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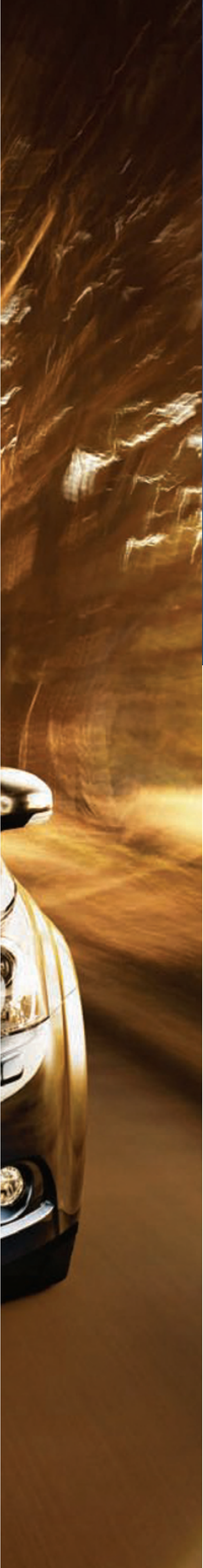
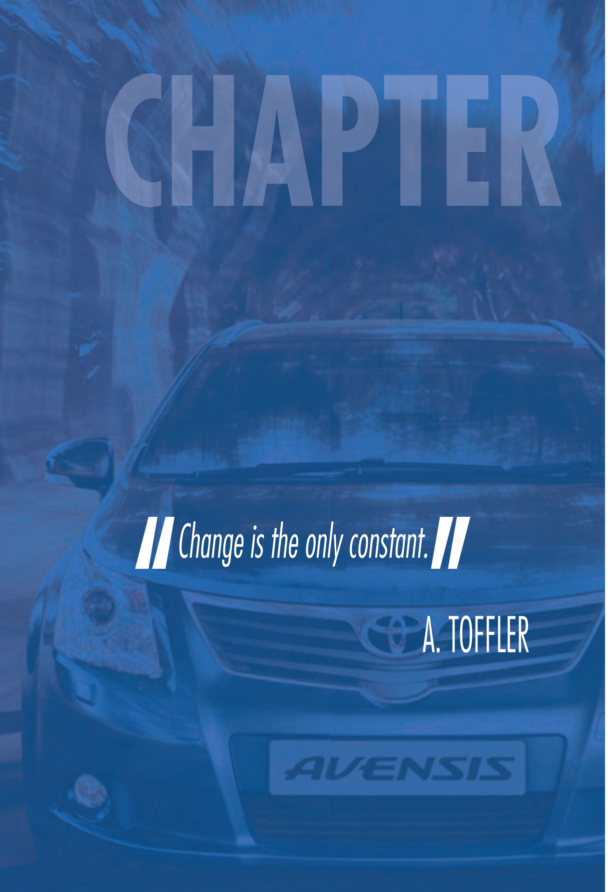


PART 2

Marketing Analysis



CHAPTER 3

The marketing environment

"Change is the only constant."

A. TOFFLER

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

1 describe the nature of the marketing environment

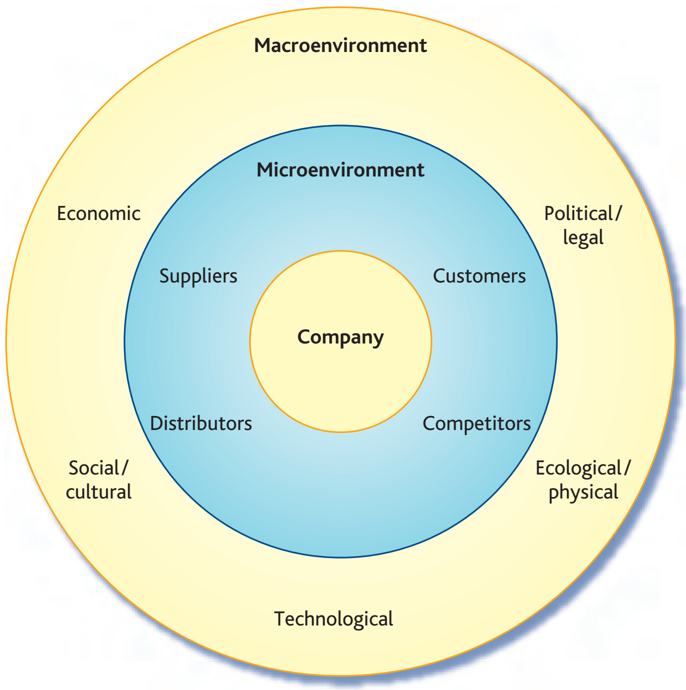
2 explain the distinction between the microenvironment and the macroenvironment

3 discuss the impact of political and legal, economic, ecological/physical environmental, social/cultural and technological forces on marketing decisions

4 explain how to conduct environmental scanning

5 discuss how companies respond to environmental change

The marketing environment FIGURE 3.1



A marketing-orientated firm looks outwards to the environment in which it operates, adapting to take advantage of emerging opportunities and to minimize potential threats. In this chapter, we will examine the marketing environment and how to monitor it. In particular we will look at some of the major forces acting on companies in their macro- and microenvironments.

The **marketing environment** consists of the actors and forces that affect a company's capability to operate effectively in providing products and services to its customers. As we saw in Chapter 2 it is useful to classify these forces into the macroenvironment and the microenvironment (see Fig. 3.1). The macroenvironment consists of a number of broad forces that affect not only the company but also the other actors in the microenvironment. Traditionally four forces—political/legal, economic, social/cultural and technological—have been the focus of attention, with the result that the term PEST analysis has been used to describe macroenvironmental analysis. However, the growing importance of ecological/physical environmental forces on companies has led to the acronym being expanded to **PEEST analysis**. The microenvironment consists of the actors in the firm's immediate environment that affect its capabilities to operate effectively in its chosen markets. The key actors are customers, competitors, distributors and suppliers. The macro- and microenvironments shape the character of the opportunities and threats facing a company and are largely uncontrollable.

This chapter will focus on the macroenvironmental forces—political/legal, economic, ecological/physical, social/cultural and technological—that affect marketing decisions. Later in the chapter the four dimensions of the microenvironment—customers, competitors, distributors and suppliers—will be introduced and then examined in greater detail throughout the book. The influence of customers on marketing decisions will be discussed in Chapters 4 and 5 and the changing nature of the supply chain examined in Chapter 5. Distribution and competitive forces will be analysed in Chapters 17, and 19 and 20 respectively.

Political and Legal Forces

Political and legal forces can influence marketing decisions by setting the rules by which business can be conducted. For example, smoking bans in public places can have dramatic short- and long-term effects on the demand for cigarettes. Because of politicians' power to affect business activities, companies try to cultivate close relationships with them, both to monitor political moods and also to influence them. Sometimes, sizable contributions to the funds of political parties are made in an attempt to maintain favourable relationships. Never has the relationship between political forces and business been more apparent than in the recent 'credit crunch', which has forced governments to financially support banks and, in the case of the British Government, acquire Northern Rock.[1]

In Europe, companies are affected by legislation at EU and national levels. We will first examine EU-wide laws before discussing the impact of national laws on business life.

European Union-wide laws

EU laws exist at two levels: (i) regulations that are binding on member states and (ii) directives that are binding only through enactment of a law within the member state in line with the directive. A major influence at European level is EU competition, which is based on the belief that business competitiveness benefits from intense competition. The role of competition policy, then, is to encourage competition in the EU by removing restrictive practices and other anti-competitive activities. This is accomplished by tackling barriers to competition through rules that form a legal framework within which EU firms must operate. The objects of these legal rules are to:

- prevent firms from colluding by price fixing, cartels and other collaborative activities—competition is encouraged by preventing firms joining forces to act in a monopolistic way
- prevent firms from abusing a position of market dominance—they are discouraged from taking such actions as monopoly and discriminatory pricing, which could harm small buyers with little bargaining power
- control the size that firms grow to through acquisition and merger—the objective is to prevent firms acquiring excessive market power through acquiring, or merging with, other firms within defined markets, and thereby reaping monopolistic profits
- restrict state aid to firms—it can be in a nation's interest for its government to give state aid to ailing firms within its boundaries; on a broader scale this can give artificial competitive advantages to recipient firms, which may, for example, be able to charge lower prices than their unsupported rivals; recipients may also be unfairly shielded from the full force of the competitive pressures affecting their markets.

We will now review each of these rules to illustrate the impact they have made on firms' activities.

Collusion

The European Commission, whose job it is to enforce EU rules, has had considerable success in disbanding and fining cartels. For example, cartel partners ABB Løgstør, Henss/Isoplus, Sigma and six other firms were fined for price fixing, market sharing and bid rigging in the European insulated heating pipe market. More recently, BA was fined £270 million for conspiring with Virgin Airways (who escaped prosecution because it alerted the regulators about the price fixing) to fix the price of passenger fuel surcharges on transatlantic flights;[2] and glass manufacturers, Saint-Gobain, Pilkington, Asahi Glass and Soliver, were fined a total of over £1000 million for illegally fixing the price of glass used in the car industry.[3] Such actions are having a real impact on firms' behaviour, as Marketing in Action 3.1 explains.

The success the European Commission has had in locating and punishing those firms that collude acts as a major deterrent through both the severity of the fines imposed and the bad publicity that results.

Abuse of market dominance

Market dominance has also been successfully challenged, as when Italian cigarette producer and distributor AAMS was found to be abusing its dominant position for the wholesale distribution of cigarettes in Italy. AAMS was protecting its own sales by imposing restrictive distribution contracts on foreign manufacturers, which limited the access of foreign cigarettes to the Italian market.[4] However, the most high-profile case is that against Microsoft, which was fined £340 million for its alleged misuse of its near monopoly in operating systems to squeeze out rivals by bundling Media Player into the Windows operating system.[5] This was

3.1 Marketing in Action

The European Commission's Crusade Against Cartels

Both in the USA and the EU the battle against price-fixing cartels has never been so strongly fought. In the USA, auction houses Sotheby's and Christie's were convicted of fixing the prices they charge clients. For many years America has been obsessed by bringing down price-fixing cartels but the message is now spreading, with new measures against anti-competitive cartel behaviour such as bid rigging and deals to carve up market share being adopted from Sweden to South Korea.

Since 2000, the European Commission has crusaded with renewed vigour against cartels including those in the vitamins, airline, cigarette, glass, carbonless paper, graphide electrodes, citric acid, amino acid, monochloroacetic acid and banking industries. Such actions have stretched its resources to the limit, which is one reason it has published a Green Paper designed to encourage customers and competitors to place private claims for damages resulting from anti-competitive practices, an action that moves it towards the US anti-trust regime, which relies heavily on private litigation.

One of the driving forces behind the EC's efforts to drive out anti-competitive behaviour is the desire to create a genuine single market in Europe, where geographic 'market sharing' is seen as highly damaging. Companies are responding by educating themselves. Roche, for example, has put thousands of its managers through training to teach them to follow the law.

Based on: Ritson (2002);[6] Buck (2005);[7] Murphy and Yuk (2008)[8]

followed by a £650 million fine for failing to disclose complete and accurate technical information on 'reasonable terms' to allow rivals to develop products that would work with Windows.[9]

Acquisitions and mergers

The laws relating to acquisitions and mergers are designed to prevent firms building up excessive market power through acquiring, or merging with, other companies within a market, resulting in monopolistic profits. Action can take the form of the blocking of mergers or acquisition—such as the prevention of the merger between Swedish truck, bus and coach builders Scania and Volvo—or approval subject to strict conditions—such as the requirement that Nestlé sell a number of Perrier brands to encourage a third force to emerge in the French mineral water market to compete with Nestlé and BSN.

State aid

The giving of financial aid to companies by member states can provide unfair advantages such as the ability to charge lower prices than their unsupported rivals. EC approval of state aid is usually given as part of a restructuring or rescue package for ailing firms. The general principle is that such payments should be 'one-offs' to prevent uncompetitive firms being repeatedly bailed out by their governments. This has not always applied, however, with Air France being given financial assistance several times.[10] Overall, though, the level of state aid given to firms in most of the EU member states is declining.

