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3 Scanning the Marketing Environment

LEARNING OBJECTIVES

After reading this chapter you should be able to:

- LO 3-1** Explain how environmental scanning provides information about social, economic, technological, competitive, and regulatory forces.
- LO 3-2** Describe how social forces such as demographics and culture can have an impact on marketing strategy.
- LO 3-3** Discuss how economic forces such as macroeconomic conditions and consumer income affect marketing.
- LO 3-4** Describe how technological changes can affect marketing.
- LO 3-5** Discuss the forms of competition that exist in a market and the key components of competition.
- LO 3-6** Explain the major legislation that ensures competition and regulates the elements of the marketing mix.

Is “Connecting the World” an Ambitious Vision? Not If You Are Facebook!

In 2004 Mark Zuckerberg started Facebook in his Harvard dorm room. His vision was not just to be a company, but to connect everyone in the world. Today, with 1.4 billion active users, or one-fifth of the world’s population, Facebook is well on its way to accomplishing that vision!

Facebook’s incredible success is the result of many things, including its ability to observe and adapt to a rapidly changing marketing environment. Let’s take a look at the environmental forces that influence Facebook:

- *Social* forces are changing as people look for new ways to communicate, obtain information, and offer opinions. Simple online interactions that began on desktops have migrated to mobile devices and now include communication with photos, group and video chats, and instant messaging.
- *Economic* forces also influence the demand for Facebook as the cost of smartphones and wireless connectivity declines and Internet access expands throughout the globe, making social networking increasingly affordable to more and more people.
- *Technological* advances in software integration, server speed, and data storage are making Facebook increasingly fast and convenient. New enhancements such as photo editing and an app development kit also increase use of Facebook.
- *Competitive* forces such as the rivalry with Google, Twitter, and Snapchat, the ability of users to easily switch platforms, and the constant threat of new social networks targeted at specific interest groups, encourage rapid expansion.
- *Legal and regulatory* forces also influence the growth of Facebook. The company obtains trademark and patent rights to its name and many of its features, and it provides guidelines for a variety of topics such as privacy, data protection, protection of minors, and taxation.

Zuckerberg’s rapid responses to changes in the environment and his willingness to try new things has resulted in the world’s largest social network—one that is quickly connecting the world.



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Facebook in the Future

Facebook's challenge now is to keep growing by continuing to respond to changes in the marketing environment. As Zuckerberg explains, Facebook needs to "think

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about the next big things that we want to do.” For example, Zuckerberg wants Facebook to become more intuitive, and to help users answer questions and solve problems. Another change may be related to Facebook’s requirement that users login with their own names. In some parts of the world where Facebook hopes to expand, anonymity encourages users to speak freely. In addition, Facebook is currently testing large drones that are powered by solar panels to hover above remote communities and transmit Internet signals. Facebook also purchased virtual reality headset company Oculus VR for \$2 billion in anticipation of consumer interest in 3-D communication. Finally, Facebook created a new division of the company called Creative Labs, which is charged with trying to predict the future and developing Facebook’s future products!¹ **Chapter 19** provides additional discussion on social networks and social media.

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Many businesses operate in environments where important forces change. Anticipating and responding to changes often means the difference between marketing success and failure. This chapter describes how the marketing environment has changed in the past and how it is likely to change in the future.

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ENVIRONMENTAL SCANNING

LO 3-1

Explain how environmental scanning provides information about social, economic, technological, competitive, and regulatory forces.

Changes in the marketing environment are a source of opportunities and threats to be managed. The process of continually acquiring information on events occurring outside the organization to identify and interpret potential trends is called **environmental scanning**.

Tracking Environmental Trends

VIDEO 3-1

Starbucks

kerin.tv/13e/v3-1

Environmental trends typically arise from five sources: social, economic, technological, competitive, and regulatory forces. As shown in **Figure 3–1** and described later in this chapter, these forces affect the marketing activities of a firm in numerous ways. To illustrate how environmental scanning is used, consider the following trends:²

Coffee industry marketers have observed that the percentage of adults who drink coffee declined from 64 percent in 2012 to 59 percent today. The percentage of households with single-cup brewers, however, has increased from 10 percent in 2012 to 27 percent today. In addition, tea sales have been increasing at an annual rate of approximately 5 percent.

