

Part 2: Understanding the Marketplace and Consumers

The Marketing Environment

Previewing the Concepts

In Part 1 (Chapters 1 and 2), 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 discover that marketing does not operate in a vacuum but rather 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 serve customers and develop lasting relationships with them. To understand marketing, and to develop effective marketing strategies, you must first understand the environment in which marketing operates.

First, we'll look at an American icon, McDonald's. More than half a century ago, Ray Kroc spotted an important shift in U.S. consumer lifestyles and bought a small chain of restaurants. He built that chain into the vast McDonald's fast-food empire. But although the shifting marketing environment brought opportunities for McDonald's, it has also created challenges.

In 1955, Ray Kroc, a 52-year-old salesman of milk-shake mixing machines, discovered a string of seven restaurants owned by Richard and Maurice McDonald. Kroc saw the McDonald brothers' fast-food concept as a perfect fit for America's increasingly on-the-go, time-squeezed, family-oriented lifestyles. Kroc bought the small chain for \$2.7 million, and the rest is history.

McDonald's grew quickly to become the world's largest fast-feeder. Its more than 31,800 restaurants worldwide now serve 50 million customers each day, racking up system-wide sales of almost \$60 billion annually. The Golden Arches are one of the world's most familiar symbols, and other than Santa Claus, no character in the world is more recognizable than Ronald McDonald. "By making fast food respectable for middle-class families," says an industry analyst, "the Golden Arches did for greasy spoons what Holiday Inn did for roadside motels in the 1950s and what Sam Walton later did for the discount retail store."

But just as the changing marketplace has provided opportunities for McDonald's, it has also presented challenges. In fact, by early in this decade, the once-shiny Golden Arches had lost some of their luster, as the company struggled to address shifting consumer lifestyles. While McDonald's remained the nation's most-visited fast-food chain, its sales growth slumped, and its market share fell by more than 3 percent between 1997 and 2003. In 2002, the company posted its first-ever quarterly loss.

What happened? In this age of obesity lawsuits and \$5 lattes, McDonald's seemed a bit out of step with the times. Consumers were looking for fresher, better-tasting food and more upscale atmospheres. As a result, McDonald's was losing share to what the industry calls "fast-casual" restaurants. New competitors such as Panera Bread, Baja Fresh, Pret a Manger, and Cusi were offering more imaginative meals in more fashionable surroundings. And for busy consumers who'd rather "eat-out-in," even the local supermarket offered a full selection of pre-prepared, ready-to-serve gourmet meals to go.

Americans were also seeking healthier eating options. Fast-food patrons complained about too few healthy menu choices. Worried about their health, many customers were eating less at fast-food restaurants. As the market leader, McDonald's bore the brunt of much of this criticism. In one lawsuit, the parents of two teenage girls even charged that McDonald's was responsible for their children's obesity and related health problems, including diabetes.

Reacting to these challenges, in early 2003, McDonald's announced a turnaround plan—the "Plan to Win"—to better align the company with the new marketplace realities. The plan included the following initiatives:



it's what i **eat** and what i **do**



Back to Basics—McDonald's began refocusing on what made it successful: consistent products and reliable service. It began pouring money back into existing stores, speeding up service, training employees, and monitoring restaurants to make sure they stay bright and clean. It's also "re-imagining" its restaurants, with clean, simple, more modern interiors and amenities such as wireless Internet access. McDonald's now promises to be a "forever young" brand.

If You Can't Lick 'Em, Join 'Em—To find new ways to compete better with the new breed of fast-casual competitors, and to expand its customer base, McDonald's has experimented with new restaurant concepts. For example, it has tested upscale *McCafe* coffee shops, which offer leather seating, a knowledgeable staff, and espresso in porcelain cups, along with made-to-order drinks, gourmet sandwiches, and Internet access. It is also testing a *Bistro Gourmet* concept in a handful of restaurants in the United States, which offers high-back leather chairs, a made-to-order omelet breakfast bar, and food served on real china. Kids can still get their Happy Meals, but parents can feast on more sophisticated fare, such as panini sandwiches, gourmet burgers, and crême brulee cheesecake.

"It's what i eat and what i do . . . i'm lovin' it"—McDonald's recently unveiled a major multifaceted education campaign to help consumers better understand the keys to living balanced, active lifestyles. The "it's what i eat and what i do . . . i'm lovin' it" theme underscores the important interplay between eating right and

Objectives

After studying this chapter, you should be able to:

1. describe the environmental forces that affect the company's ability to serve its customers
2. explain how changes in the demographic and economic environments affect marketing decisions
3. identify the major trends in the firm's natural and technological environments
4. explain the key changes in the political and cultural environments
5. discuss how companies can react to the marketing environment

staying active. The company assembled a Global Advisory Council of outside experts in the areas of nutrition, wellness, and activity to provide input on its menu choice and variety, education outreach, and promoting physical fitness. McDonald's has introduced a trimmer, fitter Ronald McDonald. He has expanded his role as Chief Happiness Officer to be global ambassador of fun, fitness, and children's well-being, inspiring and encouraging kids and families around the world to eat well and stay active. McDonald's has also refreshed its GoActive.com Web site, which offers tips on how to lead a balanced active lifestyle as well as a Family Fitness Tool Kit. And the McDonald's Passport to Play in-school program, motivates children in 31,000 schools around the country to be more active in unique and fun ways during grade school physical education classes. Even the harshest McDonald's critics, although still skeptical, applaud these actions.

Improving the Fare—McDonald's has worked to provide more choice and variety on its menu. For example, it introduced a "Go Active! Happy Meal for adults featuring a Premium Salad, a bottle of Dasani water, and a Stepometer," which measures physical activity by tracking daily steps. It now offers Chicken McNuggets made with white meat, Chicken Selects whole-breast strips, low-fat "milk jugs," and a line of Premium Salads, such as its Fruit & Walnut Premium Salad, consisting of apple slices and seedless grapes with a side of low-fat vanilla yogurt and candied walnuts. Within only a year of introducing its Premium Salads, McDonald's became the world's largest salad seller—it has sold more than 516 million salads to date.

McDonald's efforts to realign itself with the changing marketing environment appear to be paying off. By almost any measure, the fast-food giant is now back in shape. The company is posting steady, even startling, sales and profit increases. Since announcing its Plan to Win, McDonald's has increased its sales by 33 percent and profits have tripled. It looks like customers and stockholders alike are humming the chain's catchy jingle, "I'm lovin' it." A former McDonald's CEO summed it up this way: "Ray Kroc used to say he didn't know what we would be selling in the year 2000, but whatever it was we would be selling the most of it. He recognized early on that consumer needs change and we want to change with them."¹

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.

Marketers need to be good at building relationships with customers, others in the company, and external partners. To do this effectively, they must understand the major environmental forces that surround all of these relationships. 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. Successful companies know the vital importance of constantly watching and adapting to the changing environment.

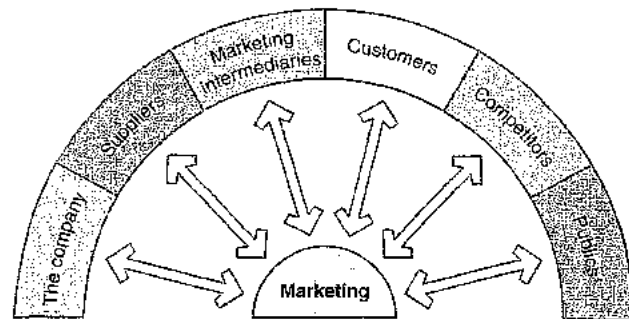
The environment continues to change rapidly, and both consumers and marketers wonder what the future will bring. More than any other group in the company, marketers must be the trend trackers and opportunity seekers. Although every manager in an organization needs to observe the outside environment, 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 the customer and competitor environments. By carefully studying the environment, marketers can adapt their strategies to meet new marketplace challenges and opportunities.

The marketing environment is made up 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 Company's Microenvironment

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 will require building

FIGURE 3.1
Actors in the
microenvironment



relationships with other company departments, suppliers, marketing intermediaries, customers, competitors, and various publics, which combine to make up the company's value delivery network.

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 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." They should work in harmony to provide superior customer value and satisfaction.

Suppliers

Suppliers form an important link in the company's overall customer value delivery system. 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—supply shortages or delays, labor strikes, and other events can cost sales in the short run and damage customer satisfaction in the long run. Marketing managers also monitor the price trends of their key inputs. 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. Wal-Mart goes to great lengths to work with its suppliers. For example, it helps them to test new products in its stores. And its Supplier Development Department publishes a *Supplier Proposal Guide* and maintains a supplier Web site, both of which help suppliers to navigate the complex Wal-Mart buying process. "Wal-Mart talks tough and remains a demanding customer," says one supplier executive, but "it also helps you get there."² It knows that good partnership relationship management results in success for Wal-Mart, suppliers, and, ultimately, its customers.

Marketing Intermediaries

Marketing intermediaries

Firms that help the company to promote, sell, and distribute its goods to final buyers; they include resellers, physical distribution firms, marketing service agencies, and financial intermediaries.

Marketing intermediaries help the company to 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 Wal-Mart, Target, Home Depot, Costco, and Best Buy. These organizations frequently have enough power to dictate terms or even shut the manufacturer out of large markets.

Physical distribution firms help the company to stock and move goods from their points of origin to their destinations. Working with warehouse and transportation firms, a company must determine the best ways to store and ship goods, balancing factors such as cost, delivery, speed, and safety. *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 system. 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.

Coke 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 to 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. Such intense partnering efforts have made Coca-Cola a run-away leader in the U.S. fountain soft drink market.³



Partnering with marketing intermediaries: Coca-Cola provides Subway with much more than just soft drinks. It also pledges powerful marketing support.

Customers

The company needs to study five types of customer markets closely. *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 for use in their production process, whereas *reseller markets* buy goods and services to resell at a profit. *Government markets* are made up 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.

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.

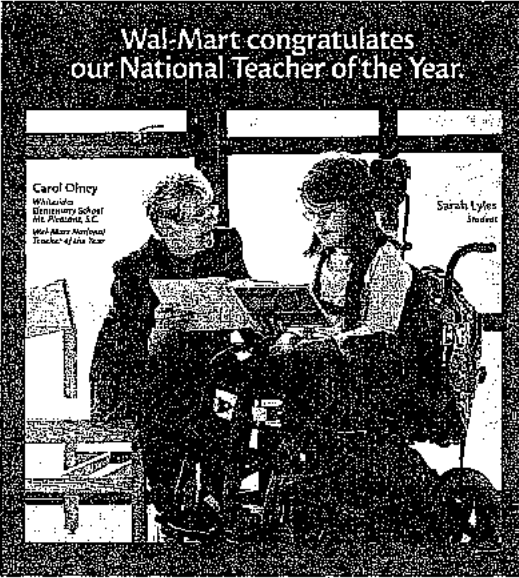
Publics

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** influence the company's ability to obtain funds. Banks, investment houses, and stockholders are the major financial publics.
- **Media publics** carry news, features, and editorial opinions. They include newspapers, magazines, and radio and television stations.
- **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** include neighborhood residents and community organizations. Large companies usually appoint a community relations officer to deal with the community, attend meetings, answer questions, and contribute to worthwhile causes.
- **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** include 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 their company, this positive attitude spills over to external publics.

