

LECTURE NOTES

CHAPTER OPENING EXAMPLE

WE LIVE IN EXCITING TIMES

- The digital world is changing faster than anyone imagined possible.
- Enhanced technology enables one product to perform many functions, which allows people greater connectivity, freedom, efficiency and enjoyment.
- Taking advantage of this trend of digital convergence, and using its capabilities and competitive advantage in the respective areas, Samsung Electronics has been developing innovative products, providing cutting-edge technologies and merging various complex technologies.
- Digital convergence came about because the marketing environment changed. These include changes in consumer preference, regulatory environment, competitive forces and technological advancements.
- Many businesses operate in environments where important forces changes. Anticipating and responding to changes such as those experienced by the entertainment industry often mean the difference between marketing success and failure.

I. ENVIRONMENTAL SCANNING IN THE NEW MILLENIUM [LO1]

Environmental scanning is the process of continually acquiring information on events occurring outside the organization to identify and interpret potential trends.

A. Tracking Environmental Trends

- Environmental trends typically arise from five sources: social, economic, technological, competitive, and regulatory forces.
- An environmental scan may uncover a many trends that affect marketing in the future.
- Environmental scanning also involves explaining trends.

B. An Environmental Scan of Today's Marketplace

Figure 3-2 identifies key trends from an environmental scan that impacts today's marketplace for the five environmental forces.

II. SOCIAL FORCES [LO2]

Social forces of the environment include the demographic characteristics of the population and its values. Changes in these forces can have a dramatic impact on marketing strategy.

A. Demographics

- Describing a population according to selected characteristics such as age, gender, ethnicity, income, and occupation is referred to as **demographics**.
- Organizations such as the Population Reference Bureau and the United Nations profile the world population.
- The Singapore Department of Statistics provide information about the local Singapore population.

1. The World Population at a Glance.

- a. There are about 6.7 billion people in the world. By 2050, the population is likely to grow to 9.2 billion.
 - The major increases (or *population explosion*) will occur in the developing countries of Africa, Asia, and Latin America.
 - By 2050, India is predicted to have the largest population (1.6 billion) with China a close second (1.4 billion).
- b. The age structure of the world's population is shifting. The number of people 65 and older will more than double in the coming decades, while the number of youths will grow at a much slower rate.
- c. Global income levels and living standards have risen, although wide differences exist between countries.
- d. Global population trends have many marketing implications.
 - The relative size of countries like India and China represent huge markets for many product categories.
 - Elderly populations in developed countries are likely to save less and spend money on health care, travel, and other retirement-related products and services.
 - Economic progress in developing countries will lead to growth in entrepreneurship, infrastructure, and exports.

2. **The Asian Population.** The population of Asia reached 4.03 billion in 2007 and will grow to around 5.27 billion by 2050.

- a. In 2007, Asia had six countries out of the top 10 countries with the highest population.
- b. However, the Asian population is aging, and the percentage of the Asian population in the 60 years and above age group will increase from 10.2 percent in 2005 to 28.2 percent in 2050.
- c. Fertility rates in Asia were high at 5.04 children per woman in the period 1970-75, compared to 2.16 in Europe and 2.01 in North America during the same period.
- d. The life expectancy for Asia is forecasted to be 69.0 years in the period 2005-10, which is above the world average of 67.2 years but below North America's 78.5 and Europe's 74.6 during the same period. I will, however, rise 77.4 for the period 2045-50. Japan is the country with the highest life expectancy globally.

3. Generational Cohorts.

- a. The age ranges or boundaries identifying generational cohorts are defined differently by different people. These cohorts are based on factors such as social and economic circumstances, lifestyles, and buying behaviors, all of which have implications for marketing strategy.
 - One study identifies four generational cohorts in China based on political and social circumstances. These refer to those belonging to the Republican era, the Consolidation era, the Great Cultural Revolution era, and the Social Reform era.
 - A Vietnamese MBA graduate suggest four generational cohorts in Vietnam based on political and economic circumstances. These refer to those belonging to the Postwar cohort, the Transition cohort, the Open Economy cohort, and the Global cohort.
- b. The **baby boomers**—the generation of children born between 1946 and 1964—are growing older.
 - In Singapore, this group represents 30.9 percent of the resident population. In Japan, the baby boomers represent 26.2 percent of the population
 - Baby boomers' future interests will be for travel, health, and retirement, and should be receptive for products that make them feel younger.
- b. **Generation X** includes those born between 1965 and 1976—a period also known as the "*baby bust*" due to the declining number of births.

- These consumers tend to be cynical and pessimistic, skeptical of religion, independent, and entrepreneurial. They value openness and diversity and are technologically literate.
 - Many in this group are parents at present and thus buy products and services catered to their children.
- c. **Generation Y** includes the cohort born between 1977 and 1994, the years many baby boomers began having children. This period is also called the “*echo-boom*” or “*baby boomlet*.”
- Generation Y exerts influence on music, sports, computers, video games, and cell phones.
 - The term *millennials* refers to younger members of Generation Y born since 1994.
- d. Marketers have developed *generational marketing* programs for each generational cohort since members of each generation have distinctive attitudes and consumer behavior.

