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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!<sup>1</sup> **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

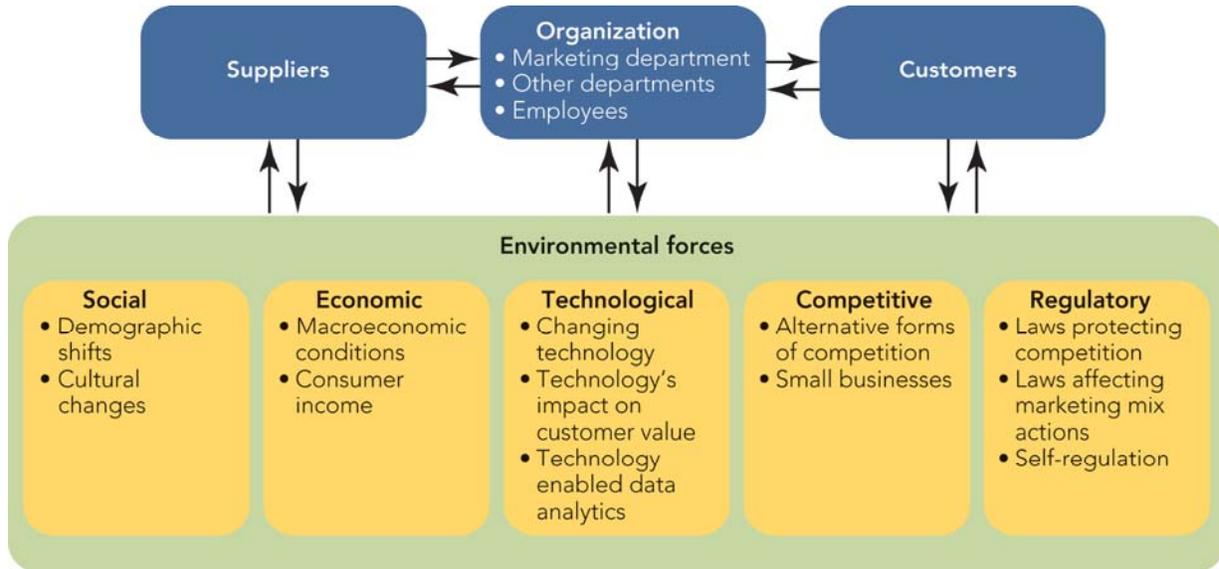
### VIDEO 3-1

Starbucks

[kerin.tv/13e/v3-1](https://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:<sup>2</sup>

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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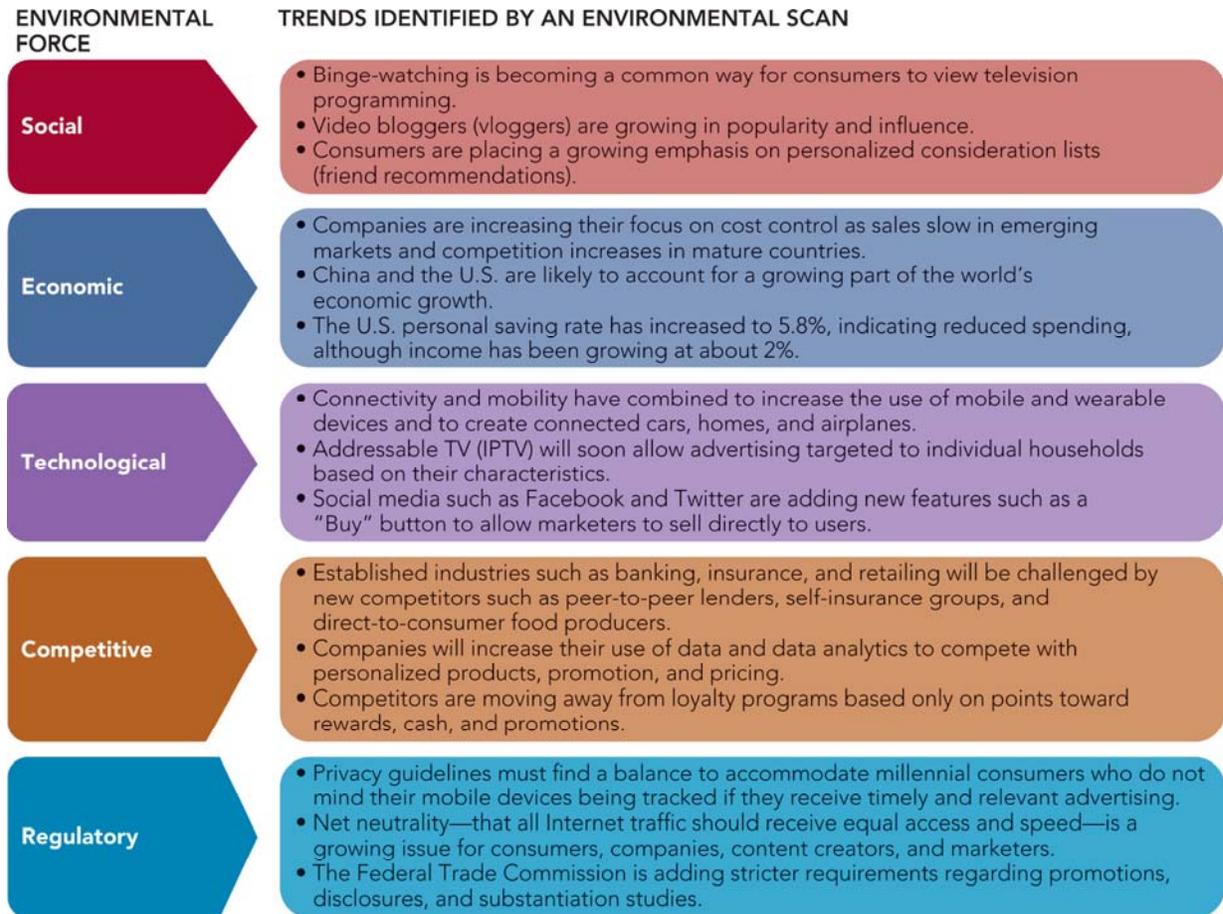
Environmental scanning also involves explaining trends. Why is coffee consumption declining? One explanation is that consumers are switching from coffee to other beverages, such as tea, that are perceived to be healthier options. The decline might also be the result of increased use of single-cup coffee 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.<sup>3</sup>

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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.<sup>4</sup> 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.