National laws

In addition to EU laws, member states also have the right to make their own legislation governing business practice. This can mean inconsistencies across Europe. For example, national laws governing advertising across Europe mean that what is acceptable in one country is banned in another. For example, toys cannot be advertised in Greece, tobacco advertising is illegal in Scandinavia, the UK and Italy, alcohol advertising is banned on television in France and at sports grounds, and in Germany any advertisement believed to be in bad taste can be prohibited. This patchwork of national advertising regulations means that companies attempting to create a brand image across Europe often need to make substantial changes to advertising strategy on a national basis.

Supplementing the work of the European Commission are national bodies set up to investigate anti-competitive practices. For example, the Competition Commission in the UK, the Bundeskartellant in Germany and the Competition Council in France provide national protection against anti-competitive behaviour. These investigations can lead to heavy fines. For example the Financial Services Authority, which overseas the UK financial services industry, fined Shell £17 million under national market abuse provision relating to the overstating of oil reserves.[11]

Self-regulation also occurs at national level, with industries drawing up codes of practice to protect consumer interests, sometimes as a result of political pressure. Examples of such regulatory bodies in the advertising industry are the Deutscher Werbat (Germany), Stichting Reclame Code (Netherlands), Marknads Etiska Radet (Sweden) and the Advertising Standards Authority (UK). The Code of Advertising Standards and Practice drawn up by the Advertising Standards Authority is designed to keep advertising 'legal, decent, honest and truthful'. Similarly, the marketing research industries in many European countries have drawn up codes of practice to protect people from unethical activities such as using marketing research as a pretext for selling.

Marketing management must be aware of the constraints on its activities made by the political and legal environment. Such staff must assess the extent to which they feel the need to influence political decisions that may affect their operations, and the degree to which industry practice needs to be self-regulated in order to maintain high standards of customer satisfaction and service. Above all, companies need to ensure that their activities are in accord with EU and national laws and codes of practice.

Economic Forces

The *economic environment* can have a critical impact on the success of companies through its effect on supply and demand. Companies must choose those economic influences that are relevant to their business and monitor them. We will examine four major economic influences on the marketing environment of companies: economic growth and unemployment, interest and exchange rates, the move by 10 central and eastern European countries to join the EU, and the growth of the 'Bric' economies (Brazil, Russia, India and China).

Economic growth and unemployment

The general state of both national and international economies can have a profound effect on a company's prosperity. Economies tend to fluctuate according to the business cycle, although more enlightened economic management in recent years has reduced the depth of the contraction in some countries. Most of the world's economies have gone through a period of significant growth since the mid-1990s, driven partly by productivity gains brought about by developments in computing and telecommunications technologies. This growth was followed by an economic slump in 2009, referred to as the 'credit crunch'. During periods of boom, well-managed companies experience an expansion in the demand for their products, while slump may bring a decline in sales as consumers became wary of discretionary expenditures. A major marketing problem is predicting the next boom or slump. Investments made during periods of high growth can become massive cash drains when consumer spending falls suddenly. The problems facing some of the world's leading technology firms, such as Cisco

Systems, Compaq (since acquired by Hewlett-Packard) and Intel, in recent years were partly caused by this trap.

Within an economy, different sectors experience varying growth rates, leading to changing degrees of market attractiveness. Undoubtedly, the services sector has experienced the fastest growth and become the dominant force in most western economies. For example, among the 25 EU countries, services account for over 70 per cent of gross domestic product, which is a measure of the total value of goods and services produced within an economy.

Low growth rates are reflected in high unemployment levels, which in turn affect consumer spending power. The recent recession has caused unemployment rates to rise and consumer spending to fall. This has led to calls for state aid for ailing companies—for example, in the motor car industry—to help them through the slump.

Interest and exchange rates

A key monetary tool that governments use to manage the economy is interest rates. Interest rates represent the price that borrowers have to pay lenders for the use of their money over a specified period of time. Most western economies lowered interest rates during the credit crunch to encourage borrowing and lending, in an effort to avert a major slump in consumer and business demand.

An exchange rate is the price of one currency in terms of another (e.g. an exchange rate of £1 = €1.20 means that £1 buys €1.20). Fluctuations in exchange rates mean that the price a consumer in one country pays for a product and/or the money that a supplier in an overseas country receives for selling that product can change. For example, if the exchange rate between the pound sterling and the euro changes, such that a pound buys fewer euros, a German car manufacturer who receives payment in euros will receive fewer euros if the price of the car remains unchanged in the UK. In an attempt to maintain a constant euro price, the German car manufacturer may raise the UK pound sterling price to UK distributors and consumers. The following example illustrates these points.

At £1 = €1, a German car manufacturer would receive €10,000 for a £10,000 car. If the exchange rate changed to £1 = €0.5, the German car manufacturer's receipts would fall to €5000. To maintain euro receipts at €10,000 the UK price would have to rise to £20,000.

The exchange rates between most European countries are now fixed, thus avoiding such problems. However, the rates at which major currencies such as the US dollar, the euro, the pound sterling and the yen are traded are still variable. As seen in the example above this can have significant implications for sales revenues and hence the profitability of a firm's international operations. For example, as the value of the US dollar fell during 2004 amid concerns about the inclining US trade deficit and the cost of the Iraq war, losing about one-third of its value against the pound and the euro, the profitability of some European firms trading in the USA fell as their receipts in pounds and euros fell at constant US dollar prices. For example, it is estimated that Heineken's operating profits in the USA fell from £250 million to £84 million between 2002 and 2006 largely because of the fall in the value of the dollar during this period.[12] During the credit crunch, the pound fell against the dollar. This meant that UK goods and services exported to euro zone countries could be sold cheaper, or, if sold at the same price, would realize higher sterling profit margins.

Central and eastern Europe

The move by eight central and eastern European countries to join the EU in May 2004, and their earlier change from centrally planned to market-driven economies has far-reaching marketing implications. The EU is a massive, largely deregulated market in which barriers to the free flow of goods, services, capital and people among the member states are removed. One objective is to lower the costs of operating throughout Europe and to create an enormous free market in which companies can flourish. As we have already seen, competition is encouraged through the enactment and enforcement of laws designed to remove restricted practices and other anti-competitive activities.

The eight central and eastern European EU members that joined the EU in 2004 are the Czech Republic, Slovakia, Hungary, Latvia, Lithuania, Estonia, Poland and Slovenia. Their combined population is about 75 million within the EU's total of 454 million, although Poland alone accounts for 39 million.[13] In 2007, Romania and Bulgaria also joined the EU. The strengths of these economies are high economic growth that is double that of western Europe, low wages that are often competitive with those in China and India, an abundance of engineers and technical graduates, workers who have a flexible mind-set and 'can do' attitude, low corporate income taxes, and easy access to wealthy western European and Russian markets. Weaknesses are a shortage of trained managers, corruption and bureaucracy in some of the countries, poor-quality roads in some countries (e.g. Poland) and, by western standards, low levels of wealth.[14]

The strengths of these economies, boosted by EU membership, have led to considerable inward investment. Today the region is attracting foreign investment at the rate of £21 billion a year, which places it second only to China in the international competition for capital. For example, LG Philips, the liquid crystal display producer spent £246 million to make flat-screen televisions in Poland, creating 3200 jobs. Investment in knowledge-driven industries ranging from telecoms to pharmaceuticals is also gathering pace. For example, the region's growing ranks of highly skilled workers mean that it is shaping up as the next outsourcing destination for engineering and software development after China and India.[15] The region is also fast becoming a manufacturing centre for the production of cars, with companies such as Toyota, Ford, GM, Fiat, Audi, Volkswagen, Renault, Citroën, Suzuki and Kia having at least one car plant in the region.

Clearly, the rise of central and eastern European economies not only poses threats to western European firms in terms of potential new competition, but also opportunities. First, as we have already seen the region's strengths make it an attractive location for new investment. Second, the eight new EU members have a combined population of 75 million and a gross domestic product of £473 billion, making it a sizeable target market. These statistics need to be tempered by the fact that many of the individual countries are small (Poland dominates, with 39 million consumers) and poor. However, all these economies are growing and opportunities exist from the privatization of industries such as energy generation and railways.[16]

China and India

Why are western nations watching the economies of China and India like hawks? First, both economies are growing at high and consistent rates, although both, like other major economies, have suffered during the recent recession. For the past 20 years, China's economy has been growing at an average of 9.5 per cent and India's at 6 per cent. Second, both nations possess considerable strengths, traditionally in low-cost labour but increasingly in technical and managerial skills. China possesses strengths in mass manufacturing, and is currently building massive electronics and heavy industrial factories. India, on the other hand, is an emerging power in software, design, services and precision industry. These complementary skills are persuading some electronics multinationals to have their products built in China with software and circuitry designed in India. Furthermore, the skills base in both countries is likely to grow, with China and India graduating a combined half a million engineers and scientists a year.[17]

Third, China and India not only pose threats to western companies, they also provide opportunities. Chinese consumers are spending their growing incomes on consumer durables such as cars, a market that has reached 3 million, and mobile phones where China has the world's biggest subscriber base of over 500 million, and computers, where over 200 million people browse the Internet on broadband connections.[18] Both have vast populations, with 1.3 billion people in China and 1 billion living in India. As Carl Leaver, Marks & Spencer's international strategy director, remarked, 'If one in eight of the Chinese population ends up wearing M&S knickers, we will be very happy.'[19] In India, the consumer market is also growing rapidly. For example, since 2000 the number of mobile phone subscribers has rocketed from 5.6 million to 80 million, and Internet users total over 20 million. Over half of India's 1 billion people are under 25.[20] Western companies such as Microsoft, Procter & Gamble, Coca-Cola, BP, Vodafone, Tetley, Siemens and GlaxoSmithKline have seen the potential of these markets (particularly China) and sought to develop them, usually with the aid of local partners.

While both countries possess considerable strengths, they also have weaknesses. First, neither country has a strong track record in global brand building. A survey of *Financial Times* readers conducted by McKinsey, the management consultancy, to find out what businesspeople around the world consider are the top Chinese brands rated Haier, a white-goods and home appliances company first and Lenovo, a computer company, famous for buying IBM's personal computer division, second. Neither company is a major global player in their respective markets.[21] India, similarly, does not possess major global brands. However, the conglomerate Tata is building a global presence with its purchase of Jaguar and Land Rover from Ford, the acquisition of Corus (steel) and the growth of Tata Consultancy Services, Asia's largest software company.[22] Second, both countries suffer from the risk of social strife—resulting from the widening gap between rich and poor, as well as corruption. Third, both countries have paid a steep ecological price for rapid industrial and population growth, with millions of deaths attributed to air and water pollution each year.[23] Fourth, wage levels are rising fast, particularly in skilled areas, reducing their advantage in low labour costs. Fifth, bureaucracy can make doing business in both countries difficult. China, in particular, has been a destination for western goods and foreign investment but great care needs to be taken when entering the Chinese market, as Marketing in Action 3.2 explains.

3.1 Pause for Thought

To what extent do you believe China and India pose threats to European firms?

Russia and Brazil

Like China and India, Russia and Brazil had been growing at impressive rates before the recent recession. Russia's economy has benefited from 7 per cent growth and Brazil's 5 per cent. Surprisingly for an ex-communist state, Russia has one of the lowest income tax rates in the world: a flat rate of 13 per cent. Also all Russians own their own homes, having been given their own flat or house free as the Soviet era ended (most of these, however, are in a poor state of repair). Wealth tends to be centred around Moscow and there are cash-rich consumers present, as the fact that Russia is the fourth biggest consumer of luxury goods after the USA, Japan and China testifies.[24]

Russia's economy is largely dependent on oil and gas. It vies with Saudi Arabia as the world's largest oil producer, and has the world's largest gas reserves. It is also rich in gold, with the fourth largest reserves. Russia's large population of 140 million, which has rapidly become richer, has attracted international food and drink companies such as Unilever, PepsiCo, Kellogg, Kraft, Nestlé, Coca-Cola and Carlsberg, which have entered by acquisition. For example, PepsiCo purchased the Russian food and drinks group Lebedyansky for over £1 billion.[25]

3.2 Marketing in Action

Doing Business in China

Marketing in any overseas country is difficult because of differences in culture, and local laws and regulations. China is particularly troublesome, with many companies—such as Whirlpool, a US white-goods manufacturer that lost more than £26 million in a series of joint ventures, and food multinational Kraft, which was forced to close its loss-making dairy business after eight years—finding life uncomfortable in the Chinese market.

