challenge. So, we’re still trying to define and find the right balance between ‘Expect More. Pay Less.’ The current environment means that the focus is squarely on the ‘Pay Less’ side of it.”

In outlining Target’s new strategy, company executives made it clear that Walmart was the new focus. Target would make certain that its prices were in line with Walmart’s. Future promotions would communicate the “pay less” message to consumers, while also highlighting the fact that Target is every bit the convenient one-stop shopping destination as its larger rival.

The new communications program included massive changes to in-store signage. Instead of in-store images and messages highlighting trendy fashion, store visitors were greeted with large signs boasting price points and value messages. Similarly, weekly newspaper circulars featured strong value headlines, fewer products, and clearly labeled price points. In fact, Target’s ads began looking very much like those of Walmart or even Kmart. Further recognizing the consumer trend toward thriftiness, Target increased the emphasis on its own store brands of food and home goods.

While making the shift toward “Pay Less,” Target was careful to reassure customers that it would not compromise the “Expect More” part of its brand. Target has always been known for having more designer partnerships than any other retailer. From the Michael Graves line of housewares to Isaac Mizrahi’s clothing line, Target boasts more than a dozen product lines created exclusively for Target by famous designers. Kathryn Tesija, Target’s executive vice president of merchandising, assured customers that not only would Target continue those relationships but also add several new designer partnerships in the apparel and beauty categories.

MOUNTING PRESSURE

Although Steinhafel’s “Pay Less” strategy was aggressive, Target’s financials were slow to respond. In fact, things initially got worse with sales at one point dropping by 10 percent from the previous year. Target’s profits suffered even more. It didn’t help matters that Walmart bucked the recessionary retail trend by posting revenue increases. When confronted with this fact, Steinhafel responded

that consumers held perceptions that Target's value proposition was not as strong as that of its biggest rival. He urged investors to be patient, that its value message would take time to resonate with consumers. Given that Walmart had a decades-long lead in building its cost structure as a formative competitive advantage, Steinhafel couldn't stress that point enough.

While Target continued to struggle with this turn-around challenge, it received a new threat in the form of one of its largest investors. Activist shareholder William Ackman, whose company had invested \$2 billion in Target only to lose 85 percent of it, was holding the retailer's feet to the fire. Ackman openly chided Target for failing to deal effectively with the economic downturn. He charged that Target's board of directors lacked needed experience and sought to take control of five of the board's seats. "Target is not Gucci," he said in a letter to investors. "It should be a business that does well, even in tough economic times."

Making the changes that Ackman and others were calling for was exactly what Steinhafel was trying to do. Steinhafel refused to give up on his strategy. Instead, he intensified Target's "Pay Less" emphasis. In addition to aggressive newspaper advertising, Target unveiled a new set of television spots. Each ad played to a catchy tune with a reassuring voice singing, "This is a brand new day. And it's getting better every single day." Ads showed ordinary people consuming commonly purchased retail products but with a unique twist.

In one ad, a couple was shown drinking coffee in what appeared to be a fancy coffee house with the caption, "The new coffee spot." But the camera pulled back to reveal that the couple was sitting in their own kitchen, with a coffee pot on the stove. The caption confirmed: "Espresso maker, \$24.99." In another segment of the ad headlined "The new salon trip," a glamorous woman with flowing red hair appeared to be in an upscale salon. The camera angle then shifted to show her in her own modest bathroom, revealing a small bottle sitting on the sink with the caption, "Hair color, \$8.49." Every ad repeated this same theme multiple times, with takes such as "The new car wash," "The new movie night," and "The new gym."

In addition to the new promotional efforts, Target made two significant operational changes. First, it began converting a corner of its department stores into mini-grocery stores carrying a narrow selection of 90 percent of the food categories found in full-size grocery stores, including fresh produce. One shopper's reaction was just what Target was hoping for. A Wisconsin housewife and mother of two stopped by her local Target to buy deodorant and laundry detergent before heading to the local grocery store. But as she worked her way through the fresh-food aisles, she found everything on her list. "I'm done," she said, as she grabbed a 99-cent green pepper. "I just saved myself a trip."