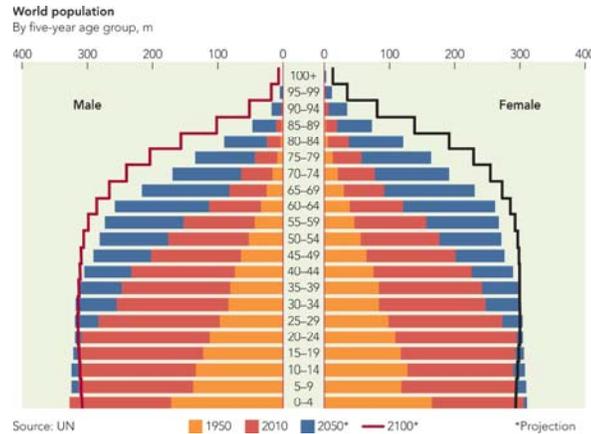
The **social forces** of the environment include the demographic characteristics of the population and its culture. Changes in these forces can have a dramatic impact on marketing strategy.

## 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.<sup>5</sup>



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.<sup>6</sup>

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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.<sup>7</sup>

## 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.<sup>8</sup>

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.

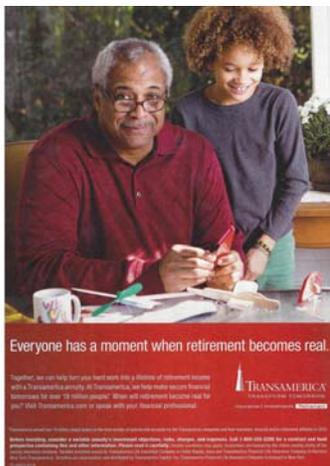
In terms of net worth, Generation X is the first generation to have less than the previous generation. As baby boomers move toward retirement, however, Generation X is becoming a dominant force in many markets. Generation X, for example, spends more on food, housing, apparel, and entertainment than other 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.<sup>9</sup>

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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.<sup>10</sup>

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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](http://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

very hard to work for a company that didn't understand its impact on the environment and didn't make an effort to change for the better."

Some companies are taking note of millennials' interests. Unilever has launched its Sustainable Living Plan to create "brands with purpose," Apple's new headquarters is described as "the greenest building on the planet," and Whole Foods Market makes decisions only after considering the needs of all stakeholders.

How will your interests in being a force for good influence your education and career decisions? The world will know soon!

Because the members of each generation are distinctive in their attitudes and consumer behavior, marketers have been studying the many groups or cohorts that make up the marketplace and have developed *generational marketing* programs for them.

## The American Household

As the population age profile has changed, so has the structure of the American household. In 1960, 75 percent of all households consisted of married couples. Today, that type of household is just 48 percent of the population. Only 20 percent of households are married couples with children, and only 10 percent are households with working fathers and stay-at-home moms. Some of the fastest-growing types of households are those with an adult child who has moved back home with his or her parents, those with unmarried partners, and those with same-sex partners. These three categories include 17 million households (21 million young adults), 7.8 million couples, and 605,000 couples, respectively.

Analysis by the U.S. Bureau of the Census indicates that young people are postponing marriage and parenthood and that the increase in households with unmarried partners reflects that "pooling resources by moving in together may be one method of coping with extended unemployment." Businesses are adjusting to the changes because they have implications for purchases related to weddings, homes, baby and child products, and many other industries.<sup>11</sup>



© R Heyes Design / Alamy

The increase in cohabitation (households with unmarried partners) may be one reason the national divorce rate has

declined during recent years. Even so, the likelihood that a couple will divorce exceeds 40 percent, and divorce among baby boomers—what is being called *gray divorce*—appears to be increasing. The majority of divorced people eventually remarry, which has created the **blended family**, one formed by merging two previously separated units into a single household. Today, one of every three Americans is a stepparent, stepchild, stepsibling, or some other member of a blended family. Hallmark Cards, Inc. now has specially designed cards and sentiments for blended families.<sup>12</sup>

## Population Shifts

A major regional shift in the U.S. population toward southern and western states is under way. The most recent Census Bureau estimates indicate that the populations of North Dakota, Texas, Utah, and Wyoming grew at the fastest rates, while the population of Vermont declined in size. Nearly a century ago each of the top 10 most populous cities in the United States was within 500 miles of the Canadian border. Today, 7 of the top 10 are in states that border Mexico. Last year, Texas gained more people than any other state—its population increased by more than 450,000!<sup>13</sup>

Populations are also shifting within states. In the early 1900s, the population shifted from rural areas to cities. From the 1930s through the 2000s, the population shifted from cities to suburbs and then from suburbs to more remote suburbs called *exurbs*. The recent recession, however, made it difficult for families to move, causing a reverse in the trend and growth in urban areas. Some demographers anticipate that as millennials start having children and forming households, suburban growth will increase. Today, 30 percent of all Americans live in central cities, 50 percent live in suburbs, and 20 percent live in rural locations.<sup>14</sup>

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To assist marketers in gathering data on the population, the Census Bureau has developed a classification system to describe the varying locations of the population. The system consists of two types of *statistical areas*:

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- A *metropolitan statistical area* has at least one urbanized area of 50,000 or more people and adjacent territory that has a high degree of social and economic integration.
- A *micropolitan statistical area* has at least one urban cluster of at least 10,000 but less than 50,000 people and adjacent territory that has a high degree of social and economic integration.

If a metropolitan statistical area contains a population of 2.5 million or more, it may be subdivided into smaller areas called *metropolitan divisions*. In addition, adjacent metropolitan statistical areas and micropolitan statistical areas may be grouped into *combined statistical areas*.<sup>15</sup>

