CHAPTER 4

The Marketing Environment
Learning Outcomes

LO 1 Discuss the external environment of marketing, and explain how it affects a firm

LO 2 Describe the social factors that affect marketing

LO 3 Explain the importance to marketing managers of current demographic trends

LO 4 Explain the importance to marketing managers of multiculturalism and growing ethnic markets
Learning Outcomes

LO 5 Identify consumer and marketer reactions to the state of the economy
LO 6 Identify the impact of technology on a firm
LO 7 Discuss the political and legal environment of marketing
LO 8 Explain the basics of competition
The External Marketing Environment

Discuss the external environment of marketing, and explain how it affects a firm
Creating of the Marketing Mix

Managers can control

**PRODUCT**
- What does the customer want from the product?
- What features does it have to meet these needs?
- How and where will the customer use it?
- What does it look like?
- What size(s), color(s), should it be?
- What is it to be called?
- How is it branded?
- How is it differentiated versus your competitors?

**PRICE**
- What is the value of the product or service to the buyer?
- Are there established price points for products or services in this area?
- Is the customer price sensitive?
- What discounts should be offered to trade customers?
- How will your price compare with your competitors?

**PLACE**
- Where do buyers look for your product or service?
- If they look in a store, what kind?
- How can you access the right distribution channels?
- Do you need to use a sales force?
- What do your competitors do, and how can you learn from that and/or differentiate?

**PROMOTION**
- Where and when can you get across your marketing messages to your target market?
- Will you reach your audience by advertising in the press, on TV, or radio, or on billboards?
- When is the best time to promote?
- How do your competitors do their promotions? And how does that influence your choice of promotional activity?
Target Market

• A defined group most likely to buy a product
• A group of people or organizations for which an organization designs, implements, and maintains a marketing mix intended to meet the need of that group, resulting in mutually satisfying exchanges.
The External Environment

• Refers to forces and institutions outside the organization that potentially affect its performance
Understanding the External Environment

Unless marketing managers understand the external environment, the firm cannot intelligently plan for the future.

**Environmental Management** is... when a company implements strategies that attempt to shape the external environment within which it operates.

*Classified as social, demographic, economic, technological, political and legal, and competitive.*
Goal of environmental management is to identify future marketing opportunities

1. Understand how customers buy, where they buy, what they buy, and when they buy.
2. Understand what drives consumer decisions.
3. Identify the most valuable customers and understand their needs.
4. Understand the competition.
External Marketing Environment

External Environment (uncontrollable)
- Legal
- Social Factors
- Economic Conditions
- Political Factors
- Technology

Target Market

Demographic

Competition

Environmental Scanning

Ever-Changing Marketplace

Internal (within the organization)
- Marketing mix
  - Product
  - Distribution
  - Promotion
  - Price

Environmental Scanning
## External Marketing Environment

### Social Factors
- Obesity rates in U.S. show people not physically active
- Customers focus on quality more than price
- Increase in physically active women
- Increase in health-conscious customers = more exercise/physical activity
- Sport participation is a key aspect of U.S. culture
- Aging population and increase in physically active seniors
- Increase in sports participation in emerging markets

### Technology Factors
- Increase in E-commerce
- Increase in m-commerce (trend is to always have digital connection)
- Apps tracking physical activity
- Online purchasing
- Social media following
- Youtube streaming

### Economic Factors
- Economic Recovery
- Increase in cost of raw materials and resources: shipping costs
- Cotton, all man-made fibers, oil, gas
- Growth of performance apparel industry
- Domestic and International
- Buying power
- Athletes and teams
- Suppliers
- Intensity and rivalry

### Competition
- Lack of direct competition
- Except Nike and Adidas
- Substitute products
- Core athletes have a large number of substitute options to choose from
- Global entrants
- Existing brand loyalty to competing products

### Political and Legal Factors
- The use of third-party suppliers
- International manufacturing requirements
- New tax laws

### Demographics
- Aging population and increase in physically active seniors
- Emphasis on population health
- Tweens/teens emulating athletes with disposable income
- Millennials dress code to work
Social Factors

- Society is continually changing.
  - Tastes
  - Fashion
  - Social media
  - Mobile phones
  - Younger generation shop online
  - Older people still watching TV

- These changing factors have a toll on businesses and companies must focus on these changes.