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.



**Wal-Mart congratulates
our National Teacher of the Year.**



"Nothing is impossible"

is the motto that drives Carol Olney. Her spirited approach is why her peers have chosen her to be Wal-Mart's 2004 National Teacher of the Year. This honor has earned her school a \$25,000 donation from Wal-Mart to recognize the education and inspiration she provides her special-needs students.

Caring about education means supporting it. More than \$4 million was awarded to 3,600 schools of Local and State Teachers of the Year by their neighborhood Wal-Mart stores and SAM'S CLUBs in 2004. This year Wal-Mart will give back more than \$150 million overall to the communities we serve.

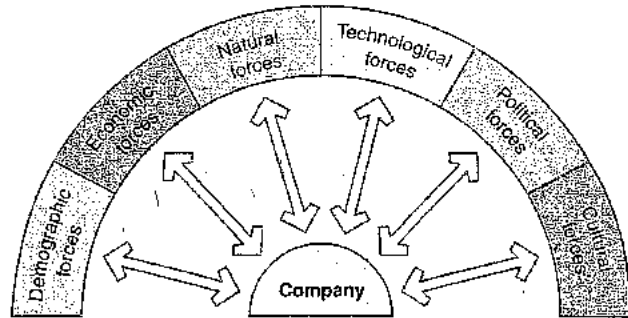
Visit us on the Web at www.walmartfoundation.org

Publics: Wal-Mart's Good. WORKS efforts, such as the Wal-Mart Teacher of the Year program, recognize the importance of community publics. "Supporting our communities is good for everyone," says the ad.

The Company's Macroenvironment

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.

FIGURE 3.2
Major forces in the
company's
macroenvironment



Demographic Environment

Demography

The study of human populations in terms of size, density, location, age, gender, race, occupation, and other statistics.

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 6.5 billion people and will exceed 8.1 billion by the year 2030.⁴ 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. More than a quarter century ago, to curb its skyrocketing population, the Chinese government passed regulations limiting families to one child each. As a result, Chinese children—known as “little emperors and empresses”—are being showered with attention and luxuries under what's known as the “six-pocket syndrome.” As many as six adults—two parents and four doting grandparents—may be indulging the whims of each “only child.” Parents in the average Beijing household now spend about 40 percent of their income on their cherished only child. Among other things, this trend has created huge market opportunities for children's educational products.



Demographics and business: Chinese regulations limiting families to one child have resulted in what's known as the “six-pocket syndrome.” Chinese children are being showered with attention and luxuries creating opportunities for marketers.

In China's increasingly competitive society, parents these days are desperate to give Junior an early edge. That's creating opportunities for companies peddling educational offerings aimed at kids. Disney, for example, is moving full speed into educational products. Magic English, a \$225 Disney package that includes workbooks, flash cards, and 26 videodisks, has been phenomenally successful. Disney has also launched interactive educational CD-ROMs featuring the likes of Winnie the Pooh and *101 Dalmations' Cruella DeVille*. Disney isn't alone in catering to the lucrative Chinese coddled-kiddies market. For example, Time Warner is testing the waters in Shanghai with an interactive language course called English Time. The 200-lesson, 40-CD set takes as long as four years for a child to complete. Time Warner is expecting strong sales, despite the \$3,300 price tag, which equals more than a year's salary for many Chinese parents.⁵

Interestingly, the one-child policy is creating another major Chinese demographic development—a rapidly aging population. In what some deem a potential “demographic earthquake,” by 2024 an estimated 58 percent of the Chinese population will be over age 40. And because of the one-child policy, close to 75 percent of all Chinese households will be childless, either because they chose to have no children or because their only child has left

the nest. The result is an aging society that will need to be more self-reliant, which in turn will cause a large growth in service markets such as senior education, leisure clubs, and nursing homes.⁶

Thus, marketers keep close track of demographic trends and developments in their markets, both at home and abroad. They track 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.

Changing Age Structure of the Population

The U.S. population stood at more than 300 million in 2006 and may reach almost 364 million by the year 2030.⁷ 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 Generation Y—and their impact on today's marketing strategies.

Baby boomers

The 78 million people born during the baby boom following World War II and lasting until the early 1960s.

The post-World War II baby boom produced 78 million **baby boomers**, born between 1946 and 1964. Since then, the baby boomers have become one of the most powerful forces shaping the marketing environment. Today's baby boomers account for about 27.5 percent of the population, spend about \$2.1 trillion annually, and hold three-quarters of the nation's financial assets. It has been estimated that when the last baby boomer turns 65 in 2029, the generation will control more than 40 percent of the nation's disposable income.⁸

As a group, the baby boomers are the most affluent Americans. However, although the more affluent boomers have grabbed most of the headlines, baby boomers cut across all walks of life, creating a diverse set of target segments for businesses. There are wealthy boomers but also boomers with more modest means. And almost 25 percent of the 78 million boomers belong to a racial or ethnic minority.

The youngest boomers are now in their early forties; the oldest are entering their sixties. The maturing boomers are rethinking the purpose and value of their work, responsibilities, and relationships. As they reach their peak earning and spending years, the boomers constitute a lucrative market for new housing and home remodeling, financial services, travel and entertainment, eating out, health and fitness products, and just about everything else.

It would be a mistake to think of the boomers as aging and slowing down. In fact, the boomers are spending \$30 billion a year on antiaging products and services. And unlike previous generations, boomers are likely to postpone retirement. Rather than viewing themselves as phasing out, they see themselves as entering new life phases. "Boomers don't see themselves as old," says one expert. "They never grew up. They say that they feel seven to 10 years younger than they are. And they are not echoing the typical life stages. Now it's, 'The kids are out of the house and I'm taking up in-line skating.'"⁹

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 older women, but not grandmas in rocking chairs. Curves' older regulars "want to be strong and fit," says the expert. "They just don't want to go into Gold's Gym and be surrounded by spandex-clad Barbie dolls."¹⁰ And, as many boomers are rediscovering the excitement of life and have the means to play it out, the luxury RV market is exploding.

It seems that every younger boomer family needs an RV to take the classic American family vacation before the kids grow up and leave home. The older boomers, now empty nesters, use an RV to visit their grandchildren or to see America at their own pace. "RVs are selling like hotcakes," says an RV industry association executive. "And baby boomers are in their prime RV years."¹¹

Perhaps no one is targeting the baby boomers more fervently than the financial services industry. In coming years, the aging boomers will transfer some \$30 trillion in retirement nest eggs and other savings into new investments. They'll also be inheriting \$8 trillion as their parents pass away. Thus, the boomers will be needing lots of money management help. In magazine ads targeting boomers, Ameriprise Financial suggests, "A generation as unique as this needs a new generation of personal financial planning." An Ameriprise marketer explains, "It's not just about the rational numbers. It's about how you are going to reinvent yourself for what could be 30 or 40 years of retirement."¹²

Do you have a dream 401(k) plan?

What do you dream of doing in retirement? Maybe you want to go back to school. Start a second career. Visit the Spanish Steps. Work on that short game. Or maybe you're not even sure.

That's precisely the reason why Ameriprise Financial created the *Dream Book*. It's a place to help you envision what exactly you want to do in the next phase of your life. And it's the perfect starting point for you and an Ameriprise financial advisor to develop a plan to help get you there.

Get started today by calling 1-800-Ameriprise or visit ameriprise.com/dream for your complimentary copy of the *Dream Book*.

Get to What's Next. Financial Planning • Retirement • Investments • Insurance

The Financial Advisors of
Ameriprise
Financial

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Targeting the baby boomers: This ad promises retiring boomers that the company will “help you envision what exactly you want to do in the next phase of your life.”

Generation X

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

less materialistic; they prize experience, not acquisition. They are cautious romantics who want a better quality of life and are more interested in job satisfaction than in sacrificing personal happiness and growth for promotion. For many of the 30 million Gen Xers that are parents, family comes first, career second.¹³

As a result, the Gen Xers are a more skeptical bunch. “Marketing to Gen Xers is difficult,” says one marketer, “and it’s all about word of mouth. You can’t tell them you’re good, and they have zero interest in a slick brochure that says so. . . . They have a lot of ‘filters’ in place.” Another marketer agrees: “Sixty-three percent of this group will research products before they consider a purchase. [They are also] creating extensive communities to exchange information. Even though nary a handshake occurs, the information swap is trusted and thus is more powerful than any marketing pitch ever could be.”¹⁴

Once labeled as “the MTV generation” and viewed as body-piercing slackers who whined about “McJobs,” the Gen Xers have now grown up and are beginning to take over. The Gen Xers are displacing the lifestyles, culture, and materialistic values of the baby boomers. They represent close to \$1.4 trillion in annual purchasing power. By the year 2010, they will have overtaken the baby boomers as a primary market for almost every product category.¹⁵

With so much potential, many companies are focusing on Gen Xers as an important target segment. For example, consider the banking industry:¹⁶

As the Gen Xers progress in their careers, start families, and settle into home ownership, banks are responding with programs to help them manage their finances. For example, home financing is a major issue. To help out, Washington Mutual (WaMu to its customers) ran a marketing campaign showing young home buyers how they can simplify the home buying process. The “Buying a Home” page on WaMu’s Web site is an “all-you-ever-wanted-to-know” resource for new-home financing. Generation

Fidelity Investments also takes a life phases approach in marketing to baby boomers, with ads featuring the likes of former Beatle Paul McCartney, the ultimate boomer icon:

This notion of life as a series of fresh chapters animates commercials for Fidelity Investments. One ad chronicles the life of Paul McCartney through his phases as a Beatle, a member of Wings, a poet, and a father. [Says] Fidelity marketing executive Claire Huang: “He fit perfectly our model that you don’t really retire—you just keep doing something new.”

The baby boom was followed by a “birth dearth,” creating another generation of 49 million people born between 1965 and 1976. Author Douglas Copeland calls them Generation X, because they lie in the shadow of the boomers and lack obvious distinguishing characteristics. Others call them the “baby busters” or the “generation caught in the middle” (between the larger baby boomers and later Generation Ys).