In order to succeed, overseas companies need to recognize a number of guidelines. First, they must appreciate the diversity of the market. A country with 1.3 billion people speaking 100 dialects is vastly diverse, and the need to segment the market is essential. For example, Samsung discovered that consumers living in humid Guangdong Province needed larger refrigerators than those in the more temperate north, so it started marketing bigger fridges in the south. P&G has targeted consumers in less affluent rural districts with a budget detergent called Tide Clean White, while targeting richer city consumers with the more expensive Tide Triple Action. To understand customers, domestic and multinational companies are conducting focus groups and surveys. For example, the Grey Global Group, a Chinese advertising agency, has segmented Chinese consumers into 11 categories based on their lifestyle and aspirations. These groups range from independents who do not follow consumer trends to shoppers on the cutting edge.

Western firms often enter China by means of a joint venture, but they need to be aware of the different business scenarios there. In China there is no effective rule of law governing business. One potential drawback is that western companies can fall prey to the theft of intellectual property. Other problems that western companies complain about include the siting of projects in inappropriate locations so local authorities can charge inflated land use costs, and inflation of costs by joint venture partners. Bureaucracy and governmental interference can also bring difficulties. Thames Water reportedly had to pull out of a 20-year water treatment project in Shanghai after the government ruled that the guaranteed rate of return to investors was illegal. Technical problems can also hamper joint ventures. For example, Chrysler ended its small car venture with Cherry Automobile because of their failure to bring the cars' safety and environmental performance up to western standards. For Ericsson, the world's largest telecommunications equipment producer, entering into a contract with China's two biggest mobile phone companies—China Mobile and China Unicom—the rewards of a joint venture could be enormous. The deal is worth $1.44 billion to help supply China's mobile networks.

Western companies also need to understand the importance of *Guanxi* networks. *Guanxi* is a set of personal relationships/connections on which a person can draw to obtain resources or an advantage when doing business. *Guanxi* is one reason why working with a Chinese partner is usually better than going it alone. When entering into business relationships the Chinese seek stability and trust more than intimacy. They want to feel comfortable that western companies will not spring surprises that may hurt them, but they do not need to feel that they are the company's best friend. It is claimed that the failure of Rupert Murdoch's NewsCorp to penetrate China is largely because the company did not spend enough time and effort on building *guanxi*.

The media also have to be handled with care. Severely restrained in reporting domestic politics and social issues, Chinese media feel much freer to attack foreign companies. Chinese reporters need to be educated about the western company's business, treated with respect, and regular contact to develop personal relationships is recommended.

Based on: McGregor (2005);[26] Roberts and Rocks (2005);[27] Singh (2005);[28] Anderlini and Reed (2008);[29] Bulkley (2008);[30] Ibison (2008)[31]

Working in Russia can be highly profitable for western companies, but can be fraught with problems, as the battle for control of the TNK-BP joint venture showed. Although BP managed to keep 50 per cent of the ownership, it was forced to sacrifice its chief executive and agree to international expansion, even when that meant competing with existing BP interests.[32]

Brazil's industry is linked to agri-business and other primary products. Its main output arises from sugar, steel, oil and iron. It also has an important technological sector that ranges from submarines to aircraft, and is involved in space research. Its economy has benefited from high levels of foreign investment by such companies as Procter & Gamble, IBM, Ford, DuPont, Anheuser-Busch InBev and PepsiCo. Its two largest companies are Petrobas (oil and gas) and Vale (mining). It is also a major producer of ethanol, a sugar-based biofuel. Growth in the economy has led to rising demand for cars, mobile phones, computers and televisions. It has a large population of 190 million. However, like the other Bric nations, Brazil has not developed significant brand-building capabilities.[33]

Companies need to be aware of the economic forces that may affect their operations and be wary of assuming that a benign economic environment will last for ever. Sudden changes in growth, interest and/or exchange rates can alter the economic climate quickly so that contingency plans are needed to cope with economy-induced downturns in demand. Firms also need to monitor the international economic environment, including the change to market-driven economies and the move into the EU by central and eastern European countries, and the opportunities and threats posed by the rise of China and India as major economic forces.

Ecological/Physical Environmental Forces

Ecology is the study of living things within their environmental context. In a marketing context it concerns the relationship between people and the physical environment. Environmentalists attempt to protect the physical environment from the costs associated with producing and marketing products. They are concerned with the environmental costs of consumption, not just the personal costs to the consumer. Five environmental issues are of particular concern. These are combating global warming, pollution control, conservation of energy and other scarce resources, use of environmentally friendly ingredients and components, and the use of recyclable and non-wasteful packaging.

Global warming

Concerns about global warming and the problems associated with climate change have arisen as a result of a quadrupling of carbon dioxide emissions over the last 50 years. More extreme weather conditions, such as hurricanes, storms and flooding, which are reported to be associated with carbon dioxide-induced climate change, are already impacting industries such as insurance, agriculture and oil. BP, for example, took a billion-dollar battering from Hurricane Katrina in the USA.[34] To avoid irreversible environmental consequences it has been agreed internationally that two forms of preventative action are required:[35]

1 reduction of CO_2 emissions
2 a ban on the use of chlorofluorocarbons (CFCs).

The purpose is to prevent further depletion of the ozone layer, which lets through increased levels of ultraviolet radiation with potentially harmful health and environmental effects. Governmental response through the Kyoto international agreement, changes in consumer behaviour, and individual action taken by companies such as GE, BP and Bayer to reduce harmful emissions, is required to achieve the objective. Car manufacturers also have a responsibility to reduce their carbon footprint. Marketing Ethics and Corporate Social Responsibility in Action 3.1 discusses how Honda is responding to the challenge. Hitachi is also taking steps to reduce its carbon footprint, as illustrated in its advertisement.

Ad insight

Go to the website to see Honda's TV ad promoting its environmentally-friendly credentials

3.1 Marketing Ethics and Corporate Social Responsibility in Action

Honda Fights Back

When consumers think of petrol-electric hybrid cars, the Prius usually springs to mind. Not only has this car built Toyota's environmentally friendly image, it has also sold over 1 million worldwide. Honda, by contrast, like many of its rivals, has lagged behind in the race to build successful hybrid cars. In a major strategic move Honda has decided to make major investments in hybrid technology to expand its range of hybrids. It hopes to sell 500,000 hybrid cars a year by 2012, up from only 55,000 in 2007.

What are Honda's specific plans? First, it intends to launch a dedicated hybrid model. Unlike Toyota, with its dedicated hybrid Prius, other manufacturers usually make hybrid versions of petrol-only cars. Second, it intends to build hybrid versions of the Jazz, a new Civic hybrid, and a hybrid based on its CR-Z concept sports car.

A problem for hybrid sales has been a price gap of around £3000. Using different technology from Toyota, Honda hopes to reduce that to around £1000. Although not as powerful as Toyota's hybrid technology, the Honda system is lighter and so its new models should offer higher mileage.

Honda has clearly seen the opportunities provided by cleaner technology and is prepared to back its judgement by heavy investment.

Based on: Reed and Soble (2008);[36] Rowley (2008)[37]

▲ This Hitachi advertisement communicates how the company is quietly helping to preserve the planet by reducing its CO_2 emissions by 100 million tons by 2025.

Pollution

The manufacture, use and disposal of products can have a harmful effect on the quality of the physical environment. The production of chemicals that pollute the atmosphere, the use of nitrates as a fertilizer that pollutes rivers, and the disposal of by-products into the sea have caused considerable public concern. In recent years the introduction of lead-free petrol catalytic converters, and the launch of hybrid cars such as the Toyota Prius and the Honda Civic, has reduced the level of harmful exhaust emissions.

Denmark has introduced a series of anti-pollution measures, including a charge on pesticides and a CFC tax. In the Netherlands higher taxes on pesticides, fertilizers and carbon monoxide emissions are proposed. Not all the activity is simply cost raising, however. In Germany, one of the marketing benefits of its involvement in green technology has been a thriving export business in pollution-control equipment.

Energy and scarce resource conservation

The finite nature of the world's resources has stimulated the drive towards their conservation. Energy conservation is reflected in the demand for energy-efficient housing and fuel-efficient cars, for example. In Europe, Sweden has taken the lead in developing an energy policy based on renewable resources. The tax system penalizes the use of polluting energy sources such as coal and oil, while less polluting resources such as peat and woodchip receive favourable tax treatment. In addition, it is planning to become the world's first oil-free economy by 2020, not by building nuclear power stations but by utilizing renewable resources such as wind and wave power, geothermal energy and waste heat. The plan is a response to warnings that the world may be running out of oil, global climate change and rising petrol prices. The UK is also responding by committing to generate 10 per cent of its electricity from renewable sources by 2012.[38] Companies are also making more energy-efficient products. For example, Siemens manufactures energy-efficient fridge freezers (see illustration).

An opportunity that is arising over the need to reduce reliance on oil is the development of biofuels. Fuels based on ethanol have the potential to replace petrol. Already the Saab 9-5 BioPower and a version of the Ford Focus can run on either petrol or ethanol. A problem is that ethanol-based fuel costs 20 pence a litre more than unleaded petrol, but as petrol rises in price and ethanol production costs fall this may change. If so, Europe has the capacity to

◀ Siemens makes energy-efficient fridge freezers.

provide around 40 per cent of the fuel it needs for transport from ethanol fermented from crops (e.g. corn and sugar beet) and biodegradable waste. However, the penetration of biofuels as a source of clean power has been hampered by fears of food shortages (as biofuel crops replace traditional food crops) and deforestation.[39]

Another concern of environmentalists is the consumption of wood. Forest depletion by the deforestation activities of companies and the effects of acid rain damage the ecosystem. Consumers' desire for soft and hardwood furniture and window frames is at odds with the need to preserve forests. Trees' leaves absorb carbon dioxide and their roots help to stabilize slopes: a landslide in the Philippines that cost many lives was allegedly caused by illegal logging. A solution is the replanting of forests to maintain the long-term stock of trees.

Environmentally friendly ingredients and components

Environmentalists favour the use of biodegradable and natural ingredients and components when practicable, and PETA (People for the Ethical Treatment of Animals) campaigns against cruelty to animals. Companies have responded to the challenge by launching products such as the Estée Lauder Origins skincare and cosmetics range of vegetable-based products containing no animal ingredients. Plastic products and components have been the target of criticism because of their non-biodegradability, but biodegradable polymers are now available. For example, Biopol was developed by ICI, which claims it is the first fully biodegradable commercial plastic. Its applications include disposable nappies, rubbish bags, and paper plates and cups that are coated with a thin plastic film.

Concern has also been expressed over the use of genetically modified (GM) ingredients in food products since the health implications are uncertain. Pressure from consumer groups and the media have forced Monsanto, a pioneer in genetic modification, to stop further development, supermarkets to banish such products from their shelves, and countries such as Austria, France, Germany, Greece, Italy and Luxemburg to impose import bans.

Recycling and non-wasteful packaging

Germany took the lead in the recycling of packaging when it introduced the Verpackvo, a law that allows shoppers to return packaging to retailers and retailers to pass it back to suppliers. In response, suppliers promised to assume responsibility for the management of packaging waste. Over 400 companies have created a mechanism called the Dual System Deutschland (DSD). Consumers are asked to return glass bottles and waste paper to recycling bins and are also encouraged to separate other recyclable materials such as plastics, composite packaging and metals, and place them in yellow bags and bins supplied by the DSD. Collection takes place every month and is, together with separation of the refuse, paid for by the DSD and the cost eventually absorbed by the packaging manufacturers. Recycling is also important in Sweden, where industry has established a special company to organize the collection and sorting of waste for recycling, and in Finland where over 35 per cent of packaging is recycled.