1. Values
2. Component lifestyle
3. Social media communication
4. Financial power of women
Social Factors Influence:

- **Attitudes**
  - Products purchased

- **Values**
  - Prices paid for products

- **Lifestyle**
  - Effectiveness of promotions
  - How, where, and when people purchase

Social factors influence… the products we buy, the prices we pay, the effectiveness of specific promotions, how where and when we expect to purchase products.
Core American Values

- Self-sufficiency
- Upward mobility
- Work ethic
- Equality
- Individualism
- Achievement orientation
Values influence our buying habits. Consumers demand high-quality goods that save energy, time, and calories! Furthermore, the products must be durable and not break down. This slide shows the ranked characteristics of product quality that are important to consumers.

<table>
<thead>
<tr>
<th>Ranked Characteristics of Product Quality</th>
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<tbody>
<tr>
<td>Reliability</td>
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<tr>
<td>Durability</td>
</tr>
<tr>
<td>Easy maintenance</td>
</tr>
<tr>
<td>Ease of use</td>
</tr>
<tr>
<td>Trusted brand name</td>
</tr>
<tr>
<td>Low price</td>
</tr>
</tbody>
</table>
SCHOOL IS OUT.

VACATION IS SO IN.

It gives new meaning to the term upward mobility.

Range Rover
Top Three Trends Becoming New American Values

1. Downsizing
   - Consumers looking for ways to become more self-sufficient
     - Household energy
     - Water conservation and purification
     - Private gardens
     - Sustainability
     - In the first quarter of 2017, new single-family homes continued the trend of decreasing in size

2. Meaningful Green
   - Green initiatives that are distinctive, memorable and impact environmental, social and economic dimensions.
     - Care society
     - Earth, ecology, sustainable living & the environment
     - Natural living & alternative therapies
3. Self-Help -- Monitoring Own Healthcare

- Consumers taking health care into their own hands
  - Apple is now the biggest wearable vendor by market share.
  - Fitbit device shipments fell 35 percent year-on-year.
- Steps
- Sleep
- Heart
- Stress
- Blood pressure
- Weight
- Body temperature
- Meditation
Component Lifestyle

The practice of choosing goods and services that meet one’s needs and interests is non-conforming to a traditional lifestyle.

- Consumers want multifunctional products
- Measured not only by occupation
There are more than 100 meal delivery services
Medical and Wellness Tourism

• As people shop the world for medical procedures, it’s likely these procedures will be offered as an all-inclusive package.
• Also on the horizon are resorts that combine wellness with recreation and other diversions, allowing people to recuperate and recalibrate.
• Tying these resorts to wellness programs back home could make hospitality brands a player or strategic partner in the healthcare market.
Family of the 50’s

• Two parent household
  • Mom and a dad
  • Divorce was not a common thing (societal pressure, carried a stigma)
  • Only 9% of all US homes had only a single occupant
• Moms were younger
  • People married at about 22 years old for men and 20 for women
  • About 60% of all married couples owned their home
  • Complete plumbing (bath, shower, flush toilet) only available in 64% of homes
  • Every TV family was portrayed as “perfect”. Any problem could be resolved in a 30 minute episode.
• Dinner was eaten together, as a family, 7 nights a week
  • After dinner the family would sit and watch TV – the whole family watched the same show
  • Only one phone in the whole house (party lines)
  • Kids owned a small record player, a transistor radio
Social networking has changed the game when it comes to opinion sharing. Now, consumers can reach many people at once with their views—and can respond to brands and events in real time. Teenagers and young adults are more likely to view social networks as a valuable source of information. Successful use of social media requires more than receiving “likes” on Facebook, but creating a relationship based on shared interests with the consumer.
The Financial Power of Women

Women bring in half of the household income.

Women control 51.3 percent of the private wealth in the U.S.

Women control 80 percent of household spending.