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. Having grown up during times of recession and corporate downsizing, they developed a more cautious economic outlook. They care about the environment and respond favorably to socially responsible companies. Although they seek success, they are

Xers also worry about saving money for their children's college educations—one study showed that 26 percent of Gen Xers felt that education costs would be out of reach by the time their children were ready for college. To meet this need, the Life Stages section of WaMu's Web site offers "College Savings 101," and other educational planning tools. But marketing to Gen X consumers requires fresh approaches. So rather than bombarding them with brash marketing pitches, WaMu combines softer marketing approaches with community-oriented programs. For example, to gain favor with Gen Xers who have young families with small children, WaMu developed WaMoola for Schools. This program sets aside \$1 for every new checking account opened during the year and then distributes the funds to local schools. Or customers can earn WaMoola points for their schools by making purchases with their Washington Mutual Visa Check Cards.

Generation Y

The 72 million children of the baby boomers, born between 1977 and 1994.

Both the baby boomers and Gen Xers will one day be passing the reins to **Generation Y (also called echo boomers)**. Born between 1977 and 1994, these children of the baby boomers now number 76 million, dwarfing the Gen Xers and almost equal in size to the baby boomer segment. The echo boom has created a large teen and young adult market. Teen spending alone has increased 30 percent in the past eight years, rising to \$159 billion last year. Teens also influence an estimated \$30 billion more each year in family spending. After years of bust, markets for teen and young-adult games, clothes, furniture, and food have enjoyed a boom.¹⁷

Generation Y oldsters have now graduated from college and are moving up in their careers. Like the trailing edge of the Generation Xers ahead of them, one distinguishing characteristic of Generation Y is their utter fluency and comfort with computer, digital, and Internet technology. Some 87 percent of teens use the Internet, up 24 percent over the ~~past~~ four years. More than half of the 87 percent go online every day, and 84 percent of teens own at least one networked device, such as a cell phone, blackberry, or computer. In all, they are an impatient, now-oriented bunch. "Blame it on the relentless and dizzying pace of the Internet, 24-hour cable news cycles, cell phones, and TiVo for creating the on-demand, gotta-get-it-now universe in which we live," says one observer. "Perhaps nowhere is the trend more pronounced than among the Gen Y set."¹⁸

Generation Y represents an attractive target for marketers. However, reaching this message-saturated segment effectively requires creative marketing approaches. For example, the popularity of action sports with Gen Yers has provided creative marketing opportunities for products ranging from clothes to video games, movies, and even beverages. Mountain Dew's edgy and irreverent positioning makes it a natural for the action-sport crowd. But more than just showing snowboarders, skateboarders, and surfers in its ads, Mountain Dew has become a true action-sports supporter. It sponsors the ESPN XGames, the Vans Triple Crown, and numerous action-sport athletes. It even started its own grassroots skate park tour, the Mountain Dew Free Flow Tour. As a result of these and other actions, Mountain Dew has become the beverage of choice for men ages 18 to 24.¹⁹

The automobile industry is aggressively targeting this future generation of car buyers. By 2010, Generation Y will buy one of every four new cars sold in the United States. Toyota even created a completely new brand—the Scion—targeted to Gen Yers (see Real Marketing 3.1). Scion and other automakers are using a variety of programs and pitches to lure Generation Y as they move into their key car-buying years.²⁰

Recently, Toyota quietly began an unusual virtual promotion of its small, boxy Scion: It paid for the car's product placement in Whyville.net, an online interactive community populated almost entirely by 8- to 15-year-olds. Never mind that they cannot actually buy the car. Toyota is counting on Whyvillians to do two things—influence their parents' car purchases and maybe grow up with some Toyota brand loyalty. It may appear counterintuitive, but Toyota says the promotion is working. Ten days into the campaign, visitors to the site had used the word "Scion" in online chats more than 78,000 times; hundreds of virtual Scions were purchased, using "clams," the currency of Whyville; and the community meeting place, "Club Scion," was visited 33,741 times. These online Scion owners customized their cars, drove around the virtual Whyville, and picked up their Scion-less friends for a ride.

Do marketers need to create separate products and marketing programs for each generation? Some experts warn that marketers must be careful about turning off one generation each time they craft a product or message that appeals effectively to another.

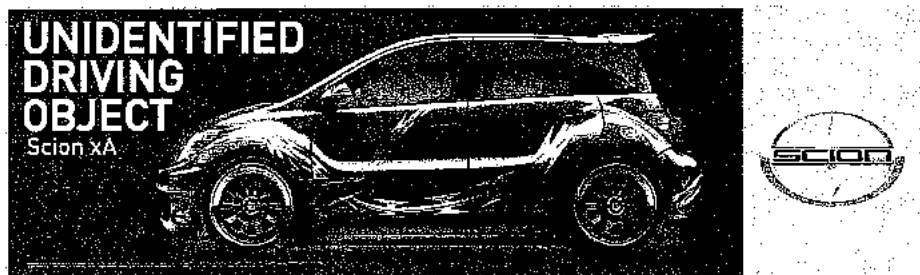
Real Marketing

In the late 1990s, as Toyota's management team peered through the corporate windshield, it took great pride in the company's accomplishments in the U.S. market. Riding a wave of loyal baby boomers who had grown up with its Toyota and Lexus models, the company had become one of the nation's most powerful automobile brands.

Yet when the team looked down at the corporate dashboard, they saw the "check engine" light flashing. As the baby boomers had aged, the age of the average Toyota customer had risen as well. The median Toyota buyer was 49; the median Lexus buyer, 54. Too few younger customers were lining up to buy Toyotas. Gen Yers by the millions were now reaching driving age, and Toyota wasn't speaking their language. In fact, Toyota's strong reputation among the baby boomers for quality, efficiency, and value had translated to more youthful consumers as well, "stodgy."

Other auto manufacturers were facing this same Gen Y problem. Honda's durable, easy-to-customize Civic had met with some success with younger buyers, but that brand's appeal was fading. Honda followed with the boxy Element, which one observer described as a "Swiss Army knife on wheels," and which Honda promoted as "a dorm room on wheels." The Element sold well but often attracted the wrong market—boomers and Gen Xers (average age 43) looking for something to transport their flowers and power tools. Toyota had also tried before with three vehicles in its Genesis Project: the frumpy Echo, an edgy Celica, and a pricey but impractical MR2 Spider. Each had failed to score with young people.

To target Gen Yers, with their "built-just-for-them" preferences, Toyota positioned the Scion on personalization. "Personalization begins here—what moves you?"



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 boomers, core boomers, and trailing boomers—each with its own beliefs and behaviors. Similarly, they split Generation Y into Gen Y adults and Gen Y teens. 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 or life stage.

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 make up only 23 percent of the nation's 111 million households; married couples without children make up 28 percent;

Su, in the early 2000s, Toyota went back to the drawing board. The challenge was to keep Gen Y from seeing Toyota as "old people trying to make a young person's car." Success depended on understanding this new generation of buyers, a segment of strangers to most car marketers. "They demand authenticity, respect for their time, and products built just for them," observed a senior Toyota executive. "They are in their early 20s, new to us, and have changed every category they have touched so far. It's the most diverse generation ever seen."

The search for a new, more youthful model began in Toyota's own driveway. Following orders to "loosen up," Toyota engineers in Japan had designed and successfully introduced a boxy microvan, the bB, and a five-door hatchback, the "i!" (pronounced "east"). The company decided to rename these vehicles and introduce them in the United States. Thus was born Toyota's Gen Y brand, the Scion (Sigh-un). Following soon after, Toyota added the Scion tC coupe, which adds more power and driving pleasure to the Scion equation. In the Scion, Toyota created not just a new car brand, but new marketing approaches as well.

Accelerate to Memorial Day weekend in late May 2003. Twenty-something Toyota reps sporting goatees and sunglasses have set up shop near a major intersection in San Francisco's Haight-Ashbury district. Standing under banners heralding the new Scion brand, with hip-hop music blaring in the background, the reps encourage young passersby to test drive two new models, the Scion xA hatchback and the Scion xB van.

This was not your typical Toyota sales event—it was the opening round in a campaign to solve, finally, the Gen Y riddle. And it signaled the most unorthodox new-car campaign in the company's 70-year history—a campaign that was edgy, urban, and underground. To speak to Gen Y, Toyota shunned traditional marketing approaches and employed guerrilla tactics. Its young marketing team put up posters with slogans such as “No Clone Zone” and “Ban Normality,” even projecting those slogans onto buildings at night. It held “ride-and-drive” events, like the one in San Francisco, to generate spontaneous test-drives by taking its cars to potential customers instead of waiting for them to find their way to showrooms. It put brochures in alternative publications such as *Urb* and *Tokion*, and it sponsored events at venues ranging from hip-hop nightclubs and urban pubs to library lawns.

Toyota assigned Dawn Ahmed and Brian Bolain, two young members of its product development staff, to head the U.S. promotional campaign. Understanding the “built-just-for-them” preferences of the Gen Y target market, Ahmed and Bolain decided to position the Scion on *personalization*. They appealed to the new youth-culture club of “tuners,” young fans of tricked-out vehicles (such as BMW's wildly successful Mini Cooper) who wanted to customize their cars from bumper to bumper. “We saw that the tuner phenomenon was really spreading, and took that idea of customization to a totally different level,” Ahmed notes. “It comes back to that thing of rational versus emotional,” observes Bolain. “Scion buyers have all the rational demands of a Toyota buyer, but they also want more fun, personality, and character.”

So, along with all of the traditional Toyota features—like lots of airbags, remote keyless entry, and a 160-watt Pioneer stereo with MP3 capability—the Scion offers lots of room for individual self-expression. The staff worked with after-market auto-parts suppliers to develop specially designed Scion add-ons. To create their own one-of-a-kind cars, customers can select from 40 different accessory products, such as LED interior lighting and illuminated cup holders, wake-the-dead stereo systems, and stiffer shocks. As Bolain points out, “[We wanted the Scion to be a] blank canvas on which the consumer can make the car what they would like it to be.”

Toyota dealers who have agreed to sell Scions provide special areas in their showrooms where customers can relax, check out the

cars, and create their own customized Scions on computers linked to Scion's Web site. And Scion buyers do, indeed, customize their cars. The Scion xA and Scion xB start at “no haggle” prices around \$13,000 and \$14,000, respectively. But 48 percent of Scion buyers spend another \$1,000 to \$3,000 to customize their cars. Two-thirds of buyers labor at the Scion Web site, configuring just the car they want before ever walking into the dealership.