4. The Asian Household.

- a. In the 1950s and early 1960s, three generation households, where a child lived with his parents and grandparents, were quite common in Asia. Today, many households are two-generation households, with children living with their parents.
- b. The incidence of co-habitation of households composed of unmarried partners is low and the occurrence of blended family, one formed by two previously separate units merging into a single household, is also low.

MARKETING MATTERS >> A MARKETING CHALLENGE

- a. There are about 1.07 billion members of the Y generation cohort in Asia Pacific reaching or approaching the age of 21. At this time, they make many life decisions for the first time and begin developing brand loyalties that can last a life time.
- b. Generation Y is known as a savvy, demanding, and sometimes marketing-skeptical group, so marketers are eager to better understand them.
- c. Marketers are designing unique product and service offerings – and maybe a few more ads, specifically aimed at this cohort.

5. Population Shifts.

- a. Within Asia, migration has generally taken place to regions of rapid sustained economic growth.
 - Such regions also exhibit declining fertility rates. The three main exporters of contract labor in Asia are the Philippines, Thailand and Indonesia.
 - The regions of rapid economic growth have also attracted managerial, professional, and technical manpower from within and outside Asia.
- b. Populations are also shifting from rural to urban areas.
 - The percentage of urban households in the Asia-Pacific region increased from 33.0 percent in 1980 to 37.8 percent in 2006.
 - Japan has a high level of urbanization at 82.3 percent in 2006 while Singapore and Hong Kong are virtually 100 percent urbanized.
 - In urbanized areas, the shift is from city centers to the suburbs as the city center becomes over-developed and congested.
- c. The U.S. Census Bureau has developed a classification system to describe the locations of the population. The system consists of the 2 types of *statistical areas*:
 - A *metropolitan statistical area* has at least one urbanized area of 50,000 or more people, and adjacent territory that has a high degree of social and economic integration. There are 362 metropolitan statistical areas that include 83 percent of the population.
 - A *micropolitan statistical area* has at least one urban cluster of at least 10,000 but less than 50,000 people and adjacent territory that has a high degree of social and economic integration.
 - If a metropolitan statistical area has a population of 2.5 million or more, it may be subdivided into smaller areas called *metropolitan divisions*.
 - Adjacent metropolitan and micropolitan statistical areas may be grouped into *combined statistical areas*.

6. Racial and Ethnic Diversity.

Racial and ethnic diversity varies across the different Asian countries.

- a. Some countries tend to be more homogenous while others tend to be more racially heterogeneous.

- b. In countries where ethnicity tends to be relatively homogeneous, marketing efforts may be simplified as these may be focused on only one group.
- c. Single and large ethnic groups, such as the Japanese or Korean people, tend to conform to one another and resist changes from external sources.
- d. In many countries where there is cultural diversity, marketers are developing **multicultural marketing** programs, which are combinations of the marketing mix that reflect the unique attitudes, ancestry, communication preferences, and lifestyles of different races.
- e. Racial and ethnic groups tend to be concentrated in certain geographic regions within the country, enabling companies to combine their multicultural marketing efforts with regional marketing.

B. Culture

- **Culture** incorporates the set of values, ideas, and attitudes that are learned and shared among the members of a group.
- Marketers monitor national and global cultural trends since they influence consumer-buying patterns.

1. The Changing Attitudes and Roles of Men and Women.

- a. One of the most notable cultural changes in the past 30 years has been in the attitudes of men and women in the market place.
 - In the 1970s and 1980s, ads began to create a bridge between genders. In the 1990s, marketing to women focused on the challenge of balancing family and careers.
 - Today, there is equality in the marketplace. Generation Y represents the first generation of women who have no collective memory of this dramatic change.
- b. Several factors have contributed to the change in attitudes:
 - Many young women had career mothers who provided a reference point for their lifestyle choices.
 - There has been increased participation by women in organized sports.
 - The Internet has made gender, race, and ethnicity distinctions disappear.
 - Many of the 1.05 billion Asian Generation Y women view themselves as confident, strong, and feminine.

- Most adults now believe that men and women should share most responsibilities equally.
- Many companies that had a consumer base that was primarily men or primarily women in the past are preparing for growth from the other gender.
- In some Asian countries, gender roles may still be very prevalent.

2. Asian Values

- a. Cultural values vary with age but tend to be similar for men and women. Asian values differ from western values in the Asians tend to be more collectivistic while westerners tend to be more individualistic.
 - b. In Asia, power distance (the extent to which less powerful members of society accept that power is distributed unequally) is generally greater compared to the West.
 - c. Despite strong economic growth and modernization, superstition still holds sway over some communities in Asia.
- b. **Value consciousness**—the concern for obtaining the best quality, features, and performance of a product or service for a given price that drives consumption behavior.