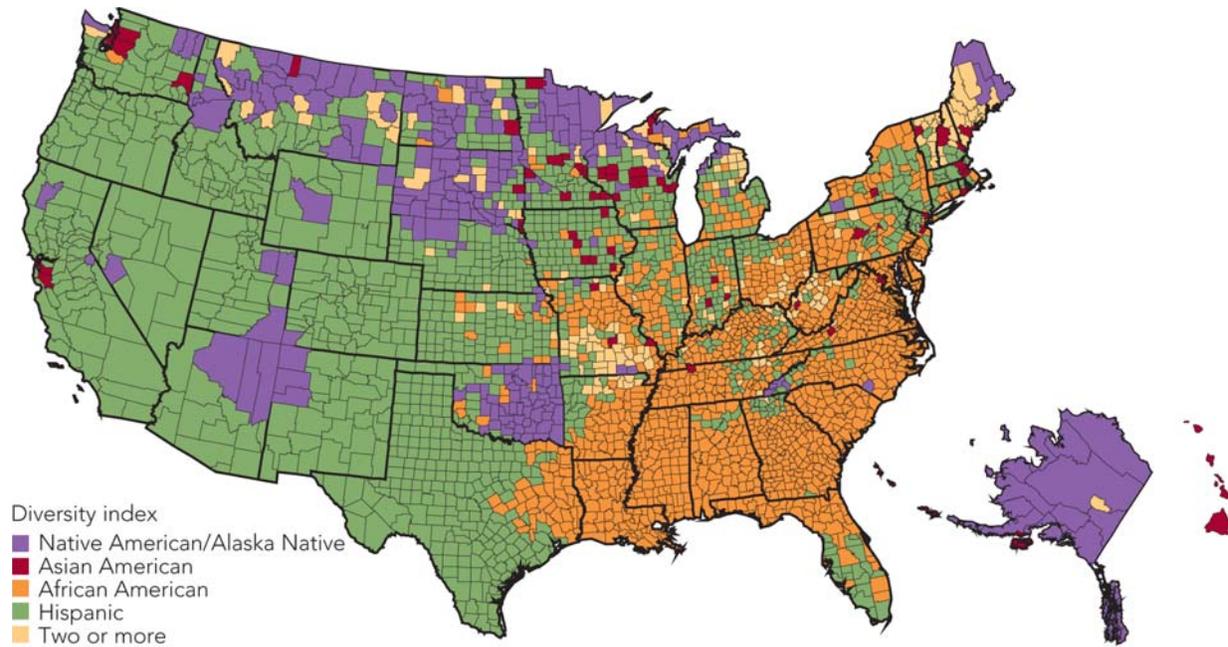
There are currently 388 metropolitan statistical areas, which include 85 percent of the population, and 541 micropolitan statistical areas, which include 9 percent of the population.

## Racial and Ethnic Diversity

A notable trend is the changing racial and ethnic composition of the U.S. population. Approximately one in three U.S. residents belongs to the following racial or ethnic groups: African American, Native American or Alaska Native, Asian American, or Native Hawaiian or Pacific Islander. Diversity is further evident in the variety of peoples that make up these groups. For example, Asians consist of Asian Indians, Chinese, Filipinos, Japanese, Koreans, and Vietnamese.

The 2010 Census allowed respondents to choose more than one of the five race options, and more than 5 million people reported more than one race. Hispanics, who may be from any race, currently make up 16 percent of the U.S. population and are represented by Mexicans, Puerto Ricans, Cubans, and others of Central and South American ancestry.

While the United States is becoming more diverse, **Figure 3–3** suggests that the minority racial and ethnic groups tend to be concentrated in geographic regions.<sup>16</sup>



**Figure 3–3** Racial and ethnic groups (excluding Caucasians) are concentrated in geographic regions of the United States.

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The racial and ethnic composition of the United States is expected to change even more in the future. By 2030, the Hispanic population will grow from 51 million to more than 78 million, or 22 percent of the population. The number of Asians in the United States will almost double to 23 million, or 6 percent of the population, and the African American population will be approximately 49 million, or 14 percent of the population. The multiracial category currently makes up 1.7 percent of the population and is expected to grow to 3.6 percent. Overall, the trends in the composition of the population suggest that the U.S. market will no longer be dominated by one group and that non-Hispanic Caucasians will be a declining majority over the next 15 years. Page 79

While the growing size of these groups has been identified through new Census data, their economic impact on the marketplace is also very noticeable. Hispanics, African Americans, and Asian Americans spend more than \$1.3 trillion, \$1.1 trillion, and \$770 billion each year, respectively. To adapt to this new marketplace, many companies are developing **multicultural marketing** programs, which are combinations of the marketing mix that reflect the unique attitudes, ancestry, communication preferences, and lifestyles of different races. Because businesses must now market their products to a consumer base with many racial and ethnic identities, in-depth marketing research that allows an accurate understanding of each culture is essential.<sup>17</sup>

Additional analysis of population demographic data, such as the information shown in **Figure 3–3**, suggests that racial and ethnic groups tend to be concentrated in geographic regions. This information allows companies to combine their multicultural marketing efforts with regional marketing activities. Consider, for example, that 48 percent of Asian Americans live in Los Angeles, New York City, and San Francisco and that two-thirds of Hispanics live in Florida, Texas, and California. *Advertising Age's* Multicultural Agency of the Year, Alma, creates advertising by “focusing the work on a deeper cultural knowledge, elevating the work beyond the ‘clichés.’” The agency creates Hispanic campaigns for McDonald's, Goodyear, Kraft Foods, Revlon, and many others. For example, Alma created the ad shown to appeal to McDonald's Hispanic audience.



McDonald's combines ethnic and regional marketing by using Spanish-language promotions like this one in some states.

© McDonald's®. Image courtesy of Alma Advertising. Actors (left) Christian Vázquez and (right) Vicente Torres.

## VIDEO 3-2

McDonald's

[kerin.tv/13e/v3-2](https://kerin.tv/13e/v3-2)

Many other changes are facilitating multicultural marketing programs. Increasingly diverse television programming such as *Black-ish*, *Empire*, and *Fresh off the Boat*, for example, is available for advertisers. Sports such as soccer, baseball, and basketball are implementing programs such as the NBA's Latin Nights events, which display team names as spoken by bilingual fans (the Miami Heat is also El Heat). In addition, retailers often designate stores for bilingual signage and staff.

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Finally, marketers have learned that mobile devices and social media are often the best way to reach multicultural audiences. Facebook recently began using online information to designate Hispanic, African American, and Asian American affinity groups for advertisers.<sup>18</sup>

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## Culture

A second social force, **culture**, incorporates the set of values, ideas, and attitudes that are learned and shared among the members of a group. Because many of the elements of culture influence consumer buying patterns, monitoring national and global cultural trends is important for marketing. Cross-cultural analysis needed for global marketing is discussed in **Chapter 7**.

## The Changing Attitudes and Roles of Men and Women

One of the most notable cultural changes in the United States in the past 30 years has been in the attitudes and roles of men and women in the marketplace. Some experts predict that as this trend continues, the buying patterns of men and women will eventually be very similar.