How is Toyota's Scion strategy working? The California launch was so successful that Toyota quickly rolled out the Scion nationally, finishing the process in June 2004. Scion blew past its first-year, 60,000-unit sales target by mid-2004, selling 100,000 units for the year. Toyota sold nearly 160,000 Scions the next year and sales remain brisk. Most importantly, the Scion is bringing a new generation of buyers into the Toyota family. Eighty percent of Scion buyers have never before owned a Toyota. And the average age of a Scion buyer is 31, the youngest in the automotive industry. That overstates the average age of a Scion driver, given that many parents are buying the car for their kids.

All this success, however, brings new challenges. For example, according to an industry analyst, Gen Y consumers “disdain commercialism and don't really want ‘their brand’ to be discovered.” To maintain its appeal to these young buyers, as the brand becomes more mainstream, Scion will have to keep its models and messages fresh and honest. Says VP Jim Farley, “We want to [reach out to youthful buyers] without shouting ‘Buy This Car.’”

Sources: Quotes from Lillie Guyer, “Scion Connects in Out-of-Way Places,” *Advertising Age*, February 21, 2005, p. 38. Also see Brett Corbin, “Toyota's Scion Line Banks on Tech-Savvy Younger Drivers,” *Business First*, June 18, 2004, p. 11; Nick Kurczewski, “Who's Your Daddy? Staid Toyota Gets a Hip Implant,” *New York Times*, July 25, 2004, p. 12; Patrick Paternie, “Driven by Personality,” *Los Angeles Times*, January 6, 2005, p. E34; Karl Greenberg, “Dawn Ahmed,” *Brandweek*, April 11, 2005, p. 33; Chris Woodyard, “Outside-the-Box Scion Scores Big with Young Drivers,” May 3, 2005, accessed at www.detroitnews.com/2005/autosinsider/0505/03/auto-170121.htm; Mark Rechtin, “Scion's Dilemma: Be Hip—But Avoid the Mainstream,” *Automotive News*, May 22, 2006, pp. 42-45; and Julie Bosman, “Hey, Kid, You Want to Buy A Scion?” *New York Times*, June 14, 2006, p. C2.

and single parents comprise another 16 percent. A full 32 percent are nonfamily households—single live-alones or adult live-togethers of one or both sexes.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 around 77 percent in 2000. However, research indicates that the trend may be slowing. After increasing steadily since 1976, the percentage of women with children under age one in the workforce has fallen during the past few years.²² Meanwhile, more men are staying home with their children, managing the household while their wives go to work. According to the census, the number of stay-at-home dads has risen 18 percent since 1994.²³

INTRODUCING DREAM DINNERS.
All the joy of a family meal.
None of the hassle.



Dream Dinners lets you choose 12 wonderful entrées you assemble once a month and then serve to your family in the weeks ahead. Dream Dinners. All the ingredients for a great meal."



dreamdinners.com

Businesses like Dream Dinners have arisen to serve the growing number of working women. The chain was created by a busy working mom who invited fellow busy mothers to her catering kitchen to prepare make-ahead meals. With Dream Dinners, you get "All the joy of a family meal. None of the hassle."

The significant number of women in the workforce has spawned the child day care business and increased consumption of career-oriented women's clothing, financial services, and convenience foods and services. An example is Dream Dinners, Inc., a national franchise chain created by a busy working mom who invited fellow busy moms to her catering kitchen to prepare make-ahead meals. People visiting a Dream Dinners store can prepare up to a dozen family meals in under two hours, with cleanup handled by the store's staff. Using workstations, they prepare healthy meals ranging from Kung Pao Chicken to New England Pot Roast, take them home in coolers, and store them in the freezer until needed. A dozen meals, each serving four to six people, cost under \$200. With over 155 locations, Dream Dinners gives precious family time back to harried working parents.²⁴

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 14 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, while the Midwest and Northeast states have lost population.²⁵ Such population shifts interest marketers because people in different regions buy differently. For example, research shows that people in Seattle buy more toothbrushes per capita than people in any other U.S. city; people in Salt Lake City eat more candy bars; and people in Miami drink more prune juice.

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. 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.²⁶

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 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. Almost a quarter of all Americans telecommuted at least one day a month last year, twice the number from 2000, with the help of electronic conveniences such as PCs, cell phones, fax machines, PDA devices, and fast Internet access.²⁷

Many marketers are actively courting the home office segment of this lucrative SOHO market. For example, FedEx Kinko's is much more than just a self-service copy shop. Targeting small office/home office customers, it services as a well-appointed office outside the home. People can come to a FedEx Kinko's store to do all their office jobs: They can copy, send and receive faxes, use various programs on the computer, go on the Internet, order stationery and other printed supplies, ship packages, and even rent a conference room or conduct a teleconference. As more and more people join the work-at-home trend,



Geographic shifts: To serve the burgeoning small office/home office market, FedEx Kinko's has reinvented itself as the well-appointed office outside the home. "Our office is your office," says the company.

FedEx Kinko's offers an escape from the isolation of the home office. Its ads proclaim, "Our office is your office."

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

The U.S. population is becoming better educated. For example, in 2004, 85 percent of the U.S. population over age 25 had completed high school and 28 percent had completed college, compared with 69 percent and 17 percent 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, magazines, travel, personal computers, and Internet services.

The workforce also is becoming more white-collar. Between 1950 and 1985, the proportion of white-collar workers rose from 41 percent to 54 percent, that of blue-collar workers declined from 47 percent to 33 percent, and

that of service workers increased from 12 percent to 14 percent. Between 1983 and 1999, the proportion of managers and professionals in the workforce increased from 23 percent to more than 30 percent. Job growth is now strongest for professional workers and weakest for manufacturers. Between 2004 and 2014, the number of professional workers is expected to increase 21 percent and manufacturing is expected to decline 5 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—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 are facing increasingly diverse markets, both at home and abroad as their operations become more international in scope. The U.S. population is about 67 percent white, with Hispanics at 14.4 percent and African Americans at 13.4 percent. The U.S. Asian American population now totals about 4 percent of the population, with the remaining 1 percent made up of American Indian, Eskimo, and Aleut. 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 will comprise an estimated 24 percent of the U.S. population, with African Americans at 13 percent and Asians at 9 percent.³⁰

Most large companies, from Procter & Gamble, Sears, Wal-Mart, Allstate, and Bank of America to Levi Strauss and General Mills, now target specially designed products, ads, and promotions to one or more of these groups. For example, Allstate worked with Kang & Lee Advertising, a leading multicultural marketing agency, to create an award-winning marketing campaign aimed at the single largest Asian group in the country—Chinese Americans. Creating culturally significant messages for this market was no easy matter. Perhaps the most daunting task was translating Allstate's iconic "You're In Good Hands With Allstate[®]" slogan into Chinese.³¹

There's nary a U.S.-born citizen who doesn't know that, when it comes to insurance, you are in good hands with Allstate. But to Chinese Americans, Allstate was not the first insurance company that came to mind. So Allstate asked Kang & Lee Advertising to help it translate the "good hands" concept into the Chinese market.

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■ Multicultural marketing: Allstate created an award-winning marketing campaign aimed at the single largest Asian group in the country—Chinese Americans. The most daunting task: translating Allstate's iconic "You're In Good Hands With Allstate®" slogan into Chinese.

The trick was to somehow make the company's longtime brand identity relevant to this group. Problem was, the English slogan just doesn't make sense in any Chinese dialect. After months of qualitative consumer research and discussion with Chinese American Allstate agents, Kang & Lee came up with a Chinese-language version of the tag line, which, roughly translated, says "turn to our hands, relax your heart, and be free of worry." The campaign started in Seattle and New York and has since expanded to California. Studies in the first two cities show that awareness of Allstate in the Chinese American community had doubled within six months of the start of the campaign.

Diversity goes beyond ethnic heritage. For example, many major companies have recently begun to explicitly target gay and lesbian consumers. A Simmons Research study of readers of the National Gay Newspaper Guild's 12 publications found that, compared to the average American, 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. They are twice as likely as the general population to have a household income over \$250,000. In all, the gay and lesbian market spent more than \$640 billion on goods and services last year.³²

With hit TV shows such as *Queer Eye for the Straight Guy* and *The Ellen DeGeneres Show*, and Oscar-winning movies such as *Brokeback Mountain* and *Capote*, the gay and lesbian community has increasingly emerged into the public eye. A number of media now provide companies with access to this market. For example, PlanetOut Inc., a leading global media company, exclusively serves the gay, lesbian, bisexual, and transgender (GLBT) community with several successful magazines (*Out*, *The Advocate*, *Out Traveler*) and Web sites (Gay.com, PlanetOut.com, Out&About.com). In

2005, media giant Viacom introduced Logo, a cable television network aimed at the gay men and lesbians and their friends and family. Logo is now available in 23 million U.S. households. More than 60 mainstream marketers have advertised on Logo, including Ameriprise Financial, Anheuser-Busch, Continental Airlines, Dell, eBay, General Motors, Johnson & Johnson, Orbitz, Sears, Sony, and Subaru.

Here are examples of some gay and lesbian marketing efforts:³³

With an estimated \$65 billion in annual travel expenditures, the American gay and lesbian community is a much sought-after leisure travel segment. Some 53 percent of this segment spends \$5,000 or more per person on vacations each year, and 98 percent say that a destination's "gay-friendly reputation" factors into their decision to travel there. Las Vegas, like other cities, aims to snag a larger slice of the gay and lesbian travel pie. The city recently unveiled its first gay promotional push. It placed ads from its universally appealing Vegas ad campaign, "What happens here, stays here," in leading gay publications: *The Advocate*, *Out*, and *Out Traveler*. It also placed ads on the Logo network, along with sponsorship of episodes of *Queer Eye for the Straight Guy*. Whereas other popular gay getaways, such as Key West, Florida and Palm Springs, California, promote themselves as places where guests will enjoy a largely gay community, Las Vegas urges gays to experience the same attractions that appeal to everyone else. "We're trying to attract this subculture here to immerse themselves into the Las Vegas experience," says the Las Vegas Convention and Visitors Authority's vice president of marketing. So far, the push seems to be work-

ing. Gays and lesbians now rank Las Vegas as their second-favorite travel destination, behind only New York City.

IBM fields a paid, full-time sales team dedicated to bringing GLBT decision makers in contact with IBM. The company targeted the gay small-business community with an ad that ran in *The Advocate*, *Out*, and about 40 other gay-themed publications. The ad pictures a diverse group of men and women and links IBM's Armonk, New York headquarters with well-known gay communities: "Chelsea/Provincetown/The Castro/Armonk." The six people shown in the ad are among the 1,100 IBM employees who make up the company's GLBT Network. IBM launched the GLBT group three years ago when research showed that gay business owners are more likely to buy from gay salespeople. Over the past several years, IBM has received numerous awards acknowledging its commitment to the GLBT community.