Companies can promote recycling by, for example, using recycled paper for burger containers rather than styrene, which is non-biodegradable. Not only is cutting out waste in packaging environmentally friendly, it also makes commercial sense. Thus companies have introduced concentrated detergents and refill packs, and removed the cardboard around some brands of toothpaste, for example. The savings can be substantial: in Germany, Lever GmbH saved 15 per cent of paper, carton and corrugated board; 30 per cent by introducing concentrated detergents; 20 per cent by using lightweight plastic bottles; and the introduction of refills for concentrated liquids reduced the weight of packaging materials by half. Henkel has introduced special 22-gram 'light packs', which are polyethylene bottles that save 270 tons of plastic a year.

Marketing managers need to be aware of the environmental consequences of their decisions and activities, and recognize the dangers to the reputations of their companies and brands of environmentally irresponsible actions. They should also consider communicating their environmentally conscious credentials. For environmental groups, marketing provides the tools to spread awareness of their campaigns, as Digital Marketing 3.1 explains.

3.1 Digital Marketing

Friends of the Earth Uses Digital Marketing to Raise Awareness of Environmental Campaigns

Activists and environmental organizations have led the way in drawing attention to the impact of business and trade on the health of the planet. Since the early 1970s, Friends of the Earth—'the grassroots environmental network'—has campaigned hard in this area and has become the UK's most influential campaigning organization, which promotes environmentally sustainable societies at local, national, regional and global levels. The organization focuses its activities on environmental issues, which have social, political and human rights implications. Campaigns reach into many different areas of activity (e.g. car fuel efficiency, agro-fuels, climate change and energy consumption, nuclear power, trade and globalization). Ultimately, Friends of the Earth seeks to influence the government and business to make policy changes that will benefit the planet.

Friends of the Earth has faced many tough challenges and conflicts when campaigning for business to change procedures. Cadbury Schweppes shareholders were left with a bitter taste in their mouths when Friends of the Earth campaigners handed out chocolate bars outside their annual general meeting to raise awareness of Cadbury's (and other food producers') use of palm oil in the manufacturing process. The campaign specifically aimed to highlight how this hidden ingredient is damaging the environment, and Friends of the Earth wanted the re-labelling of products so consumers are more informed about what they are buying (e.g. 'WARNING: May contain traces of deforestation and exploitation').

Digital interactive media have provided a communication channel that enables Friends of the Earth to successfully attract attention and develop its global network with current and new supporters (currently, approximately 1 million supporters across five continents). Its innovative use of new media and digital technologies includes live interactive discussion groups and real-time opinion polls on current climate issues; it uses viral marketing tools such as e-cards to connect with a wider audience through links to friends and family, and e-commerce solutions to collect donations.

Arguably, the most innovative online campaign is 'the big ask'. Friends of the Earth created an online march by asking the public to post video clips online to appeal to the UK Government to make important decisions about climate change laws. The campaign was very successful as it contributed to the government's decision to form a new coalition looking at climate change. A series of 'big ask' live concerts raised awareness of climate issues, which highlighted that three-quarters of UK citizens support laws reducing carbon emissions. In 2008, in conjunction with a gig by the band Razorlight, pressure was put on the government to say *yes* to including aviation and shipping in the carbon emissions bill.

Digital technologies and online marketing have enabled Friends of the Earth to communicate campaign issues to a much wider audience, and in doing so to elicit more support and influence on environmental policy.

Based on: Friends of the Earth Europe;[40] Friends of the Earth Trust (2004)[41]

We shall explore in more detail how marketing should respond to environmental issues in Chapter 6, which deals with understanding Marketing Ethics and Corporate Social Responsibility.

Social/Cultural Forces

Three key *social/cultural forces* that have implications for marketing are the changes in the demographic profile of the population, cultural differences within and between nations, and the influence of consumerism. Each will now be examined.

Demographic forces

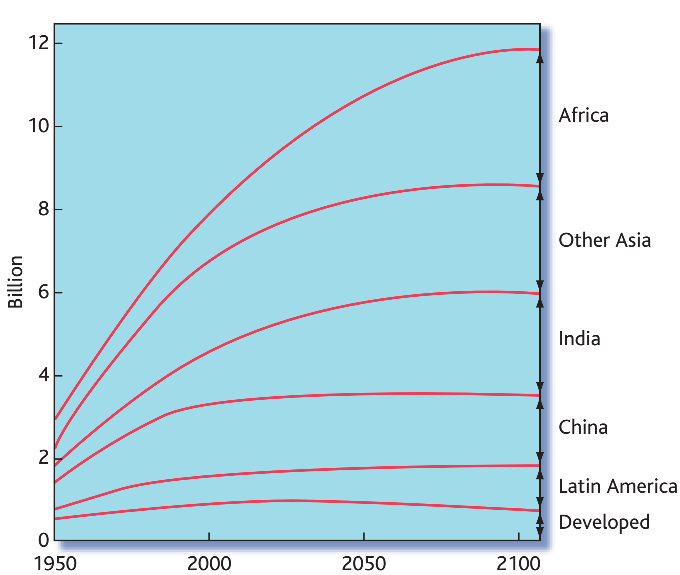
Demographic forces concern changes in populations in terms of their size and characteristics. **Demography** is important to marketers because it helps to predict the size and growth rates of markets, and the need for products such as schools, one-person housing and homes for the elderly. Three major demographic forces are world population growth, the changing age distribution and the changing structure of households in western countries.

World population growth

Overall, the global population is expanding at an increasing rate. However, the rate of growth is uneven across the world. In particular, the population in developed economies is expected to be stable or shrinking, whereas countries of Africa, India, 'other Asia' and Latin America are expected to account for over 90 per cent of the projected population increase during the twenty-first century (see Fig. 3.2).[42] As these countries grow more youthful, the developed countries will play host to an ageing population. In 2025, half the population of Europe will be over 45 years old. For the next decade, the world population is expected to grow by an average of 97 million per year.

The changing world population distribution suggests that new markets outside the developed economies may provide attractive opportunities, although the extent to which this force progresses will depend on a concomitant rise in income levels in the less developed world. The problem is that the major growth is predicted to be in countries that are already poor. Concern for their well-being is growing among people in the developed world. One response is the social marketing of family planning and birth control. Companies such as Hewlett-Packard and Citibank are increasingly focusing their attention on these so-called 'pre-markets' (i.e. those not yet sufficiently developed to be considered consumer markets). For example, Hewlett-Packard aims to sell, lease or donate a billion dollars worth of computer equipment and services to these under-served markets.[43]

World population growth FIGURE 3.2



Age distribution

A major demographic change that will continue to affect the demand for products is the rising proportion of people over the age of 45 in the EU, and the decline in the younger age group. The rise in over-45s creates substantial marketing opportunities because of their high level of per capita income. They have higher disposable income and higher levels of savings than younger people, tend to benefit from inheritance wealth, and are healthier than ever before. In France, for example, the average per capita disposable income for households headed by a retired person is now higher than the average for all households, and people over 60 (who constitute 18 per cent of the population) consume more than 22 per cent of the French gross domestic product (GDP).

Another demographic change is the growth in the numbers of retired people in Europe. This is partly because people are living longer but also because of early retirement. For example, although the official UK retirement age is 65 and likely to rise, early retirement schemes and redundancies have meant that a high proportion of people below this age group are, in effect, retired—for example, over 30 per cent of men aged 55–64 have already left the labour market. High disposable income, coupled with increasing leisure time, means that the demand for holidays and recreational activities such as golf, fishing and walking should continue to increase. Also there should be increasing demand for medical products and services, housing designed for elderly couples and singles, and single-portion foods. Understanding the needs of the over-45s presents a huge marketing opportunity, so that products can be created that possess the differential advantages valued by these people. In reality it is likely that there are a number of subgroups according to age band, which will allow market segmentation to be used. The overall implication of these trends is that many consumer companies may need to reposition their product offerings to take account of the rise in 'grey' purchasing power.

Household structure

Changes in household structure and behaviour that have marketing implications are the rise in one-person households, households with no children and the growth in dual-income families.

More people are living alone by choice, through divorce or bereavement. This suggests that a key market segment is people who demand products that meet their particular needs, such as one-bedroom houses or apartments, and single-portion foods. The proportion of couples who have no children has also increased. This may reflect a desire to maintain high standards of living for longer. The implication is an increase in the attractiveness of markets where couples are likely to spend their disposable income, such as restaurant meals, luxury holidays and designer clothing.

Households are also changing behaviour regarding employment. In many European countries there has been a growth in dual-earner families. In the UK, for example, over half of couples with dependent children are double-income families. The rise of two-income households means that this market segment has high disposable income, leading to reduced price sensitivity and the capacity to buy luxury furniture and clothing products (e.g. upmarket furniture and clothing) and expensive services (e.g. foreign holidays, restaurant meals). Also, the combination of high income and busy lives has seen a boom in connoisseur convenience foods. Marks & Spencer, in particular, has catered for this market very successfully. Demand for homecare facilities has also risen.

Cultural forces

Culture is the combination of traditions, taboos, values and attitudes of the society in which an individual lives. A number of distinctive subcultures in the UK provide a rich tapestry of lifestyles and the creation of new markets. The Asian population, for example, has provided restaurants and stores supplying food from that part of the world. This influence is now seen in supermarkets, where Asian foods are readily available. The free movement of workers around the EU has also encouraged the growth of subcultures—for example, the flow of workers from central and eastern Europe to older, established EU countries. To meet the needs of the Polish community in the UK, for example, Tesco now runs a groceries website in the Polish language.[44]

Subcultures can also span national boundaries. For example, the existence of a youth subculture across Europe has allowed brands such as Levi's jeans, Coca-Cola, Pepsi and MTV to be marketed with only modest adaptation to local tastes. Young consumers spend considerable time communicating with others via the Internet. The existence of social networking sites such as Facebook and MySpace means that they can share information, post photographs and download music. These sites provide huge opportunities and challenges for marketers to reach young audiences.

3.2 Pause for Thought

Do you believe European firms could do more to market successfully to different cultures within and between nations?

Attitudes towards food among some sections of society in Europe are also changing. Pressures toward healthy eating have prompted moves towards food with less fat, sugar and salt, and health labelling. For example, the Nestlé-branded cereal range targeted at children has been reformulated with 10 per cent less sugar. New brands focusing on their healthy credentials have emerged, like innocent (see illustration).

Market segments have appeared based on the concept of ethical consumption, leading to demand for fair trade and organic products, and avoidance of companies and brands that are associated with dubious labour practices. The growth in healthy eating and ethical consumption has prompted the acquisition of Green & Black's chocolate by Cadbury, and Ben & Jerry's by Unilever.

Successful non-European marketing depends on knowing the cultural differences that exist between European consumers. The German preference for locally brewed beer has proved a major barrier to entry for foreign brewers, such as Guinness, which have attempted to penetrate that market. The slower than expected take-off of the Euro Disney complex near Paris was partly attributed to French consumers' reluctance to accede to the US concept of spending a lot of money on a one-day trip to a single site. Once there, the French person, being an individualist, 'hates being taken by the hand and led around'.[45]

Cultural differences also have implications for business-to-business

◀ The innocent brand has been remarkably successful, tapping into the healthy living lifestyle. It has extended its product line from smoothies to vegetable pots.

marketing. Within Europe, cultural variations affect the way business should be conducted. Humour in business life is acceptable in the UK, Italy, Greece, the Netherlands and Spain but less commonplace in France and Germany. These facts of business life need to be recognized when interacting with European business customers.