Your mothers and grandmothers probably remember advertising targeted at them that focused on the characteristics of household products—like laundry detergent that got clothes “whiter than white.” In the 1970s and 1980s, ads began to create a bridge between genders with messages such as Secret’s “strong enough for a man, but made for a woman.” In the 1990s, marketing to women focused on their challenge of balancing family and career interests. Since then, women and men have encouraged the slow movement toward equality in the marketplace. As a result, today’s Generation Y represents the first generation of women who have no collective memory of the dramatic changes we have undergone. As one expert explains, “Feminism today is like fluoride; we scarcely notice that we have it.”

Several factors have contributed to the shift in attitudes. First, many young women had career mothers who provided a reference point for lifestyle choices. Second, increased participation in organized sports eliminated one of the most visible inequalities in

opportunities for women. And finally, the Internet has provided exposure to the marketplace through a mechanism that makes gender, race, and ethnicity invisible. Recent surveys, however, suggest that many of the 35 million Generation Y women believe that there is still a need for equal opportunities and treatment in the workplace and in politics.<sup>19</sup>

Many companies that had a consumer base that was primarily women or primarily men in the past are preparing for growth from the other gender. Grocery stores, car dealers, investment services, video game developers, and many others hope to appeal to both groups in the future. Under Armour, for example, is trying to attract women with clothing specifically designed for them, while Lululemon is trying to attract men by opening stand-alone men's yoga clothing stores. Similarly, social media site Pinterest hopes to attract more men to the site by subtly making its search results more gender-neutral. Such efforts often face resistance, though, as UGG learned when it signed football star Tom Brady to endorse its distinctive boots but still couldn't attract male consumers.



Diesel is making changes to appeal to women as well as men.

Source: Diesel

Some industries are trying to avoid creating separate products for men and women. Professional sports leagues are targeting women, and spas are targeting men. Moschino recently introduced a new fragrance called Toy, and Calvin Klein offers CK One, both for men and women. In general, the trend is toward fewer gender distinctions, particularly in marketing directed at young consumers. For example, Diesel's "Be Stupid" advertising campaign typically depicts men and women

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in partnership roles rather than portraying either one in a dominant or subordinate role.<sup>20</sup>

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## Changing Values

Culture also includes values that may differ over time and between countries. During the 1970s, a list of values in the United States included achievement, work, efficiency, and material comfort. Today, commonly held values include personal control, continuous change, equality, individualism, self-help, competition, future orientation, and action. These values are useful in understanding most current behaviors of U.S. consumers, particularly when they are compared to values in other countries. Contrasting values outside the United States, for example, include belief in fate, the importance of tradition, the importance of rank and status, a focus on group welfare, and acceptance of birthright.



Growing interest in hybrid vehicles reflects new consumer values related to sustainability and the environment.

© Ellen Isaacs/Alamy

### VIDEO 3-3

Brita

[kerin.tv/13e/v3-3](http://kerin.tv/13e/v3-3)

An increasingly important value for consumers in the United States and around the globe is sustainability and preserving the environment. Concern for the environment is one reason consumers are buying hybrid gas-electric automobiles, such as the Toyota Prius, the Chevy Volt, and the Ford C-MAX. Companies are also changing their business practices to respond to trends in consumer values. Coca-Cola has been working on alleviating global water scarcity, Facebook has committed to reducing the carbon footprint of its data centers and Wal-Mart Stores, Inc., has set ambitious goals to cut energy use by buying more local products, reducing packaging, and switching to renewable power. Recent research also indicates that consumers are committed to brands with a strong link to social action. For example, Brita's "Filter For Good" campaign asks consumers to take a pledge to reduce their plastic bottle waste.<sup>21</sup>

A change in consumption orientation is also apparent. In the past, consumers often used debt to make many of their purchases. High unemployment, lower real estate prices, and tax increases, however, have changed their perspective. Today, U.S. consumers have become cautious buyers. **Value consciousness**—or the concern for obtaining the best quality, features, and performance of a product or service for a given price—is driving consumption behavior for many products at all price levels. For example, the recent recession led consumers to cut back on brand-name products such as toothpaste, shampoo, and toilet paper so that they could still afford discretionary products such as high-definition televisions and smartphones. Likewise, the recent recession and slow economic recovery prompted consumers to reduce the distances they would drive to shop.



© R Heyes Design / Alamy

Innovative marketers have responded to this new value-conscious orientation in numerous ways. Dollar General, for example, opened new stores in convenient locations and installed taller shelves so that it could build up its stock of name-brand food, health, and beauty products. The store quickly saw sales increase by 6 percent. Similarly, Walmart and other retailers began providing special deals to customers who shop for bargains online.<sup>22</sup>

## learning review

- 3-1.** Describe three generational cohorts.
- 3-2.** Why are many companies developing multicultural marketing programs?
- 3-3.** How are important values such as sustainability reflected in the marketplace today?

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## ECONOMIC FORCES

### LO 3-3

Discuss how economic forces such as macroeconomic conditions and consumer income affect marketing.

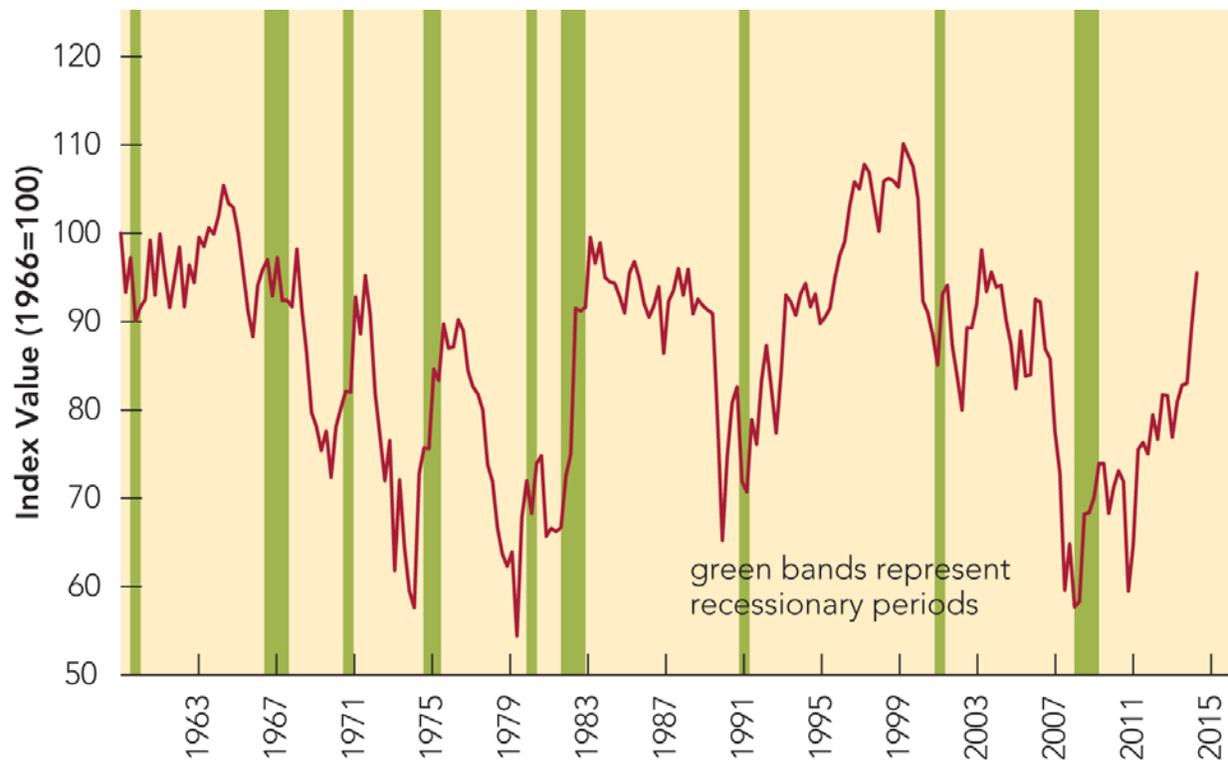
The second component of the environmental scan, the **economy**, pertains to the income, expenditures, and resources that affect the cost of running a business and household. We'll consider two aspects of these economic forces: a macroeconomic view of the marketplace and a microeconomic perspective of consumer income.