Another attractive segment is the nearly 60 million people with disabilities in the United States—a market larger than African Americans or Hispanics—representing over \$220 billion in annual spending power. This market is expected to grow as the baby boomers age. People with disabilities appreciate products that work for them. Explains Jim Tobias, president of Inclusive Technologies, a consultancy specializing in accessible products, "those with disabilities tend to be brand evangelists for products they love. Whereas consumers may typically tell 10 friends about a favorite product, people with disabilities might spread the word to 10 times that [many]."³⁴

How are companies trying to reach these consumers? Many marketers now recognize that the worlds of people with disabilities and those without disabilities are one in the same. Says one marketer, "The 'us and them' paradigm is obsolete." Consider the following Avis example:³⁵

A common theme in much of the recent crop of mainstream ads, in fact, is that the disability is virtually an afterthought. A recent New York Marathon-themed print ad



☑ Avis targets people with disabilities by offering a suite of products and services that make vehicles more accessible. It also sponsors the Achilles Track Club, which supports individuals with disabilities who want to participate in mainstream athletics.

for car rental company Avis features an image of a marathoner in a wheelchair, but the copy—"We honor participants of the New York Marathon for spirit, courage, and unrelenting drive"—addresses the racers at large. Since 2003, Avis has offered a suite of products and services that make vehicles more accessible to renters with disabilities, helping to make travel easier and less stressful for everyone. Most recently, Avis has become the official sponsor of the Achilles Track Club, an international organization that supports individuals with disabilities who want to participate in mainstream athletics. Says an Avis marketing executive, "The Achilles athletes themselves truly exemplify the character we strive for at Avis, with their 'we try harder' spirit. Some are amputees back from Iraq; others are visually impaired. But now all of them are setting their sights on what they can achieve."

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 environment

Factors that affect consumer buying power and spending patterns.

Markets require buying power as well as people. The **economic environment** consists of factors that affect consumer purchasing power and spending patterns. Nations vary greatly in their levels and distribution of income. Some countries have *subsistence economies*—they

consume most of their own agricultural and industrial output. These countries offer few market opportunities. At the other extreme are *industrial economies*, which constitute rich markets for many different kinds of goods. Marketers must pay close attention to major trends and consumer spending patterns both across and within their world markets. Following are some of the major economic trends in the United States.

Changes in Income

Throughout the 1990s, American consumers fell into a consumption frenzy, fueled by income growth, a boom in the stock market, rapid increases in housing values, and other economic good fortune. 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 recent recession of the early 2000s. In fact, we are now facing the age of the "squeezed consumer." Along with rising incomes in some segments have come increased financial burdens. Consumers now face repaying debts acquired during earlier spending splurges, increased household and family expenses, and saving ahead for college tuition payments and retirement.

These financially squeezed consumers have adjusted to their changing financial situations and are spending more carefully. *Value marketing* has become the watchword for many marketers. Rather than offering high quality at a high price, or lesser quality at very low prices, marketers 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.

Marketers should pay attention to *income distribution* as well as average income. Income distribution in the United States is still very skewed. At the top are *upper-class* consumers, whose spending patterns are not affected by current economic events and who are a major market for luxury goods. There is a comfortable *middle class* that is somewhat careful about its spending but can still afford the good life some of the time. The *working class* must stick close to the basics of food, clothing, and shelter and must try hard to save. Finally, the *underclass* (persons on welfare and many retirees) must count their pennies when making even the most basic purchases.

Over the past three decades, the rich have grown richer, the middle class has shrunk, and the poor have remained poor. The top 1 percent of American families now control 33.4 percent of the nation's net worth, up 3.3 points from 1989. By contrast, the bottom 90 percent of families now control 30.4 percent of the net worth, down 3.5 points.³⁶

This distribution of income has created a tiered market. Many companies—such as Nordstrom and Neiman-Marcus department stores—aggressively target the affluent. Others—such as Dollar General and Family Dollar stores—target those with more modest means. In fact, such 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, Levi-Strauss currently markets several different jeans lines. The Signature line of low-priced Levi's are found on the shelves of low-end retailers such as Wal-Mart and Target. Levi's moderately priced Red Tab line sells at retailers such as Kohl's and J.C. Penney. Boutique lines, such as Levi's (Capital E) and Warhol Factory X Levi's, sell in the Levi's Store and at high-end retailers such as Nordstrom and Urban Outfitters. You can buy Levi 501 jeans at any of three different price levels. The Red Tab 501s sell for around \$35, the Levi's (Capital E) for about \$100, and the Warhol Factory X Levi's for \$250 or more.³⁷

Changing Consumer Spending Patterns

Food, housing, and transportation use up the most household income. However, consumers at different income levels have different spending patterns. Some of these differences were noted over a century ago by Ernst Engel, who studied how people shifted their spending as their income rose. He found that as family income rises, the percentage spent on food declines, the percentage spent on housing remains about constant (except for such utilities as gas, electricity, and public services, which decrease), and both the percentage spent on most other categories and that devoted to savings increase. Engel's laws generally have been supported by later studies.

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.

Engel's laws

Differences noted over a century ago by Ernst Engel in how people shift their spending across food, housing, transportation, health care, and other goods and services categories as family income rises.

Natural Environment

Natural environment

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

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 during 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. 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 do remain available.

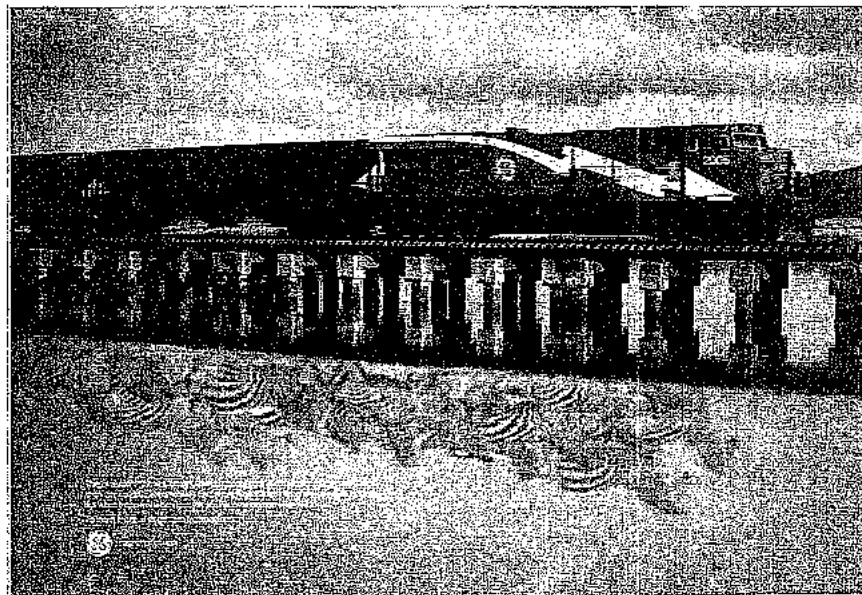
A second environmental trend is *increased pollution*. Industry will almost always damage the quality of the natural environment. Consider the disposal of chemical and nuclear wastes; the dangerous mercury levels in the ocean; the quantity of chemical pollutants in the soil and food supply; and the littering 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, like 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 the 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 set and enforce pollution standards and to 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 *environmentally sustainable* strategies and practices in an effort to create a world economy

☐ Responding to consumer demands for more environmentally responsible products, GE is using "ecomagination" to create products for a better world.



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.

Other companies are developing recyclable or biodegradable packaging, recycled materials and components, better pollution controls, and more energy-efficient operations. For example, HP is pushing legislation to force recycling of old TVs, computers, and other electronic gear:³⁸

HP wants your old PCs back. A few years ago, when environmentalists in Washington State began agitating to banish high-tech junk from landfills and scrub the nation's air and water of lead, chromium, mercury, and other toxins prevalent in digital debris, they found an unexpected ally: Hewlett-Packard. Teaming up with greens and retailers, HP took on IBM, Apple Computer, and several major TV manufacturers, which were resisting recycling programs because of the costs. Aided by HP's energetic lobbying, the greens persuaded state lawmakers to adopt a landmark program that forces electronics companies to foot the bill for recycling their old equipment. With HP's help, the movement to recycle electronic refuse, or "e-waste," is now spreading across the nation. HP's efforts have made it the darling of environmentalists, but its agenda isn't entirely altruistic. Take-back laws play to the company's strategic strengths. For decades the computer maker has invested in recycling systems, giving it a head start against competitors. Last year, HP recycled more than 70,000 tons of product, the equivalent of about 10 percent of company sales. And it collected more than 2.5 million units of hardware to be refurbished for resale or donation. No other electronics maker has a recycling and resale program on this scale. "We see legislation coming," says HP's vice-president for corporate, social, and environmental responsibility. "A lot of companies haven't stepped up to the plate. . . . If we do this right, it becomes an advantage to us."

Thus, 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 (see Real Marketing 3.2).

Technological Environment

Technological environment

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

The **technological environment** is perhaps the most dramatic force now shaping our destiny. Technology has released such wonders as antibiotics, robotic surgery, miniaturized electronics, laptop computers, 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. For example, what would you think about having tiny little transmitters implanted in all of the products you buy that would allow tracking 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.³⁹

Envision a world in which every product contains a tiny transmitter, loaded with information. As you stroll through the 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 tiny radio-frequency identification (RFID) transmitters—or "smart chips"—that can be embedded in the products you buy. Beyond benefits to consumers, the RFID chips also give producers and retailers an amazing new way to track their products electronically—anywhere in the world, anytime, automatically—from factories, to

Real Marketing

3.2 If a tree falls in the rain forest and no one is there to trumpet its eco-friendliness, does it still make a sound? It might—if that wood is destined for an electric guitar. Gibson Guitar, the iconic guitar maker, has worked since the late 1980s to make its wood supply environmentally sustainable. Gibson's electric-guitar division recently switched to 100 percent fair-trade-certified wood. Other Gibson divisions, including Baldwin Piano, plan to follow suit.

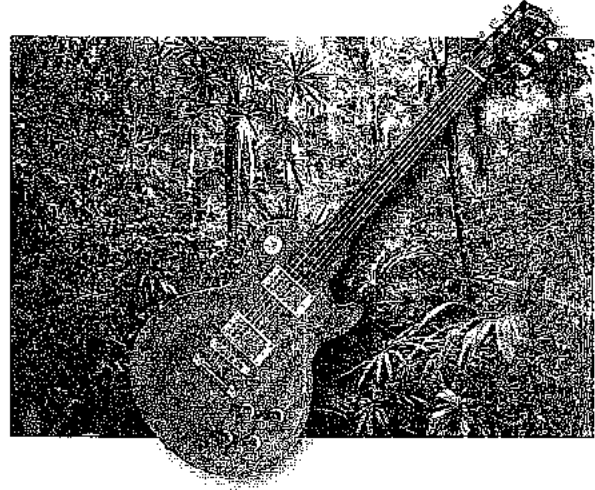
Yet, unlike Starbucks, The Body Shop, and other businesses that eagerly brandish their green deeds, Gibson CEO Henry Juszkiewicz doesn't much care to flaunt his environmental credentials (the guy drives a Hummer, after all). What matters to him is ensuring that Gibson has enough exotic wood, mostly mahogany, to keep making guitars for generations.