LEARNING REVIEW

1. Describe three generational cohorts.

Answer: (1) Baby boomers are those among the Asian population born after World War II, between 1946 and 1964. (2) Generation X are those the Asian population born between 1965 and 1976. (3) Generation Y are those among the Asian population born between 1977 and 1994.

2. Why are many companies developing multicultural marketing programs?

Answer: (1) Some countries in Asia such as the Philippines and Indonesia have great diversity in race and ethnicity (2) An accurate understanding of the culture of each group is essential if marketing efforts are to be successful.

3. How are important values such as health and fitness reflected in the marketplace today?

Answer: In Asian and other parts of the world, there is increasing concern about health and fitness. Many people are concerned about their weight and bodies. In response, companies have developed low-calorie, low-fat and healthier types of food to target these consumers.

III. ECONOMIC FORCES [LO3]

The **economy** pertains to the income, expenditures, and resources that affect the cost of running a business and household.

A. Macroeconomic Conditions

- Companies monitor inflationary or recessionary economic states.
 - a. In an inflationary economy, the cost to produce and buy goods and services rises as prices increase. If prices rise faster than consumer incomes, purchases decline.
 - b. In a recessionary economy, activity is slow. Businesses decrease production, unemployment rises, and consumers have less money to spend.
- Consumer spending is affected by consumer expectations of the future.
 - a. There are many surveys of consumer expectations. AC Nielsen conducts a global consumer confidence survey – the Global Consumer Confidence Index – every six months for some 52 countries.
 - Globally, there is a drop of consumer confidence across the board due to the global financial crisis. Asian countries that exhibited poor consumer sentiments include Taiwan, which had a score of 69, Japan 44, and South Korea 36.
 - b. Manufacturers and retailers of cars, furniture, and major appliances closely monitor these indices to avoid producing too much or too little.

B. Consumer Income

A consumer's ability to buy is related to income, which consists of gross, disposable, and discretionary components.

1. Gross Income.

- a. **Gross income** is the total amount of money made in one year by a person, household, or family unit.
- b. Figure 3-10 shows the household gross income and disposable incomes in 2006 for countries in the Asia Pacific.

Web Link

How Similar or Different is your country?

- The Asian Development Bank monitors the birth rates, population density, population growth, age distribution, household size, life expectancy, literacy rate, GDP per capita and labor force participate rate of various Asian countries.
- Visit the Asian Development Bank online statistical database system to make a comparison.

2. Disposable Income.

- a. Disposable income** is the money a consumer has left after paying taxes to use for food, shelter, clothing, and transportation.
- b.** If taxes rise faster than incomes, consumer must economize.
- c.** Consumers' disposable income has increased because the marketplace has produced products that are more durable and use less energy. Some spend it on new "necessities" such as vitamins and personal hygiene products.

3. Discretionary Income.

- a. Discretionary income** is money that remains after paying for taxes and necessities and is used for luxury items like vacations. The problem in defining what is discretionary versus disposable income is determining what is a luxury and what is a necessity.
- b.** The percentage of income spent on food and housing declines as incomes rise, which increases discretionary income.
- c.** Discretionary expenditures also increase if savings declines.

IV. TECHNOLOGICAL FORCES [LO4]

Technology refers to inventions or innovations from applied science or engineering research. Each new wave of technological innovation can replace existing products and companies in our society.

A. Technology of Tomorrow

Some of the most recent dramatic technological changes are:

1. Internet and mobile TV.
2. Nanotechnology, the science of very small electronics, leading to smaller microprocessors, fuel cells, and cancer-detection sensors.
3. Touch-screen and gesture-based navigation will change how we interface with computers, phones, and most electronics.
4. Reusable lines of software code.

B. Technology's Impact on Customer Value

Advances in technology have important effects on marketing:

- The cost of technology is decreasing dramatically. As a result, consumers now assess value on the basis of other dimensions, such as quality, service, and relationships.
- Technology also provides value through the development of new products, which may replace existing ones.
- Technology can also change existing products the ways they are produced.
 - a. Many companies use technological developments to *recycle* products through the manufacturing process several times.
 - b. Some manufacturers use *precycling*, efforts by them to reduce waste by decreasing the amount of packaging they use.

C. Electronic Business Technologies

- The **marketspace** is an information- and communication-based electronic exchange environment mostly occupied by sophisticated computer and telecommunication technologies and digitized offerings.
- **Electronic commerce** is any activity that uses some form of electronic communication in the inventory, exchange, advertisement, distribution, and payment of goods and services.

- Many companies have adapted Internet-based technology to internally support their electronic business strategies.
 - a. An **intranet** is an Internet-based network used within the boundaries of an organization.
 - b. **Extranets**, which use Internet-based technologies used to permit communication between a company and its suppliers, distributors, and other partners.

MARKETING MATTERS >> TECHNOLOGY

- a. Electronic technologies are going through an incredible transformation. It started when network engineers were looking for a way to transmit an internet connection without wires.
- b. Wi-Fi will soon grow beyond internet connections and be found in most consumer electronics devices.
- c. The three reasons why the revolution is taking place so quickly: (1) it is inexpensive; (2) the technology is fast and powerful; (3) it works.