### Macroeconomic Conditions

Of particular concern at the macroeconomic level is the performance of the economy based on indicators such as GDP (gross domestic product), unemployment, and price changes (inflation or deflation). In an inflationary economy, the cost to produce and buy products and services escalates as prices increase. From a marketing standpoint, if prices rise faster than consumer incomes, the number of items consumers can buy decreases. This relationship is evident in the cost of a college education. The College Board reports that since 2000 college tuition and fees have increased 160 percent (from \$3,508 to \$9,139) while family incomes have declined by 7 percent. The share of family income required to pay for tuition at public four-year colleges has risen from 5 percent in 2000 to 14 percent today.<sup>23</sup>

Periods of declining economic activity are referred to as recessions. During recessions, businesses decrease production, unemployment rises, and many consumers have less money to spend. The U.S. economy experienced recessions from 1973–75, 1981–82, 1990–91, and in 2001. Most recently, a recessionary period began in 2007 and ended in 2009, becoming the longest in recent history.<sup>24</sup>

Consumer expectations about the economy are an important element of environmental scanning. Consumer spending, which accounts for two-thirds of U.S. economic activity, is affected by expectations of the future. The two most popular surveys of consumer expectations are the Consumer Confidence Index, conducted by a nonprofit business research organization called the Conference Board, and the Index of Consumer Sentiment (ICS), conducted by the Survey Research Center at the University of Michigan. The surveys track the responses of consumers to specific questions about their expectations, and the results are reported once each month. For example, the Index of Consumer Sentiment asks, “Looking ahead, do you think that a year from now you will be better off financially, worse off, or just about the same as now?” The answers to the questions are used to construct an index. The higher the index, the more favorable are consumer expectations. **Figure 3–4** shows the fluctuation in the ICS and its close relationship to economic conditions (green areas represent recessionary periods). The consumer expectations surveys are closely monitored by many companies, particularly manufacturers and retailers of cars, furniture, and major appliances.<sup>25</sup>



**Figure 3–4** The Index of Consumer Sentiment (ICS) is closely related to economic conditions.

## Consumer Income

The microeconomic trends in terms of consumer income are also important issues for marketers. Having a product that meets the needs of consumers may be of little value if they are unable to purchase it. A consumer's ability to buy is related to income, which consists of gross, disposable, and discretionary components.

## Gross Income

The total amount of money made in one year by a person, household, or family unit is referred to as **gross income** (or “money income” at the Census Bureau). While the typical U.S. household earned only about \$8,700 of income in 1970, it earned about \$51,939 in 2013. When gross income is adjusted for inflation, however, income of that typical U.S. household was relatively stable. In fact, inflation-adjusted income has only varied between \$46,425 and \$56,895 since 1970. Approximately 54 percent of U.S. households have an annual income between \$25,000 and \$99,999.<sup>26</sup> Are you from a typical household? Read the Marketing Insights About Me box to learn how you can determine the median household income in your hometown.

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## Marketing Insights About Me

### American FactFinder: Your Source for Economic Information

Marketers collect and use environmental information to better understand consumers. One way to begin an environmental scan is to compare economic and demographic data about a particular segment of the population to what is “typical” or “average” for the entire population. Do you think your hometown is typical? To find out, visit the American FactFinder at <http://factfinder.census.gov> and use the “Community Facts” tool to obtain information about your hometown. Just type in the zip code of your hometown and FactFinder will give you population size, median age, and median income information from the U.S. Census. You can also click on links listed under *American Community Survey* for more detailed information. Use the tool to look up information about your state or the United States to make comparisons.

The U.S. Census Bureau plans to launch a newly designed website for the American Community Survey (ACS) on June 23 with a preview version available June 9.

**Community Facts**  
Find popular facts (population, income, etc.) and frequently requested data about your community.  
Enter a state, county, city, town, or zip code:

**Guided Search**

**Advanced Search**

**Download Center**

**Popular Tables**

**Population and Housing**

- Annual Population Estimates (2014 PEP, PEPANNRES)
- Demographic and Housing Estimates (2013 ACS, DP05)
- General Housing Characteristics (2013 ACS, DP04)
- General Demographic Characteristics (2010 Census, DP-1)

**Poverty and Income**

**General Economic Characteristics (2013 ACS, DP03)**

**Age, Race, Sex and Education**

- Selected Social Characteristics (2013 ACS, DP02)
- Educational Attainment (2013 ACS, S1501)

American FactFinder provides access to data about the United States, Puerto Rico and the Island Areas. The data in American FactFinder come from several censuses and surveys. For more information see [Using FactFinder and What We Provide](#).

**Using American FactFinder**

**News and Notes**

May 29, 2015  
The U.S. Census Bureau plans to launch a newly designed website for the American Community Survey (ACS) on June 23....