"We're mercenaries. We're a company. We're for-profit," Juszkiewicz says in his Nashville office, packed with so many music-industry mementos it looks like his own private Hard Rock Cafe. "I'm not a conservationist." High-end guitar enthusiasts, after all, demand that their instruments be made of exotic woods. But prices for exotics can swing wildly, governed by an unsteady supply and the threat that some species may be placed on an extinction watch list.

Juszkiewicz wanted to eliminate the guesswork by building a network of growers rather than relying on brokers scouring world markets for the best prices. He approached the Rainforest Alliance, a nonprofit conservation group, to discuss buying wood from Mexican suppliers certified as sustainable. (Such growers are graded against environmental, labor, and community standards—and for responsible harvesting.)

But that hardly made a dent in Gibson's sourcing problems. So the company hired away two Rainforest Alliance employees to source wood in Costa Rica and Brazil. "Within the first year of hiring these guys, they were able to develop significant sources," Juszkiewicz says. "We went from less than 1 percent usage of certified product to something like 80 percent." Since then, Gibson has forged a direct relationship with growers in Guatemala. That provides both stability of supply and quality, because Gibson is able to instruct farmers on its exacting specifications.

Initially, Juszkiewicz says, Gibson paid a premium for purchasing wood this way. Now buying direct creates modest savings—and the relationships help curb traditional slash-and-burn harvesting,



Gibson Guitar works to make its exotic hardwood supply environmentally sustainable. The company has learned that environmentally friendly practices can also be good business.

which threatens supplies of precious woods. "In the short run, a slight price increase won't necessarily hurt them because a guitar is a higher-value product," says an industry expert. "In the long run, it helps ensure that they can tap this supply not just in five years but in fifty years."

Tensie Whelan, executive director of the Rainforest Alliance, says she's seeing a critical mass of CEOs discovering that environmentally friendly practices can be good business. But she still teases Juszkiewicz, one of the first: "He'll say he's a businessman, that he's just out to make money. But believe me, he's passionate about wanting to leave the world a better place."

Source: Adapted from Ryan Underwood, "In Tune with the Environment," *Fast Company*, February 2005, p. 26.

warehouses, to retail shelves, to recycling centers. RFID technology is already in use. Every time consumers flash an ExxonMobil Speed-Pass card to purchase gas at the pump or breeze through an automated toll booth, they're using an RFID chip. Many large firms are adding fuel to the RFID fire. Procter & Gamble plans to have the chips on products in broad distribution as soon as 2008. And at the request of mega-retailers such as Wal-Mart, Best Buy, and Albertson's, suppliers have now begun placing RFID tags on selected products.

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, tape recorders, birth control pills, or earth satellites. John F. Kennedy did not know about personal computers, cell phones, iPods, or the Internet.



Technological environment: Technology is perhaps the most dramatic force shaping the marketing environment. Here, a herder makes a call on his cell phone.

New technologies create new markets and opportunities. However, every new technology replaces an older technology. Transistors hurt the vacuum-tube industry, xerography hurt the carbon-paper business, 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 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 research and development spending. Total U.S. R&D spending reached an estimated \$329 billion in 2006. The federal government was the largest R&D spender at about \$132 billion.⁴⁰ Scientists today are researching a wide range of promising new products and services, ranging

from practical solar energy, electric cars, and organ transplants to mind-controlled computers and genetically engineered food crops.

Today's research usually is carried out by research teams rather than by lone inventors like Thomas Edison, Samuel Morse, 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, three-dimensional televisions, 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 set up complex regulations for testing new drugs. The Consumer Product Safety Commission sets safety standards for consumer products and penalizes companies that fail to meet them. Such regulations have resulted in much higher research costs and in longer times between new-product ideas and their introduction. Marketers should be aware of these regulations when applying new technologies and developing new products.

Political 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.

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.

Several countries have gone further than the United States in passing strong consumerism legislation. For example, Norway bans several forms of sales promotion—trading stamps, contests, premiums—as being inappropriate or unfair ways of promoting products.

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)	Forbids the manufacture or sale of adulterated or fraudulently labeled foods and drugs. Created the Food and Drug Administration.
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)	Establishes a commission to monitor and remedy unfair trade methods.
Robinson-Patman Act (1936)	Amends Clayton Act to define price discrimination as unlawful. Empowers 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 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 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.
Consumer Product Safety Act (1972)	Establishes the Consumer Product Safety Commission and authorizes it to set safety standards for consumer products as well as exact penalties for failure 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 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)	Authorized the FTC to collect fees from sellers and telemarketers for the implementation and enforcement of a National Do-Not-Call Registry.

Thailand requires food processors selling national brands to also market low-price brands, so that low-income consumers can find economy brands on the shelves. In India, food companies must obtain special approval to launch brands that duplicate those already existing on the market, such as additional cola drinks or new brands of rice.

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 both by federal labeling laws and by 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 Federal Trade Commission 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, tell lies in their advertising, and deceive consumers through their 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.

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 Federal Trade Commission, the Food and Drug Administration, the Federal Communications Commission, the Federal Energy Regulatory Commission, the Federal Aviation Administration, the Consumer Product Safety Commission, and the Environmental Protection Agency.

Because such government agencies have some discretion in enforcing the laws, they can have a major impact on a company's marketing performance. At times, the staffs of these agencies have appeared to be overly eager and unpredictable. Some of the agencies sometimes have been dominated by lawyers and economists who lacked a practical sense of how business and marketing work. In recent years, the Federal Trade Commission has added staff marketing experts, who can better understand complex business issues.

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.

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 MySpace or on genealogy sites, which are easily searched by anyone with a PC.

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 consumer information from every mouse click consumers make at their Web sites. Critics are concerned that companies may now know *too much*, and that some companies 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.

Throughout the text, we present Real Marketing exhibits that summarize the main public policy and social responsibility issues surrounding major marketing decisions. These exhibits

discuss the legal issues that marketers should understand and the common ethical and societal concerns that marketers face. In Chapter 20, we discuss a broad range of 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. Shop at EddieBauer.com and have a percentage of your purchase go to support your local grade school. Purchase Habitat Coffee and help Habitat for Humanity build a house for a needy family. Order the City Harvest Tasting Menu at Le Bernardin in New York City, and the restaurant donates \$5 to City Harvest, which feeds the hungry by rescuing millions of pounds of edible food thrown away each year by the city's food businesses. Pay for these purchases with the right charge card and you can support a local cultural arts group or help fight heart disease.

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.

Consider the cause-marketing activities of Home Depot. In 2006, the home improvement retailer received the Golden Halo Award, given each year by the Cause Marketing Forum to one business for its leadership and outstanding efforts in the field of cause marketing. Here's just one example of Home Depot's many cause-marketing initiatives:

Home Depot is a founding sponsor of KaBoom!, a nonprofit organization that envisions a great place to play within walking distance of every child in America through the construction of community playgrounds around the nation. Home Depot provides financial support, materials, and volunteers in an ongoing effort to help KaBoom! accomplish this mission. For example, last year, Home Depot announced that it would work with KaBoom! to create and refurbish 1,000 playspaces in 1,000 days, a commitment of \$25 million and one million volunteer hours. Home Depot also works with its suppliers to develop cause-marketing initiatives that support KaBoom!. It recently partnered with Swing-N-Slide, a do-it-yourself backyard play system producer, to raise money by contributing \$30 to KaBoom! for each Brookview No-Cut backyard playground kit sold at Home Depot. Swing-N-Slide also released a special edition of its Racing Roadster toddler swing in Home Depot orange. Home Depot donates 5 percent of the retail price of each Racing Roadster swing to KaBoom!.

Cause-related marketing: Home Depot links with KaBoom! to "create a great place to play within walking distance of every child in America." Supporting KaBoom! helps Home Depot to build stronger relationships with customers by giving back to the communities its stores serve.



Such efforts “will help KaBoom! and Home Depot bring the gift of play to countless communities nationwide,” says KaBoom!’s CEO. They will also help Home Depot to build closer relationships with consumers in the communities that its stores serve.⁴¹

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. Spending on cause-related marketing has skyrocketed from only \$120 million in 1990 to more than 1.1 billion last year.⁴²

Cultural Environment

Cultural environment

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

The **cultural environment** is made up 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.

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 working, getting married, giving to charity, and being honest. 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, businesses, and governments.

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 in life than that they should not get 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 in order 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. At the dawn of the twenty-first century, it looked back to capture lessons from the past decade that might offer insight into the 2000s.⁴³ Yankelovich maintains that the “decade drivers” for the 2000s will primarily come from the baby boomers and Generation Xers. The baby boomers will be driven by four factors in the 2000s: “adventure” (fueled by a sense of youthfulness), “smarts” (fueled by a sense of empowerment and willingness to accept change), “intergenerational support” (caring for younger and older, often in nontraditional arrangements), and “retreading” (embracing early retirement with a second career or phase of their work life). Gen Xers will be driven by three factors: “redefining the good life” (being highly motivated to improve their economic well-being and remain in control), “new rituals” (returning to traditional values but with a tolerant mind-set and active lifestyle), and “cutting and pasting” (balancing work, play, sleep, family, and other aspects of their lives).

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.

PERSONAL VIEW 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. People use products, brands, and services as a means of self-expression, and they buy products and services that match their views of themselves.

The Yankelovich Monitor identifies several consumer segments whose purchases are motivated by self-views. Here are two examples:⁴⁴

Do-It-Yourselfers—Recent Movers. Embodying the whole do-it-yourself attitude, these active consumers not only tackle home improvement projects on their own, but they also view the experience as a form of self-expression. They view their homes as their havens, especially when it's time to kick back and relax. Undertaking decorating, remodeling, and auto maintenance projects to save money and have fun, Do-It-Yourselfers view their projects as personal victories over the high-priced marketplace. Mostly Gen-X families with children at home, these consumers also enjoy playing board and card games and renting movies. As recent movers, they're actively spending to turn their new home into a castle.

Adventurers. These adventuresome individuals rarely follow a single path or do the same thing twice. These folks view the experience as far more exciting than the entertainment value. Although they may be appreciative of the arts (including movies, museums, photography, and music), they are more likely to engage in activities most think are too dangerous, and they like to view themselves doing things others wouldn't dare to do.