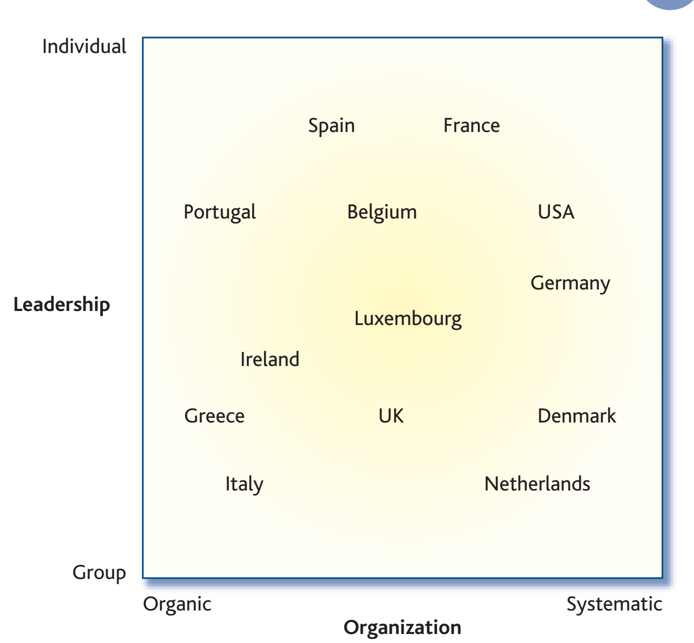
A study by Mole examined business culture in the EU and the USA.[46] Management styles were analysed using two dimensions: type of leadership and organization. Figure 3.3 shows the position of each of the 13 nations according to these two characteristics. Individual leadership (autocratic, directive) is to be found in Spain and France, whereas organic leadership style (democratic, equalitarian) tends to be found in Italy and the Netherlands. Systematic organization (formal, mechanistic) is found in Germany, Denmark and the Netherlands, while organic companies (informal, social) are more likely to exist in Spain, Italy, Portugal and Greece.

Based on the Mole survey, Wolfe describes business life in Italy, Spain and the Netherlands.[47] As Figure 3.3 shows, Italian organizations tend to be informal, with democratic leadership. Decisions are taken informally, usually after considerable personal contact and discussion. Italian managers are flexible improvisers who have a temperamental aversion to forecasting and planning. Interpersonal contact with deciders and influencers in the decision-making unit (DMU) is crucial for suppliers. Finding the correct person to talk to is not easy since DMUs tend to be complex, with authority vested in trusted individuals outside the apparent organizational structure. Suppliers must demonstrate commitment to a common purpose with their Italian customers.

In Spain, on the other hand, business is typified by the family firm where the leadership style is autocratic and the organizational system informal. Communications tend to be vertical, with little real teamwork. Important purchasing decisions are likely to be passed to top management for final approval, but good personal relationships with middle management are vital to prevent them blocking approaches.

Leadership in the Netherlands is more democratic, although organizational style tends to be systematic, with rigorous management systems designed to involve multilevel consensus decision-making. Buying is, therefore, characterized by large DMUs and long decision-making processes as members attempt to reach agreement without conflict or one-sided outcomes.

Management styles in the EU and the USA FIGURE 3.3



Consumerism

Consumerism takes the form of organized action against business practices that are not in the interests of consumers. Organized action is taken through the consumer movement, which is an organized collection of groups and organizations whose objective is to protect the rights of consumers. Pressure from the consumer movement, environmentalists, individuals who engage in ethical consumption and the media has resulted in many organizations adopting corporate social responsibility as a guide to their business practices. **Corporate social responsibility** (CSR) refers to the ethical principle that an organization should be accountable for how its behaviour might affect society and the environment. The importance of CSR is reflected in the large proportion of Chapter 6 (Understanding Marketing Ethics and Corporate Social Responsibility) that is devoted to coverage of this topic.

The consumer movement has had notable successes, including improvements in car safety, the encouragement of fast-food restaurants to provide healthy-eating options, health labelling of food products, and the banning of smoking in public places in some European countries including Ireland and the UK.

Some consumer organizations, such as the Consumers' Association in the UK, campaign for consumers and provide information about products, often on a comparative basis that allows consumers to make more informed choices between brands.

Marketing management should not consider the consumer movement a threat to business but an opportunity to create new product offerings to meet the needs of emerging market segments. For example, in the detergent market brands have been launched that are more environmentally friendly, and food companies have reduced the fat and salt content of some of their products.

Changes in social and cultural aspects of the marketing environment need to be monitored and understood so that marketing management is aware of the changing tastes and behaviour of consumers. Such changes can create demand shifts that can act as either opportunities or threats for European companies.

Technological Forces

Technology can have a substantial impact on people's lives and companies' fortunes. Technological breakthroughs have given us body scanners, robotics, camcorders, the Internet, mobile phones, computers and many other products that have contributed to our quality of life. Many technological breakthroughs change the rules of the competitive game: the launch of the computer and word-processing software has ruined the market for typewriters; the growth of e-mail spelt the decline of the fax machine; the rise of the compact disc decimated the market for cassette tapes.

Heavy investment in new technology can pay handsome dividends. ICI, for example, invested heavily in the biotechnology area and is the market leader in equipment used for genetic fingerprinting, and Apple's investment in the technology supporting its iPod has made it global leader in the mobile music market. The key to successful technological investment is market understanding not technological sophistication for its own sake. Marketing and R&D staff need to work closely together to achieve this aim. The classic example of a high-technology initiative driven by technologists rather than pulled by the market is Concorde. Although technologically sophisticated, management knew before launch that it never stood a chance of being commercially viable. By contrast the development of the Airbus A380, the world's biggest passenger plane, has been market based, taking into account the need for greater passenger comfort on long-haul flights, the higher revenues accruing from a larger number of passengers per flight, and recognition that over the next 20 years around 70 per cent of flights will be from just 25 airports, many of which are so congested they are unable to take any more planes. By using aircraft like the A380 the predicted increase in passenger demand can be accommodated using the same number of planes.[48]

A lack of investment in high-potential technological areas can severely affect the fortunes of companies. For example, Sony—once regarded as a leader in high-tech product innovation—has lost ground due to its lack of early investment in flat-screen television, liquid crystal display and portable audio systems, which allowed Apple to supersede the Sony Walkman with its iPod, which not only allows high-quality mobile listening but also the downloading of music, and for Samsung to gain a competitive advantage in flat-screen televisions.

Besides investment in technological areas that have high market potential, companies need capabilities in identifying how technology developed in one field can be exploited in another market. For example, Teflon, which has been a major marketing success in the coating of non-stick frying pans, was first developed as a coating on the nose cones of space rockets. A more recent technology transfer success story is of Visco foam, which was developed by NASA for the space programme to absorb the tremendous forces that astronauts are subjected to during lift-off. It has been used to create Visco memory foam beds that adjust to body position minimizing pressure points and maximizing body support.

As we have seen, technological change can provide opportunities for new product development and also threats to existing markets. Technology also affects the way in which marketing is conducted. Developments in information technology have revolutionized marketing practices. Information technology describes the broad range of processes and products within the fields of computing and telecommunications. The Internet and mobile phone technology have allowed companies to use new channels of communication and distribution (e.g. music downloads) to reach consumers. The importance of these developments is reflected in Chapter 18, on digital marketing, which explores how these advances are providing new opportunities for marketers. Salesforce automation is improving the efficiency of salesforces, and these are described and the implications examined in Chapter 14, on personal selling and sales management. A whole new industry, customer relationship management (CRM), has emerged in recent years, founded on database technologies to enable companies to improve communications and relationships with consumers. CRM issues are discussed in Chapter 15, on direct marketing.

Marketing-led companies seek not only to monitor technological trends but also to pioneer technological breakthroughs that can transform markets and shift competitive advantage in their favour. They also seek to use technology to improve the efficiency and effectiveness of their marketing operations.

The Microenvironment

The microenvironment consists of the actors in the firm's immediate environment that affect its capabilities to operate effectively in its chosen markets. Those actors—customers, competitors, distributors and suppliers—will now be introduced and will be analysed in more depth throughout the book.

Customers

As we saw in Chapter 1, customers are at the centre of the marketing philosophy and effort, and it is the task of marketing management to satisfy their needs and expectations better than the competition. The starting point is an understanding of them and this is considered in Chapter 4 (Understanding Consumer Behaviour) and Chapter 5 (Understanding Organizational Buying Behaviour). The techniques for gathering and analysing customer and other marketing information are discussed in Chapter 7, on marketing research. Furthermore, the grouping of consumers to form market segments that can be targeted with specific marketing mix offerings is the subject of Chapter 8 (Market Segmentation and Positioning).

Changing customer tastes, lifestyles, motivations and expectations need to be monitored so that companies supply the appropriate targeted marketing mix strategies that meet their needs. Changes in consumer behaviours also need to be monitored. For example, consumers are using social network sites like Twitter to communicate—a fact not lost on marketers, as Digital Marketing 3.2 explains. Marketers should also seek out the latest customer needs that currently have not been met. The discovery of these can result in lucrative unserved markets in which first-mover advantage can be a vital asset, as was demonstrated by 3M's Post-it brand.

3.2 Digital Marketing

Twittering Around the World

Twitter is a free-to-join social networking group, created in 2006. It has rapidly grown in popularity worldwide and currently has roughly 4–5 million users. Twitter enables members of the network community to connect through quick and frequent online exchanges called 'tweets'. Tweets are text-based posts (no longer than 140 characters), which are displayed on the user's profile page and sent to other users who have signed up as 'followers'. A typical tweet might explain what I am doing right now (e.g. 'Sitting in my home office writing a mini case study for *Principles and Practice of Marketing*'). Users of Twitter can control who can access their messages (e.g. close circle of friends, work colleagues or anybody) and tweets can be sent and received via the Twitter website, short message service (SMS) or external applications. Increasingly, individuals and companies are providing links to Twitter trails from their websites.

In countries all around the world, people follow Twitter trails, which are relevant and of interest, to access information and stay informed about world events or news updates from friends.

World leaders, celebrities and pop icons have been quick to recognize Twitter as a powerful communication network. President of the United States, Barack Obama, used Twitter to gain support during the presidential election campaign. Indeed, he was reportedly the most followed person on Twitter at the time, with over 144,000 followers. Many other world leaders are now holding press conferences via Twitter. High-profile celebrities also use Twitter. Virgin's Richard Branson has an account to recruit prospective employees; pop star Britney Spears gives fans updates of her whereabouts. British tennis player Andy Murray is also a regular tweeter; he informed his fans not long after his loss in the Australian Open Tennis Championship: 'Just bak from dinner. Bumpd in2 the guys from The Prodigy in hotel lobby. Tuf 2day. Fernando playd gr8 5th.'

The potential influence of Twitter and similar online social networking groups is constantly growing. For example, Twitter users came together online in a 'Twestival', a global online meeting involving Twitterers from over 170 cities around the world. Marketers should be aware of the potential significance of Twitter in influencing consumer behaviour.

Based on: Mzimba (2009)[49]

Competition

Competitors have a major bearing on the performance of companies. For example, when competitors price-cut the attractiveness of the market can fall and their ability to innovate can ruin once highly profitable brands. Marketing history is littered with brands that were once successful (e.g. Olivetti typewriters, Amstrad computers and Lotus software) but are now defunct because rivals developed and marketed better alternatives. No longer is it sufficient to meet customer needs and expectations—success is dependent on doing it better than the competition.

Marketing-orientated companies not only monitor and seek to understand customers but also research competitors and their brands to understand their strengths, weaknesses, strategies and response patterns. In this book, the importance of these issues is reflected in a section being devoted to such analysis and the strategies that can be employed to anticipate and combat competitive moves. These matters are discussed in Chapter 19 (Analysing Competitors and Creating a Competitive Advantage) and Chapter 20 (Competitive Marketing Strategy).

Distributors

Some companies, such as those providing services, dispense with the use of distributors, preferring to deal directly with end-user customers. The others use the services of distributors such as wholesalers and retailers to supply end users. As we shall see in Chapter 17, on distribution, these channel intermediaries perform many valuable services, including breaking bulk, making products available to customers where and when they want them, and providing specialist services such as maintenance and installation.

Distributors can reduce the profitability of suppliers by putting pressure on profit margins. For example, large retailers such as Wal-Mart and Tesco have enormous buying power and can demand low prices from their suppliers, a fact that has been criticized in the media when applied to small farmers.

Distribution trends need to be monitored. For example, the trend towards downloading music has hit traditional music outlets that sell CDs, and the growth of the Internet-based sellers such as Amazon has impacted on traditional bricks-and-mortar booksellers. As the attractiveness of distribution channels changes so suppliers must alter their strategies to keep in touch with customers.