Source: American Factfinder

## Disposable Income

The second income component, **disposable income**, is the money a consumer has left after paying taxes to use for necessities such as food, housing, clothing, and transportation. Thus, if taxes rise or fall faster than income, consumers are likely to have more or less disposable income. Similarly, dramatic changes in the prices of products can lead to spending adjustments. The recent decline in the price of gasoline, for example, has led to increases in consumer spending in other categories. In addition, changes in home prices have a psychological impact on consumers, who tend to spend more when they feel their net worth is rising and postpone purchases when it declines. During a recessionary period, spending, debt, and the use of credit all decline. The recent recession led many middle-income consumers to switch from premium brands to lower-priced brands.<sup>27</sup>

## Discretionary Income

The third component of income is **discretionary income**, the money that remains after paying for taxes and necessities. Discretionary income is

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used for luxury items such as a Cunard cruise. An obvious problem in defining discretionary versus disposable income is determining what is a luxury and what is a necessity.

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The Department of Labor monitors consumer expenditures through its annual Consumer Expenditure Survey. The most recent report indicates that consumers spend about 13 percent of their income on food, 33 percent on housing, and 3 percent on clothes. While an additional 24 percent is often spent on transportation and health care, the remainder is generally viewed as discretionary. The percentage of income spent on food and housing typically declines as income increases, which can provide an increase in discretionary income. Discretionary expenditures also can be increased by reducing savings. The Bureau of Labor Statistics observed that during the 1990s and early 2000s the savings rate declined to approximately 2 percent. That trend was reversed in 2008 when the government issued stimulus checks designed to improve the economy and, instead of spending the money, consumers saved it. Recent data on consumer expenditures indicate that the savings rate is now approximately 5.8 percent.<sup>28</sup>



As consumers' discretionary income increases, so does the opportunity to indulge in the luxurious leisure travel marketed by Cunard.

Cunard Cruise Line [www.cunard.com](http://www.cunard.com)

Source: Cunard Line

## TECHNOLOGICAL FORCES

### LO 3-4

Describe how technological changes can affect marketing.

replace?

Our society is in a period of dramatic technological change. **Technology**, the third environmental force in **Figure 3–2**, refers to inventions or innovations from applied science or engineering research. Each new wave of technological innovation can replace existing products and companies. Do you recognize the items pictured below and what they may

## Technology of Tomorrow

Technological change is the result of research, so it is difficult to predict. Some of the most dramatic technological changes occurring now, however, include the following:

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- Connectivity will grow to include all customers, homes, vehicles, appliances, and mobile devices to create the “Internet of Things.” Page 85
- Computers will develop all five senses to create intelligent data collection and personalized predictive capabilities.
- Green technologies such as smart grid electricity services, online energy management, and consumer-generated energy (e.g., home solar systems) will gain widespread acceptance among American consumers.
- 3D technologies will move from movie theaters and televisions to many new and useful applications.

Some of these trends in technology are already being realized in today’s marketplace. Oral-B toothbrushes, for example, now connect to your smartphone to provide real-time feedback on your brushing. MindMeld uses speech recognition to listen to your phone calls and pull up search data related to your conversations. Amazon recently introduced its 3D Printing Store, which offers jewelry, home décor, and tech accessories in customizable 3D options. Other technologies such as the Next Issue App, Tesla’s electric cars, and Apple Pay are likely to replace or become substitutes for existing products and services such as paper versions of magazines, gasoline-powered vehicles, and plastic credit cards and money.<sup>29</sup>



Technological change leads to new products. What products might be replaced by these innovations?

Left to right: Source: © Rogers Communications Inc. - FRA/Newscom; Tesla Motors; © Bryan Thomas/Getty Images

## Technology's Impact on Customer Value

Advances in technology have important effects on marketing. First, the cost of technology is plummeting, causing the customer value assessment of technology-based products to focus on other dimensions such as quality, service, and relationships. *PC Magazine* ([www.pcmag.com](http://www.pcmag.com)) publishes an article titled “The Best Free Software” each year to tell readers about companies that give their software away, with the expectation that advertising or upgrade purchases will generate revenue. A similar approach is used by many U.S. mobile phone vendors, who subsidize the purchase of a telephone if the purchase leads to a long-term telephone service contract.<sup>30</sup>

Technology also provides value through the development of new products. More than 3,600 companies recently unveiled 20,000 new products at the Consumer Electronics Show held in Las Vegas. New products included Telepresence Robots that allow you to attend a meeting remotely, Sling TV, which allows you to watch live TV on any device, and wireless charging pads! *Better Homes and Gardens* magazine announced 93 best new product award winners in four categories: beauty, food and beverage, health and personal care, and household. Some of the winners included Cheerios Protein Oats & Honey cereal, Gillette Fusion razor with FlexBall technology, and the Dyson Air Multiplier tower fan. Other new products likely to be available soon include injectable health monitors that will send biometric information to a mobile monitor such as a watch or a phone, and universal translators that allow people speaking different languages to communicate.<sup>31</sup>



Tomra offers recycling through its kiosks.

© Gero Breloer/picture-alliance/dpa/AP Images

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Technology can also change existing products and the ways they are produced. Page 86

Many companies are using technological developments to recycle products through the manufacturing cycle several times. The National Association for PET Container Resources, for example, estimates that 31 percent of all plastic bottles are now recycled, usually to make polyester fibers that are spun into everything from sweaters to upholstery. Tomra Systems has installed more than 70,000 reverse vending machines in North America, Europe, Japan, South America, and the Middle East, facilitating the collection of more than 35 billion cans and bottles annually. In California, there are more than 450 rePLANET recycling centers where consumers can bring back their empty beverage containers and redeem them for the deposit paid when the products were purchased. Another approach is *precycling*, or efforts by manufacturers and consumers to avoid creating waste. For manufacturers, this includes decreasing the amount of packaging they use; and for consumers, it means buying products that last longer, avoiding products with excess packaging, and reusing as much as possible. According to marketing expert Melissa Lavigne, “It’s about being conscious about products you buy in the first place. That’s the idea behind precycling.”<sup>32</sup>

## Technology Enables Data Analytics

Technology has also had a dramatic impact on the operations of marketing organizations. First, the development of online capabilities created the **marketspace**, an information-

and communication-based electronic exchange environment occupied by sophisticated computer and telecommunication technologies and digital offerings. Second, these capabilities led to **electronic commerce** (e-commerce), or the activities that use electronic communication in the inventory, promotion, distribution, purchase, and exchange of products and services. Internet-based technology also allows companies to create *intranets* to communicate within the organization, and *extranets* to communicate with suppliers, distributors, and other partners such as advertising agencies.