Marketers can target their products and services based on such self-views. For example, MasterCard targets Adventurers who might want to use their credits cards to quickly set up the experience of a lifetime. It tells these consumers, "There are some things in life that money can't buy. For everything else, there's MasterCard."

THE COCOONING TRENDS In past decades, observers have noted several shifts in people's attitudes toward others. Recently, for example, some trend trackers have seen a new wave of "cocooning," in which people are going out less with others and staying home more to enjoy the creature comforts of home and hearth.

Nearly half of major league baseball's 30 clubs are luring smaller crowds this year. Empty seats aren't just a baseball phenomenon. Rock concert attendance was off 12 percent. Entertainment promoters blame everything from unseasonable weather to high gas prices for the lousy attendance numbers. . . . But industry watchers also believe shifting consumer behavior is at work: Call it Cocooning in the Digital Age. With DVD players in most homes, broadband connections proliferating, scores of new video game titles being released each year, and nearly 400 cable channels, consumers can be endlessly entertained right in their own living room—or home theater. Add in the high costs and bother of going out, and more and more people are trading the bleachers for the couch.⁴⁵

This trend suggests a greater demand for home improvement and entertainment products. "As the . . . 'nesting' or 'cocooning' trend continues, with people choosing to stay home and entertain more often, the trend of upgrading outdoor living spaces has [grown rapidly]," says a home industry analyst. People are adding bigger decks with fancy gas-ready barbeques, outdoor Jacuzzis, and other amenities that make the old house "home, sweet home" for family and friends.⁴⁶

THE LOSS OF CONFIDENCE 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 late 1980s saw 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. During the 1990s, waves of company downsizings bred cynicism and distrust. And in this decade, corporate scandals at Enron, WorldCom, and Tyco; record-breaking profits for big oil companies during a time of all-time high prices at the pump; and other questionable 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.

THE RISE OF AMERICAN PATRIOTISM People vary in their attitudes toward their society; patriots defend it, reformers want to change it, 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 11th 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 that Americans ranked number one among the 34 democracies polled.⁴⁷

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 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, that 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. In the words of one such consumer:⁴⁸

I am not an early adopter, a fast follower, or a mass-market stamper. But I am a gas-conscious driver. So that's why I was standing in a Toyota dealership . . . this week, the latest person to check out a hybrid car. Who needs \$40 fill-ups? After tooling around in three different hybrid car brands—Toyota, Honda and a Ford—I thought: How cool could this be? Saving gas money and doing well by the environment. Turns out there's a whole trend-watchers' classification for people who think like that: LOHAS. Lifestyles of Health and Sustainability. Buy a hybrid. Shop at places like Whole Foods. Pick up the Seventh Generation paper towels at Albertsons. No skin off our noses. Conscientious shopping, with no sacrifice or hippie stigma.

Business has responded by offering more products and services catering to such interests. For example, food producers have found fast-growing markets for natural and organic foods. 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'd 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 30,000 acres under plow, annual sales of \$278 million, and products available in 80 percent of America's supermarkets.

In total, the U.S. organic-food market will exceed \$15.5 billion in sales this year, a 325 percent increase since 1997. 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

ORGANIC FOOD
IS MORE THAN OUR BUSINESS. IT'S OUR
PASSION.

More than 20 years ago, Earthbound Farm started as a backyard garden where we grew food we felt good about feeding our friends and family. And that meant farming organically. Today, Earthbound Farm's commitment to the health of those who enjoy our harvest is stronger than ever. We're proud that our work helps make the world a healthier place and makes it easier for you to choose delicious organic salads, fruits and vegetables every day.
Earthbound Farm • Food to Live By • www.ebfarm.com

Food to Live By
The Earthbound Farm Organic Cookbook is now available wherever books are sold. More than 230 delicious recipes from the farm that brings organic produce to millions of people every week.

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 its product in 80 percent of America's supermarkets.

become more aware of what goes into Fido's food. Almost every major pet food brand now offers several types of natural foods.⁴⁹

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. Some futurists, however, 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.

"Americans are on a spiritual journey, increasingly concerned with the meaning of life and issues of the soul and spirit," observes one expert. People say "they are increasingly looking to religion—Christianity, Judaism, Hinduism, Islam, and others—as a source of comfort in a chaotic world." This new spiritualism affects consumers in everything from the television shows they watch and the books they read to the products and services they buy. "Since consumers don't park their beliefs and values on the bench outside the marketplace," adds the expert, "they are bringing this awareness to the brands they buy. Tapping into this heightened sensitivity presents a unique marketing opportunity for brands."⁵⁰

Responding to the Marketing Environment

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."⁵¹ 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 the 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. Rather than simply watching and reacting, these firms take aggressive actions to affect the public 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 ceaseless online rumor mill as something over which they have no control, others work proactively to prevent or counter negative word of mouth:⁵²

One e-mail recently circulating in Washington, D.C. said that a former government lawyer knew a guy whose dog had to be put to sleep because he walked on a floor cleaned with Procter & Gamble's Swiffer WetJet, licked his paws and developed liver disease. Although the claim was proved false by toxicologists, it has been neither quick nor easy for P&G to squelch the story. But P&G learned long ago that it was best to face a false rumor head-on. Years before, P&G endured a nasty rumor that the stars-and-moon trademark the company then displayed on its packaging was linked with Satanism. The rumor was disseminated through fliers and, much later, e-mails. At one point, fliers even claimed that P&G officials had appeared on TV talk shows confirming the rumor. Rather than letting the rumor lie, P&G reacted strongly by soliciting support from a range of religious leaders as well as from its employees, who worked to convince members of their own churches that the rumors were false. It publicized letters from the TV networks saying that no P&G executives had appeared on the TV shows. And once P&G identified people it said had spread the rumor—some of whom it says worked for competitors—it pressed charges to get them to confess and stop distributing the information. Some of them did confess, and litigation is still pending against others.

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.

Reviewing the Concepts

In this chapter and the next two 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* in order 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.

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

The company's *microenvironment* consists of other actors close to the company that combine to form the company's 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. Five types of customer *markets* include consumer, business, reseller, government, and international markets. *Competitors* vie with the company in an effort to serve customers better. Finally, various *publics* have an actual or potential interest in or impact on the company's ability to meet its objectives.

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, and cultural forces. These forces shape opportunities and pose threats to the company.

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

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 con-

sumer concern for value and shifting consumer spending patterns. Today's squeezed consumers are seeking greater value—just 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. Many companies now tailor their marketing offers to two different markets—the affluent and the less affluent.

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

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.

4. Explain the key changes in the political and cultural environments.

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* is made up of institutions and forces that affect a society's values, perceptions, preferences, and behaviors. The environment shows trends toward digital "cocooning," a lessening trust of institutions, increasing patriotism, greater appreciation for nature, a new spiritualism, and the search for more meaningful and enduring values.

5. Discuss how companies can react to the marketing environment.

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.

Reviewing the Key Terms

Baby boomers 69
Cultural environment 86
Demography 68
Economic environment 77

Engel's laws 78
Generation X 70
Generation Y 71
Macroenvironment 64

Marketing environment 64
Marketing intermediaries 65
Microenvironment 64
Natural environment 79

Political environment 82
Public 67
Technological environment 80

Discussing the Concepts

- Assume you are a marketing manager for an automobile company. Your job is to reposition an SUV model that was once identified as a "fuel guzzler." The model now comes with a superefficient, nonpolluting hybrid engine. Which of the seven types of publics discussed in the chapter would have the greatest impact on your plans to the more fuel-efficient model?
- What leading demographic factors must an Internet portal like AOL consider when marketing its products? Why is each factor so important to AOL?
- Discuss the *primary* reasons why a company would hire a lobbyist in Washington D.C. Would it make sense for the same company to also hire lobbyists at the state level? Why?
- Is it a certainty that a company will lose out on new opportunities if it does not keep up with new technology? Explain. Can you think of an industry segment where technology may not play an important role?
- What can a mobile phones marketer do to take a more proactive approach to the changes in the marketing environment? Discuss specific forces, including macroenvironmental and microenvironmental forces.
- Much of the U.S. culture is based on products from Hollywood, including movies and television shows. Choose a current top-rated television show and explain how it might affect the cultural environment.

Applying the Concepts

1. Go to Shonenjump.com and you will see a Web site devoted to Japanese Anime and Manga. In fact, these products are gaining in popularity in the U.S. market. What environmental forces are involved in the increased demand for this Japanese entertainment?
2. Most well-known cause-related marketing campaigns are launched by companies with substantial resources. In a small group, discuss

how smaller companies with more limited resources can implement successful cause-related marketing efforts. How can such organizations help the charities with which they partner while successfully promoting their own products and services?

Focus on Technology

Television is hitting the small screen—the mobile phones that more than 80 percent of adults now carry. Networks are now producing “mobisodes,” two-minute episodes produced exclusively for mobile phones. Services such as Verizon’s Vcast let you watch TV or stream content for a monthly fee. Who will subscribe to this? Certainly the younger segment of the Generation Y demographic—the growing 57 percent of U.S. teens, ages 13 to 17 years, who now own mobile phones. Although this is below the percentage of all adults owning mobile phones, this group displays the most intense connectivity to their phones and the most interest in new features.

1. Explain why younger Gen Yers might be more likely to adapt new mobile phone technologies as compared to other demographic groups.
2. What other macroenvironmental and microenvironmental forces might affect the growth of mobile TV?
3. How can other marketers use mobile marketing to communicate with and promote to consumers?

Focus on Ethics

In February, 2005, R.J. Reynolds began a promotion that included direct-mail pieces to young adults on their birthdays. The campaign, entitled “Drinks on Us,” included a birthday greeting as well as a set of drink coasters that included recipes for many drinks. The drink recipes, which were for mixed drinks of high alcohol content, included many distiller brands such as Jack Daniels, Southern Comfort, and Finlandia Vodka. With the recipe on one side of the coaster, the flip side included a tag line such as “Go ‘til Daybreak, and Make Sure You’re Sittin’.” Shortly after its release, the promotion came under attack from several attorney generals,

public advocacy groups, and the alcohol distillers themselves. The attorney generals and advocacy groups said the promotion endorsed heavy drinking. The distillers were angry because their brands were used without permission. In addition, the distillers argued that the promotion violates the alcohol industry advertising code, which prohibits marketing that encourages excessive drinking.

1. What prominent environmental forces come into play in this situation?
2. Is this promotion wrong? Should R.J. Reynolds stop the promotion?