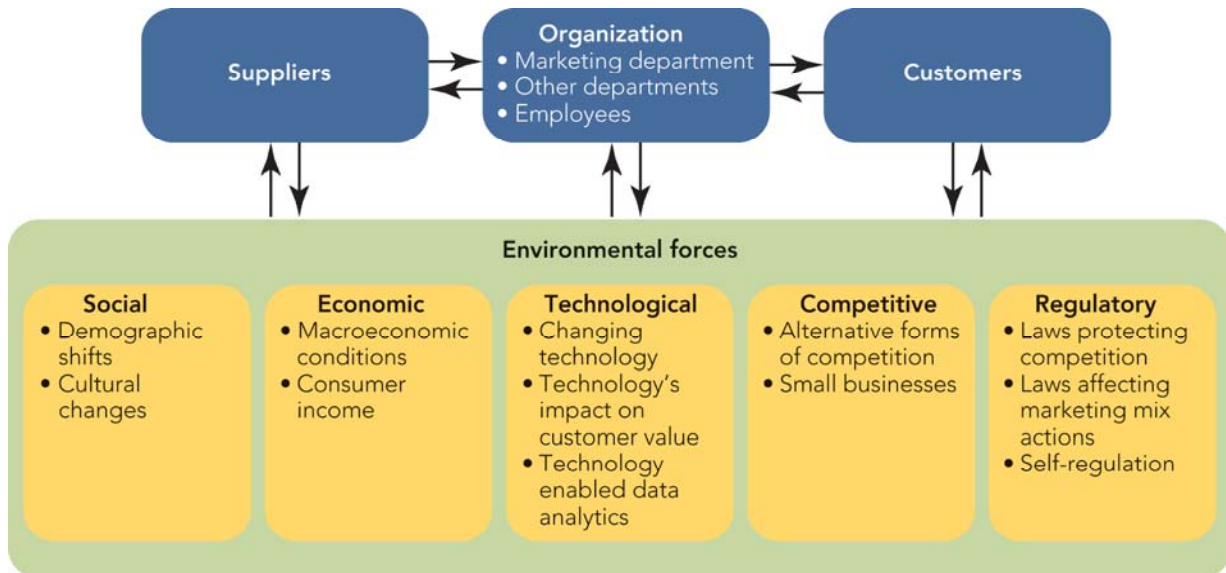


Figure 3–1 Environmental forces affect the organization, as well as its suppliers and customers.

What types of businesses are likely to be influenced by these trends? What future would you predict for coffee?



The growth of single cup brewers is one of the trends in the coffee industry.

© McGraw-Hill Education/Editorial Image, LLC, photographer

You may have concluded that these changes in coffee consumption are likely to influence coffee manufacturers, coffee shops, and supermarkets. If so, you are correct. Due to the recent decline in coffee consumption, manufacturers are offering new flavors and seasonal blends, coffee shops such as Starbucks are testing a delivery service and new flavors such as S'mores

Frappuccino, and supermarkets are adding boutiques and gourmet brands. The increase in the percentage of households with single-cup brewers has also led to changes.

Starbucks recently announced a five-year partnership with Keurig Green Mountain to sell K-Cup single-serving coffee packs. Predicting the future requires assumptions about the number of years the trends will continue and their rate of increase or decline. Do you believe the recent growth in tea consumption will continue?

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Environmental scanning also involves explaining trends. Why is coffee consumption declining? One explanation is that consumers are switching from coffee to other beverages, such as tea, that are perceived to be healthier options. The decline might also be the result of increased use of single-cup coffee machines, which are much more efficient and result in less waste. Finally, the decline may be the result of economic forces that cause consumers to reduce discretionary expenditures. Identifying and interpreting trends, such as the changes in coffee consumption, and developing explanations (such as those offered in this paragraph) are essential to successful environmental scanning.³

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An Environmental Scan of Today's Marketplace

What other trends might affect marketing in the future? A firm conducting an environmental scan of the marketplace might uncover key trends such as those listed in **Figure 3–2** for each of the five environmental forces.⁴ Although the list of trends in **Figure 3–2** is far from complete, it reveals the breadth of an environmental scan—from the growing popularity of video bloggers, to the increasing mobility and connectivity of consumers, to the importance of issues such as net neutrality. These trends affect consumers and the organizations that serve them. Trends such as these are described in the following discussion of the five environmental forces.