Women are now the primary buyers in male-dominated categories:
• 68% of new cars
• 66% of computers
• 60% of home improvements
• 53% of investments
• 51% of consumer electronics

1. Values
2. Component Lifestyle
3. Social media communication
4. Financial power of women
Biggest Social Trends Impacting Marketing
The Aging Population

• The populations *ageing* rapidly
  • increased life expectancies
  • declining birth rates

• **Value experiences** more than material goods, and they

• Customers want to “be” and “do”

• Maintain same **lifestyle**, with products/services to help.
The Rise of Remote and Non-Personal Interaction

- Dependence and even addiction to a remote world of relationships (such as Facebook)
- Lead to dissociative mental disorders where young people are cut-off from the normal network of support relationships
- No more living in a real-world community
The Rise of “We Want it now”

- Anytime
- Anywhere
- On-demand
  - If not, I’ll find it elsewhere
- Credit card spending up
  - So is debt
- Apps
- Downloads
Rise of Big Brother Watching:

Data Capture

How clean is your social media profile?
Obesity Epidemic in Children

- Concern given the long term health implications of diabetes, heart disease and other complications.
Drug makers in 2016 spent $5.5 billion marketing prescription drugs, up from $3.5 billion in 2012.

Drug makers in 2018 spent approximately $7.9 billion marketing prescription drugs.

Dependence on Drugs
Overly Connected

- Facebook
- YouTube
- Twitter
- Snapchat
- Instagram
- Pinterest

Media that changes the way we communicate

Used to monitor what is being said about your brand

THE AVERAGE HUMAN ATTENTION SPAN IN 2000

12 seconds

THE AVERAGE HUMAN ATTENTION SPAN IN 2013

8 seconds

THE AVERAGE ATTENTION SPAN OF A GOLDFISH

9 seconds
External Marketing Environment

- External Environment (uncontrollable)
  - Legal
  - Social Factors
- Economic Conditions
- Political Factors
- Technology
- Competition
- Demographic

Target Market

Environmental Scanning

Ever-Changing Marketplace

Internal (within the organization)
- Marketing mix
  - Product
  - Distribution
  - Promotion
  - Price
Demographics

Dividing the market into groups based on demographics traits:

<table>
<thead>
<tr>
<th>Age</th>
<th>Income</th>
<th>Ethnicity</th>
<th>Gender</th>
<th>Geography</th>
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</table>

Most popular because needs and wants are closely tied to the above bases.
AGE Groups

- Tweens (8 – 12 years old)
- Teens (13 – 21 years old)
- Millennials (22 – 37 year olds)
- Generation X (38 – 49 year olds)
- Baby Boomers (50 – 68 year olds)
Top Changing Demographic Trends

1. Millennials are projected to outnumber Baby Boomers next year.
2. A record number of Americans live in multigenerational households, part of a broader trend toward more shared living.
3. The institution of marriage continues to change.
   1. Half of U.S. adults today are married. Cohabitation among unmarried partners is rising, including among a growing share of unmarried parents.
4. After decades of decline, motherhood and family size are ticking up in the U.S.
5. Women’s role in the labor force and leadership positions has grown dramatically.
6. The share of Americans who live in middle class households is shrinking.
7. The world is aging.
External Marketing Environment

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- Target Market

- Environmental Scanning

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  - Price

- Marketing mix

- Ever-Changing Marketplace
Growing Ethnic Markets

- Top three fastest growing Ethnic markets
  - Hispanic
  - African American
  - Asian American
- 1 in three U.S. residents is a minority.
Marketing to Hispanic Americans

- The term *Hispanic* encompasses people of many different backgrounds
  - Nearly 60 percent of Hispanics are of Mexican descent
- The diversity of the Hispanic population and the language differences create many challenges for those trying to target this market
  - Hispanics, especially recent immigrants, often prefer products from their native country
Marketing to African Americans

- 47 percent are between 18 and 49 years old
- More firms are creating products for the African American market.
- Promotional dollars and media choices directed toward African Americans continue to increase.
Marketing to Asian Americans

- Younger, better educated, and have highest average income of all groups
- Early adopters of latest digital gadgets.
- Asian Americans are a powerful consumer base with $718 billion in buying power that is expected to reach $1 trillion in just five years, equal to the 18th largest economy in the world.
- Asian American Household Income is 28% higher than the U.S. total median income.
- Cultural diversity within the Asian American market complicates promotional efforts.
## Economic Factors —
The four economic areas of greatest concern to marketers