Video Case American Express

Understanding consumers and their needs can be a challenge. As the American population diversifies, and as consumers redefine their values and preferences, marketers work to provide relevant products and services that meet consumers' changing needs and wants. For American Express, keeping up with environmental shifts translates into creating new marketing offers. American Express issued its first charge card in 1958. Within five years, it had more than one million cards in use. Eight years later, the company introduced the American Express Gold Card.

The company now offers more than 20 consumer cards and 14 small-business cards, in addition to its customizable corporate cards. Some cards target very specific consumers. For example, the IN:CHICAGO, IN:NYC, and IN:LA cards offer cardholders special perks, including saving 10 percent at select retailers, spas, and nightclubs; skipping lines at some of these cities' hottest clubs; access to select VIP rooms; and sav-

ings on concert tickets. By targeting such specific consumers, American Express builds strong relationships with the right customers.

After viewing the video featuring American Express, answer the following questions about the marketing environment.

1. Visit the American Express Web site (www.americanexpress.com) to learn more about the different cards that American Express offers. Select three of the macroenvironmental forces discussed in the chapter. How do the different card options reflect the changes in those forces?
2. What sections of the Web site reflect American Express's efforts to deal with the various publics in its microenvironment?
3. Is American Express taking a proactive approach to managing its marketing environment? How?

Americans love their cars. In a country where SUVs sell briskly and the biggest sport is stockcar racing, you wouldn't expect a small, hybrid, sluggish vehicle to sell well. Despite such expectations, Honda successfully introduced the Insight in 1999 as a 2000 model. Toyota closely followed Honda's lead, bringing the 2001 Prius to market one year later. Introducing a fuel sipper in a market where vehicle size and horsepower reigned led one Toyota executive to profess, "Frankly, it was one of the biggest crapshoots I've ever been involved in." Considering these issues, it is nothing short of amazing that a mere five years later, the Prius is such a runaway success that Toyota Motor Sales U.S.A. President Jim Press has dubbed it "the hottest car we've ever had."

THE NUTS AND BOLTS OF THE PRIUS

Like other hybrids currently available or in development, the Prius (pronounced PREE-us, not PRY-us) combines a gas engine with an electric motor. Different hybrid vehicles employ this combination of power sources in different ways to boost both fuel efficiency and power. The Prius runs on only the electric motor when starting up and under initial acceleration. At roughly 15 mph, the gas engine kicks in. This means that the auto gets power from only the battery at low speeds, and from both the gas engine and electric motor during heavy acceleration. Once up to speed, the gas engine sends power directly to the wheels and, through the generator, to the electric motor or battery. When braking, energy from the slowing wheels—energy that is wasted in a conventional car—is sent back through the electric motor to charge the battery. At a stop, the gas engine shuts off, saving fuel. When starting up and operating at low speeds, the auto does not make noise, which seems eerie to some drivers and to pedestrians who don't hear it coming!

The original Prius was a small, cramped compact with a dull design. It had a total of 114 horsepower—70 from its four-cylinder gas engine and 44 from the electric motor. It went from 0 to 60 in a woeful 14.5 seconds. But it got 42 miles per gallon. Although the second-generation Prius, introduced as a 2004 model, benefited from a modest power increase, the car was still hardly a muscle car. But there were countless other improvements. The sleek, Asian-inspired design was much better looking than the first-generation Prius and came in seven colors. The interior was roomy and practical, with plenty of rear legroom and gobs of storage space.

The new Prius also provided expensive touches typically found only in luxury vehicles. A single push button brought the car to life. A seven-inch energy monitor touch screen displayed fuel consumption, outside temperature, and battery charge level. It also indicated when the car was running on gas, electricity, regenerated energy, or a combination of these. Multiple screens within the monitor also provided controls for air conditioning, audio, and a satellite navigation system. But perhaps the most important improvement was an increase in fuel efficiency to a claimed 60 miles per gallon in city driving.

A RUNAWAY SUCCESS

Apparently, consumers liked the improvements. In its inaugural year, the Prius saw moderate sales of just over 15,000

units—not bad considering Toyota put minimal promotional effort into the new vehicle. But for 2005, more than 107,000 Priuses were sold in the United States alone, making it Toyota's third-best-selling passenger car following the Camry and Corolla. Perhaps more significantly, Toyota announced that as of April, 2006, the Prius had achieved a major milestone, having sold over 500,000 units worldwide.

The rapid increase in demand for the Prius has created a rare automotive phenomenon. During a time period when most automotive companies have offered substantial incentives in order to move vehicles, many Toyota dealers have had no problem getting premiums of up to \$5,000 over sticker price for the Prius. By June 2004, waiting lists for the Prius stretched to six months or more. At one point, spots on dealers' waiting lists were being auctioned on eBay for \$500. By 2006, the Prius had become the "hottest" car in the United States, based on industry metrics of time spent on dealer lots, sales incentives, and average sale price relative to sticker price. In fact, demand for new Priuses is currently so strong, that Kelley Blue Book puts the price of a used 2005 Prius with 20,000 miles at \$25,970, more than \$4,500 higher than the original sticker price.

There are many reasons for the success of the Prius. For starters, Toyota's targeting strategy has been spot-on from the beginning. It focused first on early adopters, techies who were attracted by the car's advanced technology. Such buyers not only bought the car, but found ways to modify it by hacking into the Prius's computer system. Soon, owners were sharing their hacking secrets through chat rooms such as Priusenvy.com, boasting such modifications as using the dashboard display screen to play video games, show files from a laptop, watch TV, and look at images taken by a rear-view camera. One savvy owner found a way to plug the Prius into a wall socket and boost fuel efficiency to as much as 100 miles per gallon.

By 2004, Toyota had skimmed off the market of techies and adopters. It knew that the second-generation Prius needed to appeal to a wider market. Toyota anticipated that environmentally conscious consumers as well as those desiring more fuel efficiency would be drawn to the vehicle. To launch the new Prius, Toyota spent more than \$40 million spread over media in consumer-oriented magazines and TV. With the accuracy of a fortune teller, Toyota hit the nail right on the head. In the summer of 2004, gasoline prices began to rise—going to over \$2 a gallon in some locations. By the summer of 2005, gas prices had skyrocketed to over \$3 a gallon. As a result, buyers moved toward smaller SUVs, cars, and hybrids while sales of full-sized SUVs such as the Ford Expedition, Chevy Tahoe, and Hummer H2 fell significantly.

In addition to Toyota's effective targeting tactics, various external incentives have helped to spur Prius sales. For example, some states allow single-occupant hybrids in HOV (High Occupancy Vehicle) lanes. Some cities, including Albuquerque, Los Angeles, San Jose, and New Haven, provide free parking for hybrids. But the biggest incentives contribute real dollars toward the price of the Prius, making it more affordable. Currently, the federal government gives a tax break of up to \$3,150. This tax break will expire under the

current rules in 2007, but there are various efforts to extend tax incentives for the Prius and other hybrid vehicles.

Some state governments are also getting in the game. West Virginia, New York, and various other states are offering tax breaks over and above any IRS kickbacks. The most generous is Colorado, giving a tax credit of up to \$3,434. And if a chunk of money from these two sources isn't enough, employees of certain companies can cash in for even more. A select few companies are anteing up in order to do their bit for the environment. Eco-friendly Timberland contributes \$3,000 as well as preferred parking spaces. Google and Hyperion Solutions, the California-based software company, each give employees a whopping \$5,000 toward hybrids such as the Prius.

FUELING THE HYBRID CRAZE

Although Honda's Insight was the first to market in the United States, its sales have been miniscule compared to the Prius. Thus, after the 2006 model year, Honda will drop the Insight. And although Toyota's Japanese rival has had much better results with its Civic hybrid, its sales goal of 25,000 units for 2006 is less than one-fourth of the Prius's anticipated sales. The overall category of gas-electric vehicles in the United States appears to be hotter than ever, with unit sales up 140 percent from 2004 to 2005, to a total of 205,749 units. The Prius alone commands over 50 percent of the market and is largely responsible for category growth.

It appears that consumers like their green cars very green. Whereas sales of the ultra-high-mileage Prius and Civic have grown significantly each year since their introductions, less efficient (and more expensive) hybrid models such as the Honda Accord, Toyota Highlander, Ford Escape, and Mercury Mariner have had flat or even declining sales. Some analysts believe it is because consumers are doing the math and realizing that even with better fuel efficiency, they may not save money with a hybrid. In fact, a widely publicized report by *Consumer Reports* revealed that of six hybrid models studied, the Prius and the Civic were the only two to recover the price premium and save consumers money after five years and 75,000 miles.

However, although car makers are scaling back on some models, almost every automotive nameplate wants a piece of the growing pie. Ford blames the lack of success with the Escape and Mariner on a bogged promotional effort. With a lofty goal of producing 250,000 hybrids per year by 2010, it plans to put more money into campaigns for its existing models as well as introduce new models. General Motors also has big plans, beginning with the Saturn Vue Greenline, which will have the advantage of a low \$2,000 price tag for the hybrid option. GM plans to extend the Saturn hybrid line to almost every vehicle in the lineup. It also plans to introduce hybrids in other divisions, including full-size trucks and SUVs. And while Subaru, Nissan, Hyundai, and Honda are all promoting upcoming hybrid models, Audi, BMW, and numerous others are busy developing hybrid vehicles of their own.

Even with all the activity from these automotive brands, Toyota is currently the clear leader in hybrid sales and will likely be for some time to come. 2006 Prius sales have actually dropped, but only because the company has dedicated production capacity to the 2006 Camry hybrid. The supply limitation has made demand for the Prius stronger than ever. In the past, Toyota Vice Chairman Fujio Cho had asserted that the company would not open a second plant for the production of hybrids, but he has quickly changed his tune. "[Given] the way American consumers have snapped up the [Prius]," he says, "I have been urging the company, almost as a matter of strategy, to produce [it] in the U.S." Given that Toyota plans to offer hybrid versions for all vehicle classes and quadruple worldwide hybrid sales to one million vehicles by 2012, it would seem that Mr. Cho's statement is conservative.

Questions for Discussion

1. What microenvironmental factors affected the introduction and relaunch of the Toyota Prius? How well has Toyota dealt with these factors?
2. Outline the major macroenvironmental factors—demographic, economic, natural, technological, political and cultural—that affected the introduction and relaunch of the Toyota Prius. How well has Toyota dealt with each of these factors?
3. Evaluate Toyota's marketing strategy so far. What has Toyota done well? How might it improve its strategy?
4. GM's marketing director for new ventures, Ken Stewart, says, "If you want to get a lot of hybrids on the road, you put them in vehicles that people are buying now." This tends to summarize the U.S. automakers' approach to hybrids. Would you agree with Mr. Stewart? Why or why not?

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