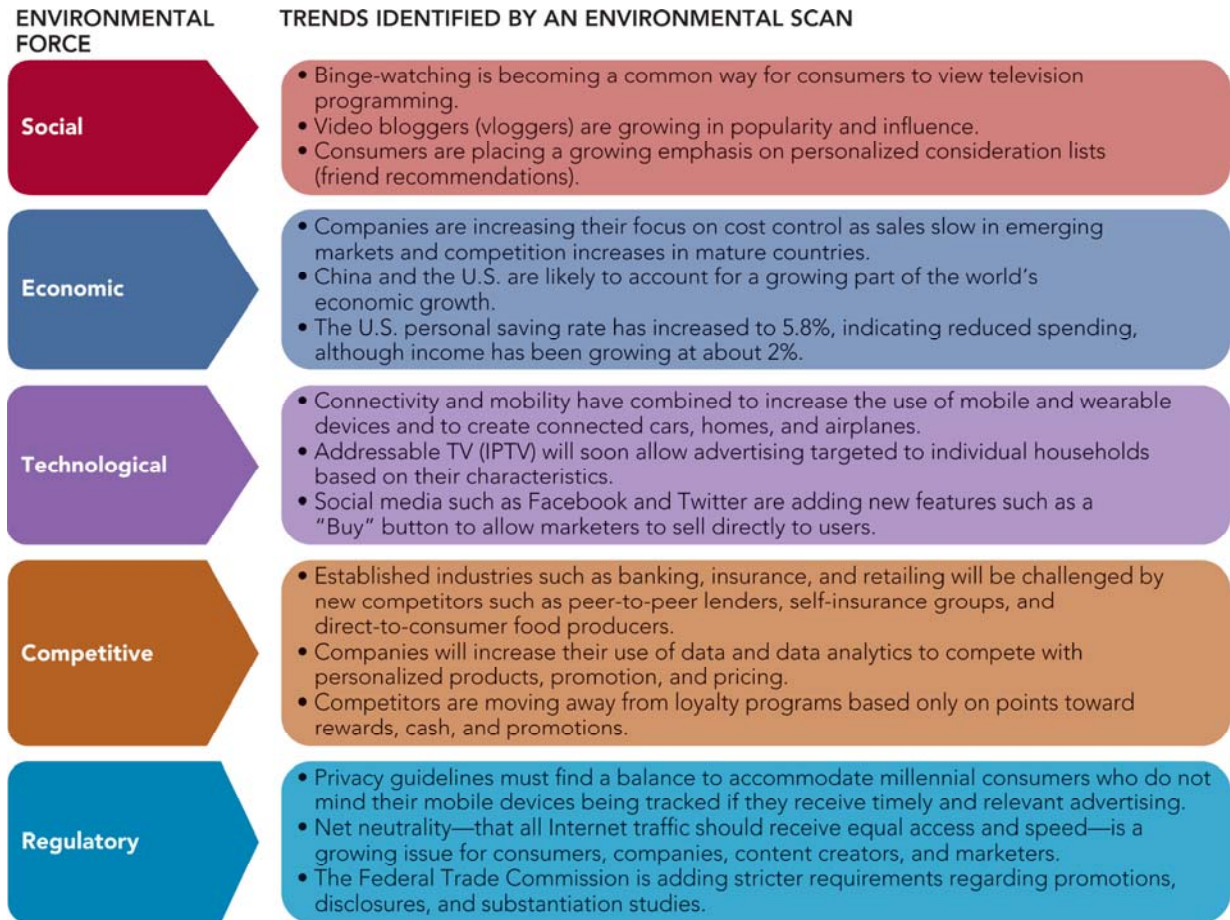


Figure 3–2 An environmental scan of today's marketplace shows the many important trends that influence marketing.

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SOCIAL FORCES

LO 3-2

Describe how social forces such as demographics and culture can have an impact on marketing strategy.