V. COMPETITIVE FORCES [LO5]

Competition refers to the alternative firms that could provide a product to satisfy a specific market's needs. Each organization must consider its present and potential competitors in designing its marketing strategy.

A. Alternative Forms of Competition

There are four basic types of competition that follow a continuum:

- *Pure competition* occurs when every company has similar products. Distribution may be more important than other marketing mix elements to create a point of difference.
- *Monopolistic competition* occurs when many sellers compete with their products on a substitutable basis. Coupons or sales are frequently used marketing tactics.
- *Oligopoly* occurs when just a few companies control the majority of industry sales. Price competition is not desirable because it reduces profits for the few firms involved.

- *Pure monopoly* occurs when only one firm sells the product.
 - a. Marketing plays a small role because the state or federal government regulates the firm's activities.
 - b. Governments seek to ensure price protection for buyers, although recently there has been a movement towards deregulation, which has encouraged price competition.

USING MARKETING DASHBOARDS

Assessing Competition is a Key to Success

The Effect of Price Reductions on Sales Increases

The combination of the bargaining power of suppliers and buyers and the number of similar firms or substitute products allow you to make an overall assessment of competitors and their likely actions.

Your Challenge.

You believe that there is a strong relationship between price and sales, and that a reduction in price would lead to an increase in sales.

$$\text{Sales Increase \%} = \text{Price Reduction \%} \times \text{Ratio of Sales Increase to Price Reduction}$$

Your goal is to increase sales by 10%.

Your Findings. After studying the prices of similar products and their sales you estimate that a 1 percent decrease in price will lead to a 4 percent increase in sales. Based on your assessment of the components of competition you estimate that competitors will meet half of your price reduction.

Your Action. To achieve the 10 percent increase in sales you estimate that a 5 percent price reduction is needed ($5\% \times 2/1$).

B. Components of Competition

In developing a marketing program, companies must consider the factors that drive competition and used to create a barrier to entry, increase brand awareness, or intensify a fight for market share.

1. Entry.

- a. A firm must assess the likelihood of new entrants since more producers increase industry capacity and lower prices.

b. Barriers to entry are business practices or conditions that make it difficult for new firms to enter the market.

- Barriers to entry can be in the form of capital requirements, advertising expenditures, product identity, distribution access, or switching costs.
- The higher the expense of the barrier, the more likely it will deter new entrants.

2. Power of Buyers and Suppliers.

a. Powerful buyers exist when:

- they are few in number;
- there are low switching costs; or
- the product represents a significant share of the buyer's total costs, which leads the buyer to exert pressure for price competition.

b. A supplier gains power when the product is critical to the buyer and it has built up switching costs.

3. Existing Competitors and Substitutes.

a. Competitive pressures among existing firms depend on the rate of industry growth.

b. In slow-growth settings, competition is more heated for any possible gains in market share.

c. High fixed costs also create competitive pressures for firms to fill production capacity.

C. Small Businesses as Competitors

- While large companies provide familiar examples of the forms and components of competition, small businesses make up the majority of the competitive landscape for most businesses.
- Small in medium enterprises in Malaysia account of 99.2 percent of business establishments, 65 percent of employment of full-time workers, 47 percent of value added, and 44 percent of total output of the country.
- There is a strong correlation between national economic growth and the level of new small business activity.

LEARNING REVIEW

4. What is the difference between a consumer's disposable and discretionary income?

Answer: Disposable income is the money a consumer has left after paying taxes to use for food, clothing, and shelter. Discretionary income is the money that remains after paying for taxes and necessities.

5. How does technology impact customer value?

Answers: (1) Consumers assess value on the basis of other dimensions, such as quality, service, and relationships, due to the decline in the cost of technology. (2) Technology provides value through the development of new products. (3) Technology has changed the way existing products are produced through recycling and precycling.

6. In pure competition there are a _____ number of sellers.

Answer: large

VI. REGULATORY FORCES [LO6]

Regulation consists of restrictions that laws in different Asian countries place on business with regard to the conduct of its activities.

- Regulation exists to protect companies as well as consumers.
- For consumers, regulation exists for protection against unfair trade practices and ensure safety.

A. Protecting Competition

Major legislation in many Asian countries has been passed to encourage competition, which is deemed desirable because it permits the consumer to determine which competitor will succeed or fail.

- Japan's Anti Monopoly Act was amended to expand the antitrust investigation and enforcement authority of the Fair Trade Commission of Japan.
 - a. The Antimonopoly Law serves to promote fair and free competition and show the boundaries between suitable competition and unfair competition in business activities.
 - b. The Law Prohibiting Unfair Competition applies domestically in Japan to activities classified as unfair under international treaties. Under this law, the consumers or consumer groups cannot make complaints directly but must depend on the Fair Trade Commission to take action.