Today, technologies have advanced to allow computer chips to be placed in almost anything and to be connected to a network almost anywhere. This network of products embedded with connectivity-enabled electronics has come to be known as the **Internet of Things (IoT)**. The information generated by the Internet of Things has led to an explosion in interest in advanced analytics that can predict consumer preferences and behavior. A recent survey by IBM and MIT showed that 50 percent of managers around the globe thought that improving information and analytics was a top priority. Some experts suggest that the use of analytics is associated with success in the marketplace. Firms that have grown their revenues through analytical insights include Netflix, Google, Amazon, Dell, and eBay.<sup>33</sup>



The Internet of Things has contributed to the growth in data analytics.

© Askold Romanov/Getty Images

## COMPETITIVE FORCES

The fourth component of the environmental scan, **competition**, refers to the alternative firms that could provide a product to satisfy a specific market's needs. There are various forms of competition, and each company must consider its present and potential competitors in designing its marketing strategy.

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## Alternative Forms of Competition

### LO 3-5

Discuss the forms of competition that exist in a market and the key components of competition.

Four basic forms of competition create a continuum from pure competition to monopolistic competition to oligopoly to pure monopoly. **Chapter 13** contains further discussions on pricing practices under these four forms of competition.

At one end of the continuum is *pure competition*, in which there are many sellers and they each have a similar product. Companies that deal in

commodities common to agribusiness (for example, wheat, rice, and grain) often are in a pure competition position in which distribution (in the sense of shipping products) is important but other elements of marketing have little impact.

In the second point on the continuum, *monopolistic competition*, many sellers compete with substitutable products within a price range. For example, if the price of coffee rises too much, consumers may switch to tea. Coupons or sales are frequently used marketing tactics.

*Oligopoly*, a common industry structure, occurs when a few companies control the majority of industry sales. The wireless telephone industry, for example, is dominated by four carriers that serve more than 95 percent of the U.S. market. Verizon, AT&T, Sprint, and T-Mobile have 131, 120, 55, and 55 million subscribers, respectively. Similarly, the entertainment industry in the United States is dominated by Viacom, Disney, and Time Warner, and the major firms in the U.S. defense contractor industry are Boeing, Northrop Grumman, and Lockheed Martin. Critics of oligopolies suggest that because there are few sellers, price competition among firms is not desirable because it leads to reduced profits for all producers.<sup>34</sup>

The final point on the continuum, *pure monopoly*, occurs when only one firm sells the product. Monopolies are common for producers of products and services considered essential to a community: water, electricity, and cable service. Typically, marketing plays a small role in a monopolistic setting because it is regulated by the state or federal government. Government control usually seeks to ensure price protection for the buyer, although deregulation in recent years has encouraged price competition in the electricity market. Concern that Microsoft's 86 percent share of the PC operating system market was a monopoly that limited consumer access to competitors' Internet browsers led to lawsuits and consent decrees from the U.S. Justice Department and investigations and fines from the European Union. A recent Federal Trade Commission investigation of Google found that although the company's market share of the online search market exceeds 70 percent, it had not harmed competition in the marketplace. An investigation by the European Union, however, is still in progress.<sup>35</sup>

## Components of Competition

In developing a marketing program, companies must consider the factors that drive competition: entry, the bargaining power of buyers and suppliers, existing rivalries, and substitution possibilities.<sup>36</sup> Scanning the environment requires a look at all of them. These factors relate to a firm's marketing mix decisions and may be used to create a barrier to entry, increase brand awareness, or intensify a fight for market share.

## Entry



© Jeffrey Blackler / Alamy

In considering the competition, a firm must assess the likelihood of new entrants. Additional producers increase industry capacity and tend to lower prices. A company scanning its environment must consider the possible **barriers to entry** for other firms, which are business practices or conditions that make it difficult for new firms to enter the market. Barriers to entry can be in the form of capital requirements, advertising expenditures, product identity, distribution access, or the cost to customers of switching suppliers. The higher the expense of the barrier, the more likely it will deter new entrants. For example, Western Union and MoneyGram dominate the \$529 billion money transfer market because of their huge distribution networks of branch offices and global pickup locations. Potential competitors find it difficult to enter the market because lack of distribution limits consumer access.<sup>37</sup>

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## Power of Buyers and Suppliers

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A competitive analysis must consider the power of buyers and suppliers. Powerful buyers exist when they are few in number, there are low switching costs, or the product represents a significant share of the buyer's total costs. This last factor leads the buyer to exert significant pressure for price competition. A supplier gains power when the product is critical to the buyer and when it has built up the switching costs.

## Existing Competitors and Substitutes

Competitive pressures among existing firms depend on the rate of industry growth. In slow-growth settings, competition is more heated for any possible gains in market share. High fixed costs also create competitive pressures for firms to fill production capacity. For example, airlines offer discounts for making early reservations and charge penalties for changes or cancellations in an effort to fill seats, which represent a high fixed cost.

## Small Businesses as Competitors

While large companies provide familiar examples of the forms and components of competition, small businesses make up the majority of the competitive landscape for most businesses. Consider that there are approximately 28.2 million small businesses in the United States, which employ 48 percent of all private sector employees. In addition, small businesses generate 63 percent of all new jobs and 46 percent of the GDP. Research has shown a strong correlation between national economic growth and the level of new small business activity in previous years.<sup>38</sup>

## learning review

- 3-4.** What is the difference between a consumer's disposable and discretionary income?
- 3-5.** How does technology impact customer value?
- 3-6.** In pure competition there are a \_\_\_\_\_ number of sellers.

# REGULATORY FORCES

## LO 3-6

Explain the major legislation that ensures competition and regulates the elements of the marketing mix.

For any organization, the marketing and broader business decisions are constrained, directed, and influenced by regulatory forces. **Regulation** consists of restrictions state and federal laws place on business with regard to the conduct of its activities. Regulation exists to protect companies as well as consumers. Much of the regulation from the federal and state levels is the result of an active political process and has been passed to ensure

competition and fair business practices. For consumers, the focus of legislation is to protect them from unfair trade practices and ensure their safety.