Suppliers

The fortunes of companies are not only dependent on customers, competitors and distributors, they are also influenced by their suppliers. Increases in supply costs can push up prices, making other alternatives more attractive. For example, increases in the price of aluminium make plastic more attractive. Also, as with distributors, powerful suppliers can force up prices. The rise in the price of gas has been blamed on powerful European suppliers who, it is alleged, restricted supply in order to force prices higher.

Companies need to monitor supply availability, such as shortages due to labour strikes or political factors, as these can cause customer dissatisfaction and lost sales. They also need to be sensitive to alternative input materials that can be substituted for those of existing suppliers if the latter's prices rise or availability diminishes significantly.

The importance of suppliers is reflected in discussion of their relationship with customers in Chapter 5, which focuses on organizational buying behaviour. Many customers are increasingly forming partnerships with selected suppliers in order to enhance value delivery.

All the elements of the microenvironment need to be monitored and assessed so that opportunities can be exploited and threats combated. This forms an essential ingredient in maintaining strategic fit between a company and its marketing environment.

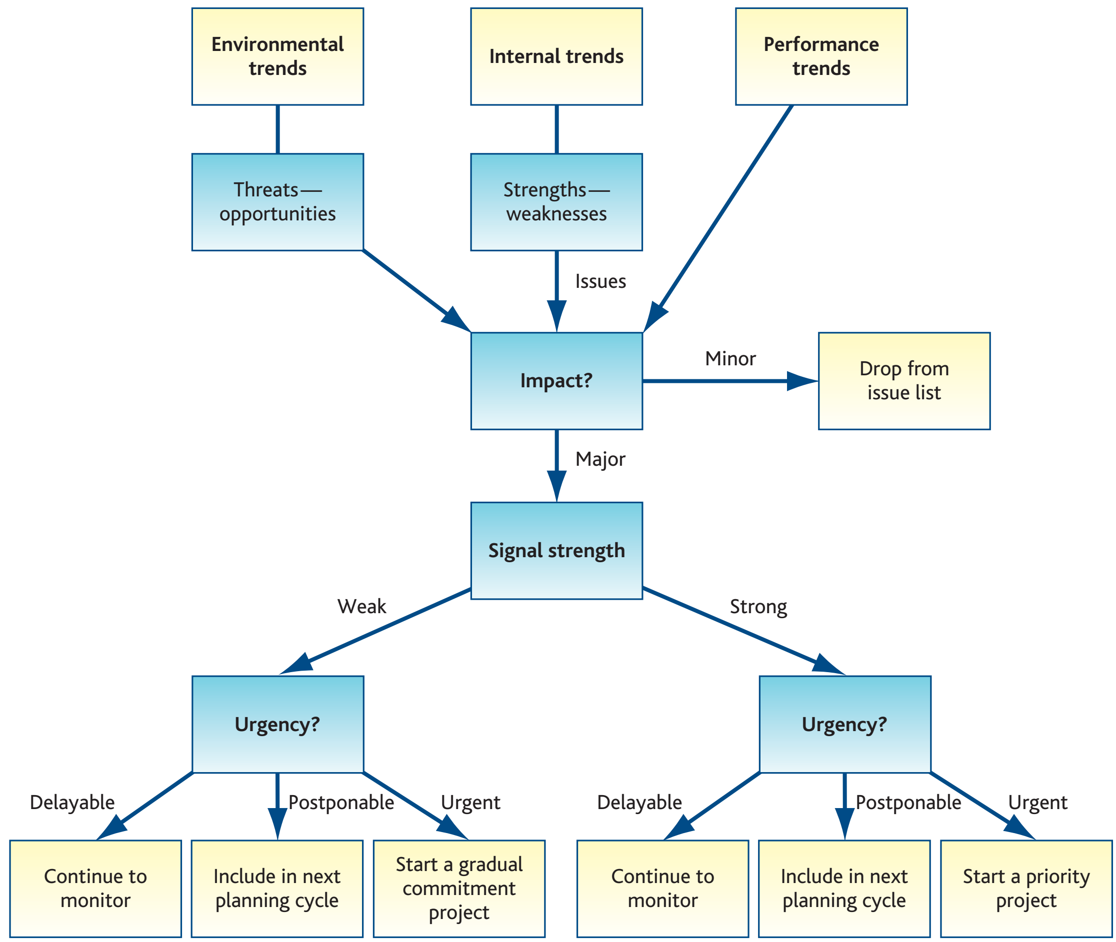
Environmental Scanning

The process of monitoring and analysing the marketing environment of a company is called **environmental scanning**. Two key decisions that management need to make are what to scan and how to organize the activity. Clearly, in theory, every event in the world has the potential to affect a company's operations, but to establish a scanning system that covers every conceivable force would be unmanageable. The first task, then, is to define a feasible range of forces that require monitoring. These are the *potentially relevant environmental forces* that have the most likelihood of affecting future business prospects. The second prerequisite for an effective scanning system is to design a system that provides a fast response to events that are only partially predictable, emerge as surprises and grow very rapidly. This is essential because of the increasing turbulence of the marketing environment. Ansoff proposes that environmental scanning monitors the company's environment for signals of the development of *strategic issues* that can have an influence on company performances.[50]

Figure 3.4 provides the framework for corporate response, which is dependent on an analysis of the perceived impact, signal strength and urgency of the strategic issue.

There are four approaches to the organization of environmental scanning, as follows.[51]

A framework for analysing and responding to environmental (strategic) issues FIGURE 3.4



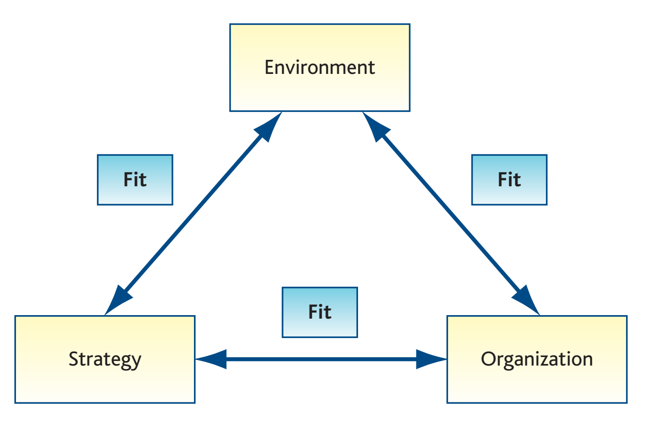
1 *Line management*: functional managers (e.g. sales, marketing, purchasing) can be required to conduct environmental scanning in addition to their existing duties. This approach can falter because of line management resistance to the imposition of additional duties, and a lack of the specialist research and analytical skills required of scanners.

2 *Strategic planner*: environmental scanning is made part of the strategic planner's job. The drawback of this approach is that a head office planner may not have the depth of understanding of a business unit's operations to be able to do the job effectively.

3 *Separate organizational unit*: regular and ad hoc scanning is conducted by a separate organizational unit and is responsible for disseminating relevant information to managers. General Electric uses such a system, with the unit's operations funded by the information recipients. The advantage is that there is a dedicated team concentrating its efforts on this important task. The disadvantage is that it is very costly and unlikely to be feasible except for large, profitable companies.

4 *Joint line/general management teams*: a temporary planning team consisting of line and general (corporate) management may be set up to identify trends and issues that may have an impact on the business. Alternatively, an environmental trend or issue may have emerged that requires closer scrutiny. A joint team may be set up to study its implications.

Strategic marketing fit FIGURE 3.5



The most appropriate organizational arrangement for scanning will depend on the unique circumstances facing a firm. A judgement needs to be made regarding the costs and benefits of each alternative. The size and profitability of the company and the perceived degree of environmental turbulence will be factors that impinge on this decision.

Brownlie suggests that a complete environmental scanning system would perform the following tasks:[52]

- monitor trends, issues and events, and study their implications
- develop forecasts, scenarios and issues analysis as input to strategic decision-making
- provide a focal point for the interpretation and analysis of environmental information identified by other people in the company
- establish a library or database for environmental information
- provide a group of internal experts on environmental affairs
- disseminate information on the business environment through newsletters, reports and lectures
- evaluate and revise the scanning system itself by applying new tools and procedures.

Formal environmental scanning was researched by Diffenbach, who found that practitioners believed it provided the following benefits:

- better general awareness of, and responsiveness to, environmental changes
- better strategic planning and decision-making
- greater effectiveness in dealing with government
- improved industry and market analysis
- better foreign investment and international marketing
- improved resource allocation and diversification decisions
- superior energy planning.

Environmental scanning provides the essential informational input to create strategic fit between strategy, organization and the environment (see Fig. 3.5). Marketing strategy should reflect the environment even if this means a fundamental reorganization of operations.

Responses to Environmental Change

Companies respond in various ways to environmental change (see Fig. 3.6).

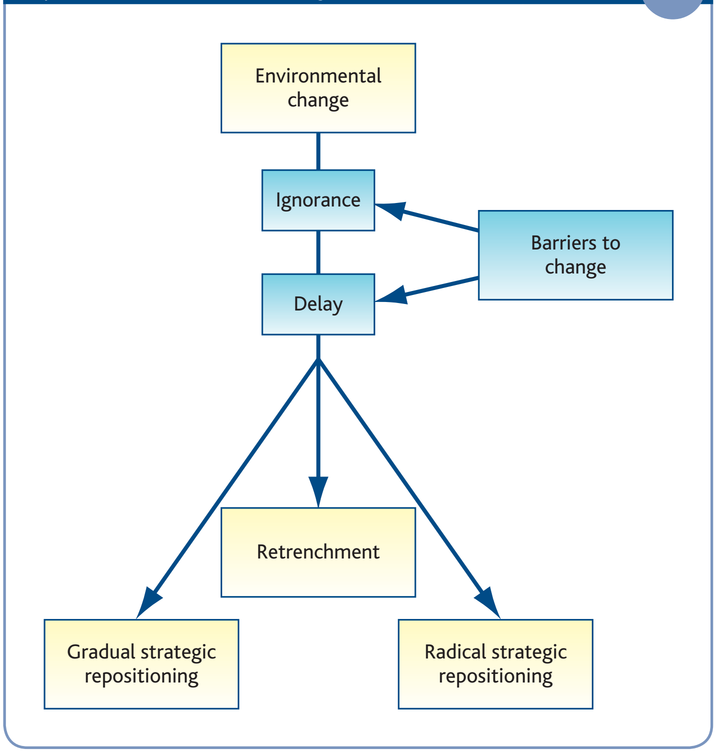
Ignorance

Because of poor environmental scanning, companies may not realize that salient forces are affecting their future prospects. They therefore continue as normal, ignorant of the environmental issues that are threatening their existence, or opportunities that could be seized. No change is made.

Delay

The second response is to delay action once the force is understood. This can be caused by *bureaucratic decision processes* that stifle swift action. The slow response by Swiss watch

Responses to environmental change FIGURE 3.6



manufacturers to the introduction of digital watches was thought, in part, to be caused by the bureaucratic nature of their decision-making. *Marketing myopia* can slow response through management being product rather than customer focused. For example, Compaq grew to sales of £2 billion in eight years based on processes that produced high-quality products. Manufacturing concentrated on quality, sacrificing speed and economy to ensure product excellence. Compaq's quality-at-any-price approach served the company well in the early days of the personal computer industry when customers worried about product usability. As PCs became commodities and nimble rivals like Dell grew, competition shifted to value for money. Compaq continued to rely on well-honed processes that churned out quality products but at a price that meant they gathered dust on dealers' shelves.[53] A third source of delay is *technological myopia*, where a company fails to respond to technological change. An example is Kodak's slow response to the emergence of digital technology in cameras. The fourth reason for delay is *psychological recoil* by managers who see change as a threat and defend the status quo. These are four powerful contributors to inertia.

Retrenchment

This response tackles efficiency problems but ignores effectiveness issues. As sales and profits decline, management cuts costs; this leads to a period of higher profits but does nothing to stem declining sales. Costs (and capacity) are reduced once more but the fundamental strategic problems remain. Retrenchment policies only delay the inevitable.