B. Product-Related Legislation

Several laws address the product component of the marketing mix:

1. Company Protection.

- a. *Patent law.* Gives inventors the right to exclude others from making, using, or selling products that infringe the patented invention.
- b. *Copyright law.* Gives the author of a literary, dramatic, musical, or artistic work the exclusive right to print, perform, or otherwise copy that work. Copyright is secured automatically when the work is created.
- c. In Singapore, *Patent Act (Cap 221), the Trade Mark Act (Cap 332) together with subsidiary legislations, Trade Mark Rules and Trade Marks (International) Rules, and the Copy Act (Cap 63).* Digital technology has necessitated new copyright legislation to improve protection of copyrighted digital products.

2. Consumer Protection.

- a. Law relating to food, drugs, and cosmetics:
 - In Malaysia, amendments were made in 2006 to the Malaysian Food Regulations 1985 for mandatory nutrition labeling and regulated nutrition claims.
- b. Other consumer protection laws have a broader scope:
 - In Indonesia, Law No.8/1999 was passed to protect consumers.
- c. Many of these laws came about because of **consumerism**, a grassroots movement started in many Asian countries to increase the influence, power, and rights of consumers in dealing with institutions.
- d. Consumers today demand ecologically safe products and ethically and socially responsible business practices.

3. **Both Company and Consumer Protection.** Trademarks are intended to protect both the firm selling a trademarked product and the consumer buying it.
 - a. Historically, the first user had the exclusive right to use the particular word, name, or symbol.
 - b. A company can lose its trademark if it becomes generic, which means that it has primarily become a common descriptive word for the product. Coca-Cola, Xerox, and Kleenex are registered trademarks; aspirin and escalator are generic terms that lost trademark protection.
 - c. Recently, the U.S. Supreme Court held that a company may obtain trademarks for colors associated with their products since consumers may associate a particular color with a specific brand over time (Owens-Corning's pink insulation).

C. Pricing-Related Legislation

The pricing component of the marketing mix is the focus of regulation from two perspectives:

1. *Price fixing.* Not allowed because it is anti-competitive. In Thailand, legislation related to price fixing is the Price Fixing and Anti-Monopoly Act 1979.
2. *Price discounting.* Certain forms are allowed.
 - a. Quantity discounts, in which buyers can be charged different prices for a product provided there are differences in manufacturing or delivery costs.
 - b. Promotional allowances or services may be given to buyers on an equal basis proportional to volume purchased.
 - c. A firm can meet a competitor's price "in good faith."

D. Distribution-Related Legislation

The government has four concerns:

1. *Exclusive dealing* is an arrangement a manufacturer makes with a reseller to handle only its products of one manufacturer and not those of competitors and is illegal under the Clayton Act when it substantially lessens competition.
2. *Requirement contracts* require a buyer to purchase all or part of its needs for a product from one seller for a period of time. These contracts are not always illegal, depending on a court's interpretation of their impact on distribution.

3. *Exclusive territorial distributorships*, a manufacturer grants a distributor the sole rights to sell a product in a specific geographic area.
4. *Tying arrangements* occur when a seller requires the purchaser of one product to also buy another item in the line. These contracts may be illegal when the seller has such economic power that it can restrain trade in the tied product.

MAKING RESPONSIBLE DECISIONS >> ETHICS

- a. A National Do Not Call (NDNC) registry was set up in India to eliminate unsolicited telemarketing calls and unwanted SMSes.
- b. Proponents of the NDNC registry argue that it will give consumers relief from unwanted telephone solicitation. Others feel that such a registry violates freedom of speech principles.

E. Advertising- and Promotion-Related Legislation

1. Legislation on advertising and promotion are concerned with deceptive or misleading advertising and unfair business practices and seek to take corrective actions such as issuing cease and desist orders to stop practices it considers unfair, or ordering correcting advertising.
2. In China the Provisional Regulations for Advertising Administration to protect consumers from false and misleading advertising and prohibit unfair and monopolistic advertising practices.
3. Telemarketing is subject to a law that created the *National Do Not Call Registry*, which is a list of people who do not want to receive unsolicited telemarketing calls.

F. Control through Self-Regulation

1. An alternative to government control is **self-regulation**, alternative to government control where an industry attempts to police itself. However, it has two problems: (1) noncompliance by members and (2) enforcement.
2. The best known group is the Better Business Bureau (BBB), a voluntary alliance of companies whose goal is to help maintain fair business practices.
 - a. Since the BBB has no legal power, it uses “moral suasion” to get members to comply with its rulings.
 - b. Its BBB Online provides consumer protection for Internet shoppers. Before they can display the BBB logo on their website, participating companies must:
 - Be members of their local Better Business Bureau.

- Have been in business for at least 1 year.
- Abide by the BBB standards of truth in advertising.
- Commit to resolve consumer disputes over goods or services promoted or advertised on their website.

LEARNING REVIEW

7. Why do companies need protection under the Law? In what areas are they protected by the Law?

Answer: Companies need protection to ensure competition and fair business practices. Companies are protected with regards to competition, product-related legislation, trademarks, pricing-related legislation, distribution-related legislation and advertising- and promotion-related legislation.