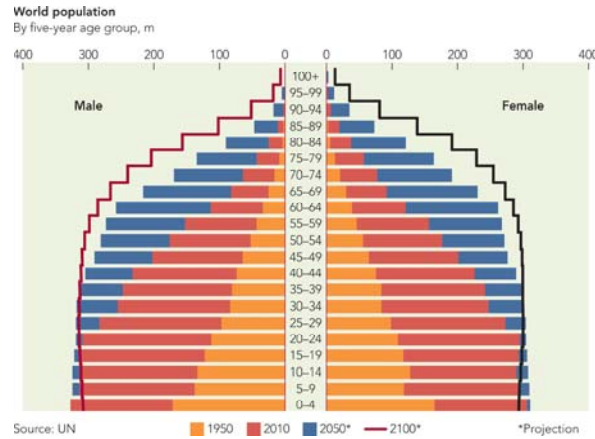
The **social forces** of the environment include the demographic characteristics of the population and its culture. Changes in these forces can have a dramatic impact on marketing strategy.

Demographics

Describing a population according to selected characteristics such as age, gender, ethnicity, income, and occupation is referred to as **demographics**. Several organizations such as the Population Reference Bureau and the United Nations monitor the world population profile, while many other organizations such as the U.S. Census Bureau provide information about the American population.

The World Population at a Glance

The most recent estimates indicate there are 7.3 billion people in the world today, and the population is likely to grow to 9.6 billion by 2050. While this growth has led to the term *population explosion*, the increases have not occurred worldwide; they are primarily in the developing countries of Africa, Asia, and Latin America. In fact, India is predicted to have the world's largest population in 2050 with 1.66 billion people, and China will be a close second with 1.31 billion people. World population projections show that the populations of Japan, Russia, and Germany will be declining by more than 13 percent.⁵



What are the implications of the shifting age structure of the world population?

Another important global trend is the shifting age structure of the world population. Worldwide, the number of people 65 years and older is expected to more than triple in the coming decades and reach 1.5 billion by 2050. Again, the magnitude of this trend varies by country as Japan, South Korea, Germany, China, Brazil and Mexico are all expected to have older populations than the United States. Global income levels and

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living standards have also been increasing, although the averages across countries are very different. Per capita income, for example, ranges from \$102,700 in Norway, to \$52,210 in Canada, to \$470 in Ethiopia.⁶

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For marketers, global trends such as these have many implications. Obviously, the relative size of countries such as India and China will mean they represent huge markets for many product categories. Elderly populations in developed countries are likely to save less and begin spending their funds on health care, travel, and other retirement-related products and services. Economic progress in developing countries will lead to growth in entrepreneurship, new markets for infrastructure related to manufacturing, communication, and distribution, and the growth of exports.

The U.S. Population

Studies of the demographic characteristics of the U.S. population suggest several important trends. Generally, the population is becoming larger, older, and more diverse. The U.S. Census Bureau estimates that the current population of the United States is approximately 321 million people. If current trends in life expectancy, birthrates, and immigration continue, by 2030 the U.S. population will exceed 359 million people. This growth suggests that niche markets based on age, life stage, family structure, geographic location, and ethnicity will become increasingly important.

The global trend toward an older population is particularly true in the United States. Today, there are more than 46 million people 65 and older. By 2030, this age group will include more than 74 million people or 21 percent of the population. You may have noticed companies trying to attract older consumers by making typefaces larger, lowering store shelves, and avoiding colors that are difficult to read (yellow and blue). Finally, the term *minority* as it is currently used is likely to become obsolete as the total size of all ethnic groups will grow from 37 percent of the population to 50 percent of the population in 2044.⁷

Generational Cohorts

A major reason for the graying of America is that the 76 million **baby boomers**—the generation of children born between 1946 and 1964—are growing older. Baby boomers are retiring at a rate of 10,000 every 24 hours, and they will all be 65 or older by 2030. Their participation in the workforce has made them the wealthiest generation in U.S. history, accounting for an estimated 50 percent of all consumer spending.