<table>
<thead>
<tr>
<th>Economic Area</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>Consumers’ Income</td>
<td>Amount of income remaining after taxes and living expenses have been deducted from wages. Money available to save or spend</td>
</tr>
<tr>
<td>Purchasing Power</td>
<td>measured by comparing income to the relative cost of a standard set of goods and services in different geographic areas, usually referred to as the cost of living.</td>
</tr>
<tr>
<td>Inflation</td>
<td>a measure of the decrease in the value of money, expressed as the percentage reduction in value since the previous year.</td>
</tr>
<tr>
<td>Recession</td>
<td>a period of economic activity characterized by negative growth, which reduces demand for goods and services.</td>
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</table>
Technology and Time Use

• Leisure time accounts for less than 6 hours a day
• About 40 percent of American adults check work email on vacation
• Constant digital immersion can decrease a person’s attention span.
  • “weisure time” - Mingling of work and leisure
Electronics Blurring Lines

Cell phones, email, and Facebook are eroding traditional boundaries between the office, school, and home.

Most Americans feel they don’t have enough time for their families but that this technology helps.
Types of Competitors

• Brand Competitors
  • Firms that market products with similar features and benefits to the same customers at similar prices
  • Coca Cola Zero, Diet Coke, Pepsi Cola, Diet Pepsi

• Product Competitors
  • Firms that compete in the same product class but market products with different features, benefits, and prices
  • Tea, bottled water, orange juice, energy drink

• Generic Competitors:
  • Firms that provide very different products that solve the same problem or satisfy the same basic customer need
  • Tap Water

• Total Budget Competitors:
  • Firms that compete for the limited financial resources of the same customers
  • Candy, gum, potato chips
Political and Legal Environment

All marketing activities are subject to state and federal laws.

Marketers are responsible for remaining aware of such regulations.

Government needs business because the marketplace generates taxes that support public efforts to educate our youth, pave our roads, protect our oceans, etc.
Political and Legal Environment of Marketing

- Protect Consumers
- Protect Consumers Marketers Innovators

**Consumer**
- Federal
  - Clayton Act
  - Robinson-Patman Act
  - Wheeler-Lea Amendments
  - All laws in Exhibit 32 and all items in Exhibit 33
- State
  - Municipal

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

**Agencies**
- CPSC
- FDA
- FTC
- FDA
- FTC
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PESTLE ANALYSIS OF UBER

**Political Factor**
- Need to make its stand clear about drivers’ insurance.
- Have to ensure minimum wage rules.
- Have to train drivers with bans in many countries.

**Economic Factor**
- Easily accessible.
- Affordable fare charges.
- Offers job opportunities, but pay may not be convincing.

**Social Factor**
- User friendly.
- Quick pick up.
- Gives better ride experience than taxis.

**Tech. Factor**
- Excellent mobile app for users.
- Using social media and other electronic media well for promotion.

**Legal Factor**
- Need to prevent ban in many countries.
- Need to follow labor and employee safety laws as well.
- Copyright laws need to be looked at as well.

**Environ. Factor**
- Fuel usage may increase.
- Traffic congestion is a concern as well.

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PESTLE ANALYSIS OF APPLE

**Political Factor**
- Apple operates in China.
- Political rift between US and China may affect its operations.
- Doing business in any other country may be expensive.

**Economic Factor**
- Manufacturing cost will increase if China increases labor costs.
- Decline in the middle-class income may decrease Apple’s market.

**Social Factor**
- Need to taste success in other regions like Africa.
- In that 15% black people are also against it as it expensive.

**Tech. Factor**
- Increasing use of smartphones and tablets may decrease the demand of Apple products.
- Apple devices may seem less secure.

**Legal Factor**
- Apple may start autonomous manufacturing, it may increase insurance, regulatory costs, and legal proceedings for Apple.

**Environ. Factor**
- Disposal of networking electronic devices is the biggest environmental issue Apple has.
- Disposing of the lithium batteries costs high.

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PESTLE ANALYSIS OF NIKE

**Political Factor**
- Must consider the taxation and manufacturing rules of each country.
- Must follow import and export laws well.

**Economic Factor**
- Must target customers with good purchasing power.
- Developing countries may be a good opportunity for Nike.

**Social Factor**
- Need to target health-conscious people.
- Shoes and Apparel must be for health-conscious people along with sporty people.

**Tech. Factors**
- Nike uses finest technology.
- Constant changes in the technology as well as opportunity as well as threat.

**Legal Factor**
- Must consider the copyrights and designs of shoes and apparel it produces.
- Must obey Health and safety rules.

**Environ. Factor**
- Need to come up with environment-friendly products.