8. What rights of consumers are protected by the Law?

Answer: The Law recognizes consumer's right to safety and comfort when using products or services, the right to choose an obtain goods and services, the right to getting correct and honest information on products and services, and the right to receive compensation.

9. How does the Better Business Bureau encourage companies to follow its standards for commerce?

Answer: Companies must agree to follow BBB standards before they are allowed to display the BBB logo.

APPLYING MARKETING KNOWLEDGE

1. For many years, Gerber has manufactured baby food in small, single-sized containers. In conducting an environmental scan, identify three trends or factors that might significantly affect this company's future business, and then propose how Gerber might respond to these changes.

Answer: Three trends that may affect Gerber baby food are:

- a. **An aging population.** Gerber may want to develop food for seniors who live alone and would like single-sized servings. Because Gerber foods often require only warming up, this market may be attracted to a product that is simple to prepare. Gerber soft foods may also appeal to an older segment that has trouble chewing or digesting more traditional food items.

- b. **Growing health concerns.** Growing health concerns may require Gerber to reformulate their foods to contain more or less of some ingredients, or the company may want to promote the natural ingredients of their items.
 - c. **Environmental consciousness.** Environmental concerns may lead Gerber to tout the recyclable value of their small glass containers.
2. **Describe the new features you would add to an automobile designed for consumers in the 55+ age group. In what magazines would you advertise to appeal to this target market?**

Answer: Environmental scanning reveals that this market appreciates improvements aimed at safety, security, and convenience.

- a. **New features.** Items such as hands-free cellular telephone communications, easy-to-read displays, combination door locks, GPS locator and maps, twin heating and cooling controls, light-sensitive mirrors, automatic headlights that come on at dusk and shut off automatically after a delay, outside car lights that come on when the remote activator button is pushed, multiple adjustment positions for car seats, special access provisions for wheelchair or other medical devices, and special auto-locator beacons for owners to find parked cars easily are some examples.
 - b. **Magazines.** Advertising in magazines such as *Modern Maturity* would appeal to both sexes, as would newsletters from organizations such as the AARP (The American Association of Retired People). General interest magazines, such as *Good Housekeeping* or *Time*, will also reach the mature market in increasing numbers in the future.
3. **The population shift from rural to urban areas to suburban areas was discussed in this chapter. What businesses and industries are likely to benefit from this trend? How will retailers need to change to accommodate these consumers?**

Answers:

- a. **What businesses benefit.** Businesses involved in transportation—both mass and individual—and in product distribution are likely to see increased demand for their products and services. Communication businesses, particularly the telephone, satellite TV, cable, and Internet providers, will see increased demand. Many businesses may find that they are able to move from high-cost urban sites to lower cost suburban sites for some operations, and they may find that telecommuting of some employees will lower their costs of infrastructure.
- b. **How will retailers change.** Urban cities and suburban areas will experience a demand for additional shopping; retailers may respond with either localized strip malls and centers or larger regional centers located along transportation corridors. Demands on distribution networks will increase; retailers may respond by greater reliance on Internet commerce.

- 4. New technologies are continuously improving and replacing existing products. Although technological change is often difficult to predict, suggest how the following companies and products might be affected by the Internet and digital technologies:**
(a) Fuji cameras and film, (b) Cathay Pacific Airlines, and (c) the Asian Civilizations Museum.

Answer:

- a. **Fuji cameras and film.** Demand for cameras and film has and will continue to change as the demand by consumers for digital technology increases. As image quality improves and the average price of digital cameras decline, more consumers will purchase them. Since digital cameras do not require film, Fuji film sales should decline as the penetration of digital cameras increases. However, other technologies, such as memory sticks and “docking stations” that allow users to transfer images directly from the camera to a personal computer, a printer, or photo developer, will be required to use these cameras. Finally, some consumers will want to either send their pictures directly to friends and family as “email” using the Internet.
- b. **Cathay Pacific Airlines.** New digital technology may allow Cathay Pacific to automate its planes to the extent that the number of pilots needed will be reduced and the safety margins for most flights increased. Since fuel is a major component of cost, digital technology should allow Cathay Pacific both to create more efficient routes, altitudes, schedules, and more efficient and quieter engines. Baggage handling and reservations should also be positively impacted by new technologies. New and improved in-flight services such as on-demand movies, cell-phone service, and high-speed internet connections may also become available.
- c. **The Asian Civilizations Museum.** The Museum may become more accessible to everyone through the digitization of its collections onto DVDs and through the Internet. While nothing may substitute for the actual viewing of proper antiques, scheduling of hours, promotion of special showings, and memberships may all be positively impacted by new technologies. In some cases, the Museum may come to new audiences (such as shut-ins) through the Internet and may, in fact, be able to offer collections from other museums and institutes around the world through this medium. As the population ages, the Museum may offer mature citizens an opportunity to visit without leaving home through the Internet and other media such as Netflix’s DVD service or downloads via iTunes.
- 5. In recent years in the brewing industry, a couple of large firms that have historically had most of the beer sales (Asia Pacific Breweries and Asahi Breweries) have faced competition from many small “micro” brands. In terms of the continuum of competition, how would you explain this change?**

Answer: In terms of the continuum of competition, the brewing industry was historically oligopolistic. A few large producers accounted for the bulk of sales. In recent years, the

brewing industry has moved more to a position of monopolistic competition. There are a large number of sellers where the unique aspect of each one may be their distinct taste.