Companies that target boomers will need to respond to their interests in health, fitness, retirement housing, financial planning, and appearance. Frito-Lay, for example, attracts baby boomers with its Lay's Kettle Cooked potato chips, which have 40 percent less fat than regular potato chips. Similarly, Prudential offers a retirement plan and Olay offers anti-aging and restoration products for this age group. Baby boomers are also called the “sandwich generation” because they often find themselves balancing obligations to their parents and their children.⁸

The baby boom cohort is followed by **Generation X**, which includes the 50 million people born between 1965 and 1976. This period is also known as the *baby bust*, because during this time the number of children born each year was declining. This is a generation of consumers who are self-reliant, supportive of racial and ethnic diversity, and better educated than any previous generation. They are not prone to extravagance and are likely to pursue lifestyles that are a blend of caution, pragmatism, and traditionalism.

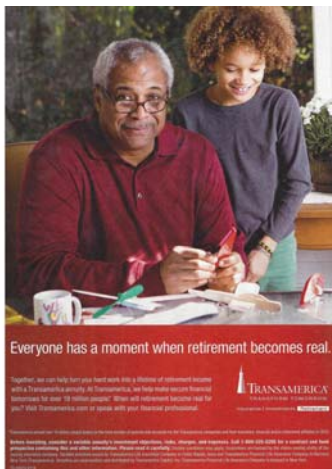
In terms of net worth, Generation X is the first generation to have less than the previous generation. As baby boomers move toward retirement, however, Generation X is becoming a dominant force in many markets. Generation X, for example, spends more on food, housing, apparel, and entertainment than other generations. In addition, this generation is on the Internet more than any other generation and also leads in terms of online spending. Surveys of Generation X consumers indicate they want online customer support; websites that are comprehensive, professional, and interactive; and

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advertising that is authentic, family-oriented, and unique. Generation X is also replacing baby boomers as the largest segment of business travelers. In response, American Airlines is offering travelers in-flight Wi-Fi, entertainment on demand, and personal powerports.⁹

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Which generational cohorts are these three advertisers trying to reach?

Left: Transamerica; Middle: Singapore Airlines; Right: Samsung.

The generational cohort labeled **Generation Y** includes the 72 million Americans born between 1977 and 1994. This was a period of increasing births, which resulted from baby boomers having children, and it is often referred to as the *echo-boom* or *baby boomlet*. Generation Y exerts influence on music, sports, computers, video games, and all forms of communication and networking. Generation Y members are interested in distinctive, memorable, and personal experiences and are very adept at managing their lives to create a work–life balance. They are strong-willed, passionate about the environment, and

optimistic. This is also a group that is attracted to purposeful work where they have control. The Making Responsible Decisions box describes how millennials' interest in sustainability is influencing colleges, graduate schools, and employers. The term *millennials* is used, with inconsistent definitions, to refer to younger members of Generation Y and sometimes to Americans born since 1994. Immigration projections suggest that Generation Y will soon become larger than the boomer generation.¹⁰

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Making Responsible Decisions Sustainability

Millennials Are a Force for Good

As the next generation of business leaders, millennials are determined to redefine the workplace as an outlet for creating both profit and meaning. They are idealistic, energetic, transparent, and eager to get started. In short, they are a force for good, particularly when it comes to social and environmental responsibility. The group includes students in college and graduate school and many early career employees, who are all driving change in different ways.



There are approximately 17 million undergraduate millennials who expect sustainable campus communities that include LEED (Leadership in Energy and Environmental Design)–certified housing, campus transit systems, and recycling programs. Graduate students are looking for programs with sustainability electives, case studies, and potential for involvement with organizations such as Net Impact (www.netimpact.org), a nonprofit for students who want to “use business to improve the world.” Sara Hochman is a typical example. She was interested in environmental issues in college, and her first job was an environmental consultant. To make a bigger impact on her clients, she enrolled in graduate school at the University of Chicago where she could take an elective on renewable energy and join the Energy Club.

Early career employees want “green” jobs such as social responsibility officer, corporate philanthropy manager, and sustainability database specialist. In addition they want to work at companies that advocate good corporate citizenship, responsible capitalism, and “B-corp” status. They view themselves as part of a “positive business” movement that balances the interests of shareholders, employees, and society. Charlotte Moran, a mid-20s group marketing manager for Siemens Home Appliances, explains: “I’d find it