Gradual strategic repositioning

This involves a gradual, planned and continuous adaptation to the changing marketing environment. Tesco is a company that has continually repositioned itself in response to changing social and economic trends. Originally a supermarket based on a 'pile it high, sell it cheap' philosophy, it has maintained its low price positioning while moving to higher-quality products. It has also expanded the range of products it sells (including CDs, electrical goods, financial services and clothing) to provide one-stop shopping, and has expanded into new market segments (Tesco Express convenience stores) and international markets including the Far East, the USA and central and eastern Europe.

Radical strategic repositioning

Radical strategic repositioning involves changing the direction of the entire business. An example is Nokia, which radically repositioned from being a conglomerate operating in such industries as paper, chemicals and rubber into a world leader in mobile phones. Samsung also successfully repositioned by transferring itself from a copy-cat producer of cheap televisions and microwave ovens into a technology company marketing mobile phones, flat-screen televisions, and memory chips that are used in digital cameras, mobile phones and portable music players such as the iPod nano.[54] Radical strategic repositioning is much riskier than gradual strategic repositioning because, if unsuccessful, the company is likely to fold.

This chapter has explored a number of major forces occurring in the marketing environment, and has discussed methods of scanning for these and other changes that may fundamentally reshape the fortunes of companies. Failure to respond to a changing environment has the same effect on companies as lack of adaptation by animals: extinction.

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Review

1 The nature of the marketing environment

- The marketing environment consists of the microenvironment (customers, competitors, distributors and suppliers) and the macroenvironment (economic, social, political, legal, physical and technological forces). These shape the character of the opportunities and threats facing a company and yet are largely uncontrollable.

2 The distinction between the microenvironment and the macroenvironment

- As can be seen above, the microenvironment consists of those actors in the firm's immediate environment that affect its capabilities to operate effectively in its chosen markets.
- The macroenvironment consists of a number of broader forces that affect not only the company but also the other actors in the microenvironment.

3 The impact of political and legal, economic, ecological/physical environmental, social/cultural and technological forces on marketing decisions

- Political and legal forces can influence marketing decisions by determining the rules by which business can be conducted. In Europe, marketing decisions are affected by legislation at EU and national levels. EU laws seek to prevent collusion, prevent abuse of market dominance, control mergers and acquisitions, and restrict state aid to firms. National laws also affect marketing decisions by regulating anti-competitive practices. Marketers who apply ethics to their decision-making should have no problem working within this legal framework. They should also decide the extent to which they feel the need to influence political decisions that may affect their operations.
- Economic forces can impact marketing decisions through their effect on supply and demand. Key factors are economic growth, unemployment, interest and exchange rates and changes in the global economic environment such as the entry of central and eastern European countries into the EU, and the rise of the Chinese and Indian economies. Marketers need to have contingency plans in place to cope with economic downturns, and to be aware of the opportunities and threats arising from changes in the global marketing environment.
- Ecological/physical environmental forces are concerned with the environmental costs of consumption. Five issues that impact marketing decisions are combating global warming, pollution control, conservation of energy and other scarce resources, use of environmentally friendly ingredients and components, and the use of recyclable and non-wasteful packaging. Marketers need to be aware of the environmental consequences of their actions, and the opportunities and threats associated with ecological issues.

- Social/cultural forces can have an impact on marketing decisions by changing demand patterns (e.g. the growth of the over-50s market) and creating new opportunities and threats. Three major influences are changes in the demographic profile of the population, cultural differences within and between nations, and the impact of consumerism.
- Technological forces can impact marketing decisions by changing the rules of the competitive game. Technological change can provide major opportunities and also pose enormous threats to companies. Marketers need to monitor technological trends and pioneer technological breakthroughs. They should also seek to use technology to improve marketing operations.

4 How to conduct environmental scanning

- Two key decisions are what to scan and how to organize the activity.
- Four approaches to the organization of environmental scanning are to use line management, the strategic planner, a separate organizational unit and joint line/general management teams.
- The system should monitor trends, develop forecasts, interpret and analyse internally produced information, establish a database, provide environmental experts, disseminate information, and evaluate and revise the system.

5 How companies respond to environmental change

- Response comes in five forms, which are: ignorance, delay, retrenchment, gradual strategic repositioning and radical strategic repositioning.

Key Terms

consumerism organized action against business practices that are not in the interests of consumers

corporate social responsibility the ethical principle that an organization should be accountable for how its behaviour might affect society and the environment

culture the combination of traditions, taboos, values and attitudes of the society in which an individual lives

demography changes in the population in terms of its size and characteristics

ecology the study of living things within their environment

environmental scanning the process of monitoring and analysing the marketing environment of a company

marketing environment the actors and forces that affect a company's capability to operate effectively in providing products and services to its customers

PEEST analysis the analysis of the political/legal, economic, ecological/physical, social/cultural, and technological environments

Study Questions

1. Choose an organization (if you are in paid employment use your own organization) and identify the major forces in the environment that are likely to affect its prospects in the next five to 10 years.
2. What are the major ecological/physical environmental forces acting on marketing? What are their implications for marketing management?
3. What are the major opportunities and threats to EU businesses arising from the move to market-driven economies of former eastern bloc countries?

4. Generate two lists of products and services. The first list will identify those products and services that are likely to be associated with falling demand as a result of changes in the age structure in Europe. The second list will consist of those that are likely to see an increase in demand. What are the marketing implications for their providers?

5. How does technological change affect marketing? What should marketing management do to take account of technological forces?

6. Evaluate the marketing opportunities and threats posed by the growing importance of the socially conscious consumer.

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Sony Shockwave

CASE 5

In Search of the Next Hit Product

All is not well in the Sony dynasty. The company's performance in recent years has been less than stellar for this global brand icon. The Sony brand was once a byword for innovation; now it is seen as failing to tap new opportunities, being complacent and over-reliant on past successes. Its share price has fallen by two-thirds in the space of five years, and its credit rating has been downgraded. Its pioneering electronics division is struggling, sales have plummeted and profits are in decline. Aggressive competitors are stealing market share in key markets where once it dominated. Now the company is being criticized for its lack of focus, and failing to avail itself of strategic windows of opportunity that its competitors have rapidly exploited. In the wake of this 'Sony shockwave', the company has initiated a raft of changes to turn around its performance, including radical cost-saving initiatives to stop the haemorrhaging of profits. The restructuring involves supply chain cost reductions, headcount reductions and manufacturing site realignment. The biggest surprise is that, although earning huge revenues from the variety of industries in which it operates, Sony's income from its core electronics business is collapsing, with a 17 per cent decrease, and the firm is losing millions. So what is happening at Sony? Faced with intensification of price competition, a strong currency and the global economic slowdown, can it reinvent itself?

Following the ravages of the Second World War, Akito Morita and Masaru Ibuka joined together to form a small electronics firm that would go on to become a global colossus. In the ramshackle remains of a bombed-out department store in Tokyo, the pair started to make radio components and repair radios. Morita was the consummate salesman, while Ibuka was a technical expert; they formed a perfect partnership. Both guided the firm for over 50 years. Among the company's first engineering forays was an electric rice cooker and electric heated seat cushions. In the early years, the company set upon an innovation focus, always looking for potentially lucrative markets and exploiting new technology. The founders would frequently visit other countries with a view to exploiting new opportunities, such as Ibuka visiting the USA in 1952 and bringing back the idea of exploiting new transistor technology and developing radios. This became the launch pad for Sony's early success, when people bought hundreds of thousands of transistor radios to listen to the new rock'n'roll. The company went from strength to strength through a combination of leading-edge technology products and miniaturization. Sony became the embodiment of post-war Japanese industry: entrepreneurial, creative, pioneering and highly successful. The company was always at the forefront of technology, entering untested new markets, and creating one hit product after the next.

From these humble beginnings, Sony now has become a highly respected global brand name, manufacturing audio, video, communications and information technology products for both consumer and industrial markets worldwide. The Sony brand has

Sony at a glance TABLE C5.1

Headquarters based in Tokyo, Japan
Sony employs over 171,300 people worldwide
Annual sales exceed over $78 billion dollars per year; revenue was down 12.9%
One of the world's most valuable brands
Pioneers of ground-breaking technology such as the Walkman, PlayStation, transistor radios, tape recorders, video recorders, CD players and video cameras
Owns second largest music company in world
Large investment in the motion picture and television industry, with Sony Pictures

developed into a highly respected and sought-after brand, instantly recognizable the world over. Its products have the reputation for being highly innovative, extremely reliable and possessing high quality standards. The company has evolved to become more than just an electronics business. It has a large presence in the music, movie and television business, banking, insurance and Internet services. The company has several key divisions within the group (see Table C5.2). Some of these divisions are owned outright, while others are joint ventures with leading multinationals. For example, the firm merged its mobile phone business with Swedish telecommunications giant Ericsson. This 50:50 joint venture, called Sony Ericsson, aims to leverage the core competences of both firms, in an effort to beat market leader Nokia in the mobile telephone market. The new venture is performing well, with its range of phones equipped with high-end camera and Walkman-branded capabilities turning the mobile phones into portable digital music devices. It is hoped that these devices will be the future 'iPod killer' and help Sony regain the portable music market that it once dominated. However, the venture is experiencing rapid losses, coupled with the stellar success of Apple's iPhone and the continued strong performance of Nokia. The division needs a hit, but nothing has captured the public's imagination.

One of the biggest areas of concern for Sony is its electronics business. This accounts for nearly 70 per cent of it revenues and is the cornerstone of the business. In 2008, Sony's electronics division decreased 17 per cent on revenues. This sent shockwaves around the world's investment community and highlighted that there was something inherently wrong within Sony. At present the firm is over-reliant on the success of its PlayStation games console business, involved in intense price competition, experiencing ever tightening price margins (prices have deflated by 30 per cent in some cases), and losing ground to competitors. The company's sales of its Cybershot digital cameras, Vaio laptops and Handycam camcorders are seeing decreased demand. The company is still yearning for a blockbuster product that will

The major divisions of Sony — TABLE C5.2

Name	Details
Sony Electronics	Manufactures a wide variety of electronic products for both consumer and industrial markets. Products include DVD players, plasma screens, digital audio players, semiconductors, camcorders, notebook computers and a variety of other electronic products
Sony Computer Entertainment	Markets the Sony PlayStation family of products and produces gaming content for these devices. Over 70 million PlayStations have been sold
Sony DADC	Manufactures media storage discs such as CD, DVD, Blu-Ray and Universal Media Discs
Sony Ericsson	A 50:50 joint venture with Swedish firm Ericsson focused on the mobile telephony industry. Joint venture established in October 2001. The division develops innovative mobile phones integrating camera, digital audio and gaming technology. Uses linkages with Sony BMG and Sony Pictures with regard to content. Employs 5000 staff worldwide. Sales are down 19%. Losses €489 million in 2008
Sony Music Entertainment	Second largest music publisher in the world. A music colossus, owning several music labels in a variety of genres. Artists on roster include Beyonce, Jennifer Lopez, Outkast, Bruce Springsteen, Leona Lewis and Rod Stewart. Owns huge back catalogue of masterworks, including Elvis Presley, Johnny Cash and Louis Armstrong
Sony/ATV Music Publishing	Joint venture with the late Michael Jackson, who owned a treasure trove of a music back catalogue including music from the Beatles, Bob Dylan and Jimi Hendrix. The firm owns and administers the copyright of these songs

Sony milestones TABLE C5.3
1946—Founded by Masaru Ibuka and Akito Morita in post-war Tokyo, using a bombed-out department store and employing 20 people. Called the company Tokyo Tsuchin Kogyo KK (Tokyo Telecommunications Engineering Corporation)
1954—Produces Japan's first transistor radio
1958—Name is changed to Sony (serived from *Sonus*, Latin for sound)
1962—Releases the world's smallest transistor television
1968—Manufactures Trinitron colour television
1971—Sells the first video cassette recorder
1975—Launches the ill-fated Betamax home video recorder; loses format war to VHS standard
1979—Launches the Sony Walkman, the personal portable stereo that becomes a worldwide phenomenon
1983—Releases the first consumer camcorder
1988—Launches American acquisitions phase, diversifying by buying CBS Records
1989—Acquires Columbia Pictures, which now forms Sony Pictures
1995—Enters the games console market with the first Sony PlayStation
1999—Founder Akito Morita dies, aged 78
2000—PlayStation 2 launched
2001—Sony Ericsson venture launched
2004—Sony BMG Music Entertainment launched after successful merger
2005—Launches PlayStation Portable, the PSP
2005—Bought the famous MGM movie studio for $5 billion as part of a consortium
2005—Welshman Sir Howard Stringer appointed as chairman and CEO of Sony
2006—Launches the PlayStation 3. Forecasts a 10-year life cycle for the latest console
2007—Cancelled the Sony Connect music distribution platform
2008—Announced a 95 billion yen (£590 million) loss
2009—Demoed the motion-sensitive 'Sony PlayStation Wand' for the PlayStation 3

revitalize it. Its Bravia television screens are performing well; however, all other electronic product categories are facing enormous pressure and declines. Its iconic status as the world's leading electronic brand is losing its lustre; other firms have taken the lead, such as its Korean arch-rival Samsung and the rejuvenated Apple Computers. It has tried to take the lead in new platforms like e-readers, only to be surprisingly trounced by Amazon.com with its Kindle device due to wireless connectivity and abundance of content.