- 6. The Johnson Company manufactures buttons and pins with slogans and designs. These pins are inexpensive to produce and are sold in retail outlets such as discount stores, hobby shops, and bookstores. Little equipment is needed for a new competitor to enter the market. What strategies should Johnson consider to create effective barriers to entry?**

Answer: Since little capital investment is required, barriers to entry must be established through advertising expenditures, retail outlets, product differentiation, or raising switching costs. The company could heavily advertise the pins, but to help create a barrier, product differentiation, such as brand name, would be necessary. The best approach may be through the retail outlets by giving them attractive displays and making it very profitable to carry the Johnson Company pin. This approach would reduce the incentive to carry competing pin lines.

- 7. Why would Xerox be concerned about having its name becoming generic?**

Answer: The problem for the Xerox Corporation would be serious. If the name Xerox is increasingly referred to by consumers as the process by which photo copies are made rather than the trademark of the company that invented and branded the technology, Xerox runs the risk of having the term rendered generic. The result is that Xerox would then have to identify itself by some other term in all its advertising and sales. A large amount of money would need to be spent to get people to recognize the old company known as Xerox by some other name.

- 8. Develop a “Code of Business Practices” for a new online vitamin store. Does your code address advertising? Privacy? Use by children? Why is self-regulation important?**

Answer: The Better Business Bureau provides assistance to guide ethical business-to-consumer conduct in electronic commerce in its Code of Online Business Practices. The code is intended to provide general standards for e-commerce and to serve as the basis for the BBBOnline Reliability Program. The Code suggests the following principles (see <https://www.bbbonline.org/reliability/code/principle.asp>):

- a. **Truthful and Accurate Communications.** Online advertisers should not engage in deceptive or misleading practices with regard to any aspect of electronic commerce, including advertising and marketing, or in their use of technology.
- b. **Disclosure.** Online merchants should disclose to their customers and prospective customers information about the business, the goods or services available for purchase online, and the transaction itself.
- c. **Information Practices and Security.** Online advertisers should adopt information practices that treat customers’ personal information with care. They should post and adhere to a privacy policy based on fair information principles, take appropriate

measures to provide adequate security, and respect customers' preferences regarding unsolicited email.

- d. **Customer Satisfaction.** Online merchants should seek to satisfy their customers by honoring their representations, answering questions, and resolving customer complaints and disputes in a timely and responsive manner.
- e. **Protecting children.** If online advertisers target children under the age of 13, they should take special care to protect them by recognizing children's developing cognitive abilities.

Of course, students may have other elements in their own Code. Specific practices they may address include price comparisons; use of links to add or supplement information; disclosure of warranty, legal, customer service, product availability, and shipping information; use of encryption for personal and financial information; having and posting a "Do Not Contact" policy; providing a dispute resolution mechanism; and requests for parental permission for children.

Self-regulation is important because it is an alternative to legislation and represents an industry's efforts to police itself.

BUILDING YOUR MARKETING PLAN

Your marketing plan will include a situation analysis based on internal and external factors that are likely to affect your marketing program.

- 1. To summarize information about external factors, create a table similar to Figure 3-2 and identify three trends related to each of the five forces (social, economic, technological, competitive, and regulatory) that relate to your product or service.**
- 2. When your table is completed, describe how each of the trends represents an opportunity or a threat for your business.**

The most rigorous way to have students do an environmental scan for their marketing plan is to have them add two right-hand columns to the Figure 3-2 format—the first labeled "opportunities" and the second labeled "threats." This forces students to think about implications of the trends for their business or product or service. The environmental scan can give depth to the industry analysis, competitor analysis, and customer analysis portion of "Section 4: Situation Analysis" of Appendix A.

Helping with Common Student Problems

As with the SWOT analysis activity for Chapter 2, students often end their analysis by simply listing the environmental trends in their environmental scan. By having students add

the “opportunities” and “threats” columns described above, they are forced to try to translate the trend into what it means for their marketing plan. Sometime it suggests a specific action. At other times, it suggests the student be aware of the trend, which may lead to actions in the future.

SLN 3-1: SUPPLEMENTAL LECTURE NOTE

Trends That May Change Marketing in the Future

An environmental scan should uncover key trends likely to influence business and marketing in the future. Here are some trends suggested by a variety of experts. What is their likely impact on business in the future?