While the mini-grocery test stores showed promising results, groceries also represented a low-margin expansion. Walmart was seeing most of its gains in higher margin discretionary goods like bedding, traditionally Target's stronghold. But in a second operational change, Target surprised many analysts by unveiling a new package for its main store brand . . . one without the familiar Target bulls-eye! That is, the packages discard the bull's-eye, replacing it with big, colorful, upward-pointing arrows on a white background, with the new brand name, "up & up."

Continuing to address the trend of higher store brand sales, Tesija stated, "We believe that it will stand out on the shelf, and it is so distinctive that we'll get new guests that will want to try it that maybe didn't even notice the Target brand before." Up & up products are priced about 30 percent lower than comparable name brand products. Target began promoting the store brand in its circulars and planned to expand the total number of products under the label from 730 to 800. While initial results showed an increase in store brand sales for products with the new design, it is unclear just how many of those sales came at the expense of name brand products.

SIGNS OF LIFE

Target's journey over the past few years demonstrates that changing the direction of a large corporation is like trying to reverse a moving freight train. Things have to slow down before they can go the other way. But after 18 months of aggressive change, it appears that consumers may have finally gotten the message. During the first half of 2010, sales rose by as much as 5 percent with profits up a whopping 54 percent. Both spending per visit and the number of store visits increased. All this could be attributed to the fact that the effects of the recession were starting to loosen up and consumer confidence was stabilizing. But in a sign that Target's efforts were truly paying off, Walmart's sales growth was slowing during this same period and even showing signs of decline. Customer perceptions of Target's value were indeed on the rise.

Steinhafel made it very clear that the new signs of life at Target were being met with cautious optimism. "Clearly the economy and consumer sentiment have improved since their weakest point in 2009," said the Target CEO. "But we believe that both are still somewhat unstable and fragile and will likely continue to experience occasional setbacks as the year progresses." Steinhafel's comments reflected an understanding that even as the economy showed signs of recovery, research indicated that consumers everywhere were adopting a newfound sense of frugality and monetary responsibility.

Target's "Pay Less" strategy has continued forward without wavering. Pricing seems to have found the sweet spot as Steinhafel announced that few adjustments are needed. Ads continue to emphasize low prices on everyday items. And the expansion of groceries and store brands has continued. In fact, for 2010, Target planned just 10 store openings, the lowest in its history. "It will be a long time before we approach the development pace of several years ago," said Doug Scovanner, Target's chief financial officer. Instead, Target is putting its money into remodeling existing stores to better accommodate the shifts in inventory.

Some Wall Street analysts have expressed concern that Target's recent value strategy may weaken the brand as customers lose sight of the distinctive features that set it apart from Walmart. But the words of one shopper are a good indication that Target may still be retaining the "Expect More" part of its image, despite having emphasized "Pay Less." "Target is a nice place to go. Walmart may have good prices, but I would rather tell my friends that I came back from shopping at Target."

Questions for Discussion

1. What microenvironmental factors have affected Target's performance over the past few years?
2. What macroenvironmental factors have affected Target's performance during that period?
3. By focusing on the "Pay Less" part of its slogan, has Target pursued the best strategy? Why or why not?
4. What alternative strategy might Target have followed in responding to the first signs of declining revenues and profits?
5. Given Target's current situation, what recommendations would you make to Steinhafel for his company's future?

Sources: Karen Talley, "Target Profit Rises on Strong Sales, Improved Credit-Card Operations," *Wall Street Journal*, May 20, 2010, accessed at <http://online.wsj.com>; John Kell and Karen Talley, "Target's Profit Rises 54% on Higher Sales, Improved Margins," *Wall Street Journal*, February 24, 2010, accessed at <http://online.wsj.com>; Natalie Zmuda, "Target to Put More Focus on Value," *Advertising Age*, August 19, 2008, accessed at <http://adage.com>; Ann Zimmerman, "Target Believes a Rebound Recipe Is in Grocery Aisle," *Wall Street Journal*, May 12, 2009, p. B1; Nicole Maestri, "Target Revamps Its Target Brand as 'Up & Up,'" *Reuters*, May 19, 2009, accessed at www.reuters.com; Nicole Maestri, "Target, BJ's Wholesale Results Beat the Street," *Reuters*, May 20, 2009, accessed at www.reuters.com.