Some blame Sony's current problems on its past successes, making it complacent with regard to the changing needs of the market. The company is facing intense competition from several key competitors in several diverse markets in which it operates. In televisions, where it was once so dominant, it lost impetus by failing to provide a viable LCD screen and plasma screen offering. Competitors like Samsung devoured the market, while Sony continued to focus on the traditional bulky televisions. Sony completely missed the market. In the mid-1990s it decided to stay out of the LCD market because it felt that the technology was simply not good enough. It failed to invest in LCD manufacturing capabilities. In trying to catch up with the market, as demand for flat-screen televisions took off, Sony had to buy in LCD screen technology from competitors, as it didn't have the expertise or production capacity itself. Losing market leadership in the television sector could have done very serious detrimental damage to the Sony brand and sales of other products. Typically, a television in the home was the centrepiece, where other electronics peripherals would be attached, such as camcorders and DVD players. Consumers bought devices that worked well with their television. Having a Sony-branded television had a knock-on effect for the sales of other peripherals.

In other markets, it is feeling the pressure of intense competition on multiple fronts. Competitors are offering very good-quality technology products at competitive price points. Apple iPods have become this generation's new Walkman. While Apple pioneered the market, Sony was more concerned with the piracy and copyright issues associated with the digital music revolution. It was reluctant to manufacture devices that could impinge on its music business. The company has ultimately failed to rekindle the Walkman brand as a digital music device. It is fighting Dell, Acer, Asus, Toshiba and HP in its mobile computing business. Nikon and Canon have retaken the lead in the digital photography market. It faces strenuous competition in the games console market with the recent launch of the Microsoft Xbox 360 and Nintendo's Wii in the next-generation games console market. Nokia, Samsung and now Apple dominate the mobile telephone market. Traditionally Sony was regarded as a premium brand because of its reputation for quality, higher specifications, reliability and innovation. This strong reputation enabled it to charge consumers premium prices. Consumers are now being enticed by the competition's high-quality and competitive pricing, leaving Sony unable to justify its higher prices. Sony needs to develop the 'must have' consumer electronics gadgets that consumers want. The company is now

▲ Sony is focusing on its 'champion products', including the Bravia LCD television shown here.

focusing intensively on several 'champion products' including PlayStation 3, PSP (PlayStation Portable), Walkman, OLED and Bravia LCD televisions.

The company has widely diversified from being solely an electronics firm. The purchase of Columbia Pictures cost Sony $3.4 billion dollars in 1989, and it purchased CBS Records for $2 billion; both were bold moves for an electronics company. This was during the heady days of the Japanese 'bubble' economy. Sony felt it wanted to create a global entertainment empire combining technology with the best entertainment content. The acquisition of CBS Records and Columbia Pictures garnered a mixed reception by industry commentators, with many questioning whether a technology firm that specialized in gadgets knew anything about the entertainment industry. The company decided to diversify into entertainment, in the hope that synergies could emerge between both the hardware and software aspects of the business. Sony now had the opportunity to set the standards and provide content that works on its devices. Convergence is seen as the 'holy grail', however the vision and successful integration of both Sony's hardware and entertainment division remains elusive. The entertainment divisions are providing a substantial contribution to the business—both have operating margins of in excess of 8 per cent—however, critics of the strategy see it as sidetracking the business and losing focus on its central business: electronics. Also success can be fickle in these sectors, depending on notoriously unreliable blockbuster movies and a new record superstar to emerge.

In the music arena, the industry is consolidating even further. Sony Music Entertainment has an estimated 25.2 per cent share of the music market. The division has an impressive roster of talent and is now the second largest music label behind Universal Music Group. With Sony possessing so much clout in the music business, it has the ability to set digital standards in the burgeoning online download market. The strategy of owning the content and the technology has yet to yield its full potential. Some question the logic behind the strategy, citing that Apple's success in becoming the dominant player in the digital music landscape was not due to it owning a record label. Some commentators view the entertainment division as an unnecessary distraction for Sony, and feel that it curtailed the development of digital technology because it was too concerned with the effects on piracy and the copyright of its Entertainment Division. Other rival electronics firms have no such qualms (e.g. trying to placate their entertainment divisions) and have developed hit products quickly. The music business itself is facing enormous challenges as sales are falling and most revenue is generated through touring rather than album sales.

One of the main challenges facing Sony is leveraging the content that it owns through its entertainment ventures with its hardware technology. It had to abandon its Sony Connect initiative as an alternative music distribution channel similar to iTunes. This was due to a lack of popularity in comparison to rivals. The market wanted content that was 'DRM free', where consumers could transfer content with ease to multiple devices. Innovation within Sony remains the core challenge. For the company to maintain its product leadership status, and command a price premium, developing products that are cutting edge and that the market wants is pivotal to its future. The company is investing heavily in Organic Light Emitting Diode (OLED) technology, which it hopes will set standards in high-definition, flat-screen technology. Furthermore it is abandoning pet R&D projects, like robotic dogs.

Back in the early 1980s, Sony lost a bitter technology standard war, which damaged its brand and resulted in thousands of disgruntled Sony customers. Sony backed the losing video recording technology: Betamax. Betamax was indeed a superior product, however the mass market chose a rival format, VHS, which became the industry standard for all video tapes. Now Sony has won the latest format war, with its Blu-Ray format winning the war to be the next generation of DVD. Blu-Ray boasts greater storage capacity, can record, possesses anti-piracy technology and has the ability to deal with high-definition broadcasts. Sony beat its Japanese rival, Toshiba, which with its partners was backing HD-DVD (an alternative format). Sony won due to the support of all the major movie studios.

This Blu-Ray format victory for Sony could prove decisive. In an effort to encourage the adoption of the Blu-Ray disc, Sony integrated the technology into its PlayStation 3 console release. This Trojan horse move, it hoped, would provide the much needed impetus to gain mass-market support. Success on the Blu-Ray disc is a big gamble for Sony; it hopes to gain lucrative royalties from sales of the technology, more sales for its movie business as consumers buy Blu-Ray movie discs, and to sell copious amounts of Blu-Ray electronics players. However, this may prove futile as more consumers are downloading content thought their broadband connection, rather than using disc storage.

The other big gamble for Sony was the most recent launch of its PlayStation console—PlayStation 3—which it hoped would give the company a much needed boost. Six years had elapsed since the launch of PlayStation 2, which had sold 75 million units. The games industry is very cyclical, with new consoles fighting for market dominance. Microsoft and Nintendo have both launched their respective next-generation consoles. The PlayStation 3 launch date was delayed on several occasions due to delays with production. The new console is equipped with the latest technology, such as the super-fast 'cell' computer processor and Blu-Ray disc format. The company placed a lot of hope in the new 'cell' processor technology, which will be used in other Sony products too. This latest technology came with a big price tag, which initially put off consumers. The delayed launch also gave rival games console brands more sales momentum that could curtail Sony's success.

"Some blame Sony's current problems on its past successes, making it complacent with regard to the changing needs of the market."

Sales for the games console have been less than stellar due to strong competition from Microsoft and Nintendo. Although the PlayStation 3 was the most technologically sophisticated, rivals have exploited different gaps in the market to enormous success. The Nintendo Wii, with its fun innovative gameplay, has less graphical finesse, but its addictive gameplay became a runaway surprise success. Furthermore, the Xbox 360 continues to thrive thanks to a strong games portfolio, and online gaming capability (with over 20 million online subscribers). In addition, the company faces strong competition from Nintendo and Apple in the handheld gaming market. The future of gaming relies on immersive games like the *Grand Theft Auto* series, addictive gameplay, games that cater for divergent markets (e.g. Nintendo sells 54 per cent of its DS consoles to females), and motion-sensitive technology (where physical movement is captured on-screen in gaming environments).

In the wake of the 'Sony shockwave', and after several years in charge, the Sony president stepped down and, for the first time, a non-Japanese executive took over the reins of Japan's leading company. Sir Howard Stringer, a Welsh-born US citizen, who had headed up Sony's Entertainment Division, was the surprise choice for the role. The former television producer, who speaks little or no Japanese, has the onerous task of turning around the fortunes at Sony. He transformed their entertainment operations and now it is hoped that he will find the same magic for the core business. Sony was seen by many as top heavy in terms of top management, too bureaucratic, and as not possessing enough cohesion between divisions. The firm has undertaken several initiatives to turn around the business. These have focused on cutting costs, removing layers of management, greater coordination of expenditure on research and development, and streamlining the business, consolidating important business activities such as warehousing and information technology. The new Sony chief bemoans the fact that Apple has a higher market value based on a small handful of products, whereas Sony has thousands.

It is not all doom and gloom in the Sony camp, however: its Entertainment Division is doing well, and the brand still enjoys massive retailer support. Sony has adopted a new tag-line for its business, using the slogan 'like.no.other'. Sony's brand status is being eroded by strong competition, with competitors such as Samsung, LG and Toshiba investing in high-profile global sponsorships and brand advertising. However, the Sony brand is still as strong as ever. When Sony launched its Bravia series of LCD screens, it released a classic television advert where over 250,000 brightly coloured balls were released down the hills of San Francisco. This new sub-brand is helping Sony regain its lead in this market sector. The company, under its new revitalization plan, has decided to reduce its product portfolio by a fifth, consolidate its manufacturing sites through closures, reduce its global workforce and focus on high growth markets. Sony is tempted to sell off non-core activities such as Sony Life Insurance and Sony Chemicals, but ironically these businesses are contributing a healthy profit to the business.

The company, under a new management initiative, wants greater cross-company collaboration, removing the silos that developed within the company, hindering the cross-fertilization of ideas, and inhibiting growth and innovation. It is hoped that this will remove duplication of effort and improve coordination of activities. Its new chief executive wants the company to renew its focus on world-class technological innovation, with products and services focused around the needs of customers. Its new chief executive and president, Sir Howard Stringer, believes that the future for Sony lies in the company exploiting new projects, new strategies, new ideas and new alliances. He is in the process of radically overhauling the business, making it less bloated by altering a top-heavy management structure, removing bureaucracy and making it more reactive to the needs of the marketplace. The company has set up five different strategy committees focusing on product, production, technology, procurement and sales. The Welshman has a number of challenges facing him at the helm of Sony: he has to stem the losses at Sony's electronics business, make a greater profit, improve the coordination between Sony's disparate divisions, renew the focus on research and development, and figure out where Sony is headed in the next five years.

Questions

1. Discuss the importance of product innovation to the future success of Sony, in regard to the changing marketing environment.
2. Conduct a SWOT analysis of Sony.
3. What are the strategic options available to Sony, in the wake of the 'Sony shockwave'? Recommend a course of action for Sony, giving reasons for your answer.

This case was written by Conor Carroll, Lecturer in Marketing, University of Limerick.

Marketing Environment CASE 6

PEEST Analysis Exercise

For each of the following products, assess which of the political/legal, economic, ecological, social/cultural and technological environments has had the most impact in recent years.

1 Tobacco
2 Soft drinks
3 Mobile phones
4 Cosmetics
5 Housing

This exercise was prepared by David Jobber, Professor of Marketing, University of Bradford.