- a. **Social media will grow in popularity.** Online social networks and blogs will attract a huge and diverse population of contributors as well as a growing number of companies.
- b. **Mobile marketing will improve its technical viability.** Short message service (SMS) and wireless application protocol (WAP) and the Open Handset Alliance will make marketing on cell phones and hand-held devices attractive for advertisers and consumers.
- c. **Experiential marketing will grow as an important branding activity.** To compete in a cluttered marketplace, companies will begin to invest in sensory brand experiences to provide consumers with emotional component of their purchase.
- d. **Environmentally friendly products and sustainable business practices will grow in importance to consumers.** Consumer awareness of “green” issues such as global warming, environmental impact, recyclable packaging, and biodegradable products will increasingly influence purchase behavior.
- e. **Electronics will become increasingly smarter and “connected.”** Electronic products such as phones and televisions will become more convenient with smart interfaces and broadband connections. Smart cards will replace your money, keys, driver’s license, and medical records, becoming an “electronic wallet.”
- f. **Nanotechnology, motes, and smart dust are likely to impact many industries.** Pill-sized sensors may soon be swallowed for medical diagnosis, wireless sensors may be embedded in clothing to tell the washing machine what cycle to use, and tiny nano crystals that emit light may even replace light bulbs.
- g. **Americans will be increasingly interested in food as medicine.** Four of the top seven leading causes of death—heart disease, cancer, stroke, and diabetes—are affected by diet, and consumers are likely to change their diets to reflect their health interests.
- h. **We are becoming an around-the-clock society.** Consumers will soon expect to be able to transact business 24/7/365.
- i. **Marketing communications will become more personal.** As the number of media has increased, so has consumer’s ability to block messages with digital video recorders,

satellite radio, call screening, etc. To be effective, advertisers will need to improve the personal value of their messages to each consumer.

- j. **Consumers and marketers will increase their sensitivity to privacy issues.** As personalized communications become more common, identity theft and “digital intrusion” will grow as consumer concerns.

Sources: Elisabeth Sullivan, “Be Sociable,” *Marketing News*, January 15, 2008, p. 13; Daniel B. Honigman, “On the Verge,” *Marketing News*, January 15, 2008, p. 18; Jeff Bordon, “The Marketing Tornado,” *Marketing News*, January 15, 2008, p. 23; “Going Green,” *Marketing News*, February 1, 2008, p. 15; Abbey Klaassen, “What You’ll Start Seeing,” *Advertising Age*, January 14, 2008, p. 6; Bob Liodice, “Trends to Watch in 2008,” *Advertising Age*, December 17, 2007, p. 16; Adam Aston, “What’s Ahead: The Best of What’s New,” *Business Week* (October 11, 2004), pp. 128-134.

SLN 3-2: SUPPLEMENTAL LECTURE NOTE

Will Self-Regulation Balance the Need for Regulation?

Marketers face a variety of new legal and ethical issues in the near future, such as web tracking, “greenwashing,” children’s privacy, and internet taxation. During the next several years marketers and regulators will work to find a balance between voluntary self-regulation and mandatory legislation. The following are some examples of the efforts already in progress:

- a. **Web tracking.** The Federal Trade Commission (FTC) is holding “town meetings” to encourage companies to self-regulate their activities related to tracking consumer behavior on the web for marketing purposes.
- b. **Green marketing.** Currently there is no federal regulation related to “green” product claims. While there are some FTC guidelines for environmental marketing, generally marketers must self-regulate their advertising and labeling. Claims viewed as false or intentionally exaggerated have come to be known as “greenwashing.”
- c. **Marketing to children.** The Children’s Advertising Regulatory Unit of the Better Business Bureau provides some guidance for marketers, and the *Children’s Online Privacy Protection Act* includes a requirement that websites that target children must obtain an e-mail from a parent as permission for the child to use the site.
- d. **Direct-to-consumer drug advertising.** The *Food and Drug Act Amendment Act* of 2007 now requires that the FDA review and approve direct-to-consumer television advertising for prescription drugs.
- e. **Anti-spam legislation.** The *Controlling the Assault of Non-Solicited Pornography and Marketing* (CAN-SPAM) law cuts back on unsolicited commercial electronic mail by giving recipients the chance to opt out of getting e-mails from the senders.
- f. **Internet taxation.** The *Internet Tax Freedom Act Amendment Act* of 2007 prohibits the taxation of Internet access for four years. However, as the number of Internet shoppers grows, some national, state, and local officials are reconsidering the possibility of taxing sales made over the Internet.

These examples illustrate the range of possibilities from complete self-regulation, to partnerships with independent organizations such as the BBB, to guidance from government organizations such the FTC or FDA, to federal laws. Where do you think the ideal balance is?

Sources: Douglas J. Wood and Reed Smith, “Top Legal Issues for 2008,” *Advertising Age*, December 17, 2007, p. 14; “Going Green,” *Marketing News*, February 1, 2008, p. 15; Elisabeth A. Sullivan, “An Internet Tea Party,” *Marketing News*, December 15, 2007, p. 26; Bart A. Lazar, “New Laws Make Marketing to Kids Riskier,” *Marketing News*, February 15, 2006, p. 7; and Bart A. Lazar, “CAN SPAM Creates Quandry, Opportunities,” *Marketing News* (June 15, 2004), p. 6.