## Protecting Competition

Major federal legislation has been passed to encourage competition, which is deemed desirable because it permits the consumer to determine which competitor will succeed and which will fail. The first such law was the *Sherman Antitrust Act* (1890). Lobbying by farmers in the Midwest against fixed railroad shipping prices led to the passage of this act, which forbids (1) contracts, combinations, or conspiracies in restraint of trade and (2) actual monopolies or attempts to monopolize any part of trade or commerce. Because of vague wording and government inactivity, however, there was only one successful case against a company in the nine years after the act became law, and the Sherman Act was supplemented with the *Clayton Act* (1914). This act forbids certain actions that are likely to lessen competition, although no actual harm has yet occurred.

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In the 1930s, the federal government had to act again to ensure fair competition. Page 89  
During that time, large chain stores appeared, such as the Great Atlantic & Pacific Tea Company (A&P). Small businesses were threatened, and they lobbied for the *Robinson-Patman Act* (1936). This act makes it unlawful to discriminate in prices charged to different purchasers of the same product, where the effect may substantially lessen competition or help to create a monopoly.

## Product-Related Legislation

Various federal laws in existence specifically address the product component of the marketing mix. Some are aimed at protecting the company, some at protecting the consumer, and at least one at protecting both.

A company can protect its competitive position in new and novel products under the patent law, which gives inventors the right to exclude others from making, using, or selling products that infringe the patented invention. The federal copyright law is another way for a company to protect its competitive position in a product. The copyright law gives the author of a literary, dramatic, musical, or artistic work the exclusive right to print, perform, or otherwise copy that work. Copyright is secured automatically when the work is created. However, the published work should bear an appropriate copyright notice, including the copyright symbol, the first year of publication, and the name of the copyright owner, and it must be registered under the federal copyright law.

Digital technology has necessitated additional copyright legislation, called the *Digital Millennium Copyright Act* (1998), to improve protection of copyrighted digital products. In addition, producers of DVD movies, music recordings, and software want protection from websites and devices designed to circumvent antipiracy elements of their products.<sup>39</sup>

There are many consumer-oriented federal laws regarding products. The various laws include more than 30 amendments and separate laws relating to food, drugs, and cosmetics, such as the *Infant Formula Act* (1980), the *Nutritional Labeling and Education Act* (1990), and new labeling requirements for dietary supplements (1997) and trans fats (2006). Recently, several states have proposed new legislation that would require the labeling of genetically modified food.<sup>40</sup> Various other consumer protection

laws have a broader scope, such as the *Fair Packaging and Labeling Act* (1966), the *Child Protection Act* (1966), and the *Consumer Product Safety Act* (1972), which established the Consumer Product Safety Commission to monitor product safety and establish uniform product safety standards. Many of these laws came about because of **consumerism**, a grassroots movement started in the 1960s to increase the influence, power, and rights of consumers in dealing with institutions. This movement continues and is reflected in the growing consumer demand for ecologically safe products and ethical and socially responsible business practices. One hotly debated issue concerns liability for environmental abuse.

Trademarks are intended to protect both the firm selling a trademarked product and the consumer buying it. A Senate report states:

The purposes underlying any trademark statute [are] twofold. One is to protect the public so that it may be confident that, in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trademark has spent energy, time, and money in presenting to the public the product, he is protected in this investment from misappropriation in pirates and cheats.

This statement was made in connection with another product-related law, the *Lanham Act* (1946), which provides for registration of a company's trademarks.

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Historically, the first user of a trademark in commerce had the exclusive right to use that particular word, name, or symbol in its business. Registration under the Lanham Act provides important advantages to a trademark owner that has used the trademark in interstate or foreign commerce, but it does not confer ownership. A company can lose its trademark if it becomes *generic*, which means that it has primarily come to be merely a common descriptive word for the product. Coca-Cola, Whopper, and Xerox are registered trademarks, and competitors cannot use these names. Aspirin and escalator are former trademarks that are now generic terms in the United States and can be used by anyone.

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These products are identified by protected trademarks. Are any of these trademarks in danger of becoming generic?

© Mike Hruby

In 1988, the *Trademark Law Revision Act* resulted in a major change to the Lanham Act, allowing a company to secure rights to a name before actual use by declaring an intent to use the name.<sup>41</sup> In 2003, the United States agreed to participate in the *Madrid Protocol*, which is a treaty that facilitates the protection of U.S. trademark rights throughout the world. Currently, 95 nations are members of the Madrid Protocol, including the United

States, Australia, China, the European Union, France, Germany, Japan, and the United Kingdom.<sup>42</sup>

One of the most recent changes in trademark law is the U.S. Supreme Court's ruling that companies may obtain trademarks for colors associated with their products. Over time, consumers may begin to associate a particular color with a specific brand. Examples of products that may benefit from the new law include NutraSweet's sugar substitute in pastel blue packages and Owens-Corning Fiberglas Corporation's pink insulation.<sup>43</sup> Another recent addition to trademark law is the *Federal Trademark Dilution Act* (1995, 2006), which is used to prevent someone from using a trademark on a noncompeting product (e.g., "Cadillac" brushes).<sup>44</sup>

## Pricing-Related Legislation

The pricing component of the marketing mix is the focus of regulation from two perspectives: price fixing and price discounting. Although the Sherman Act did not outlaw price fixing, the courts view this behavior as *per se illegal* (*per se* means "through or of itself"), which means the courts see price fixing itself as illegal.

Certain forms of price discounting are allowed. Quantity discounts are acceptable; that is, buyers can be charged different prices for a product provided there are differences in manufacturing or delivery costs. Promotional allowances or services may be given to buyers on an equal basis proportionate to volume purchased. Also, a firm can meet a competitor's price "in good faith." Legal and regulatory aspects of pricing are covered in more detail in **Chapter 14**.

## Distribution-Related Legislation

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The government has four concerns with regard to distribution—earlier referred to as “place” actions in the marketing mix—and the maintenance of competition. Page 91

The first, *exclusive dealing*, is an arrangement a manufacturer makes with a reseller to handle only its products and not those of competitors. This practice is illegal under the Clayton Act only when it substantially lessens competition.

*Requirement contracts* require a buyer to purchase all or part of its needs for a product from one seller for a time period. These contracts are not always illegal but depend on the court’s interpretation of their impact on distribution.

*Exclusive territorial distributorships* are a third distribution issue often under regulatory scrutiny. In this situation, a manufacturer grants a distributor the sole rights to sell a product in a specific geographical area. The courts have found few violations with these arrangements.

The fourth distribution strategy is a *tying arrangement*, whereby a seller requires the purchaser of one product to also buy another item in the line. These contracts may be illegal when the seller has such economic power in the tying product that the seller can restrain trade in the tied product. Legal aspects of distribution are reviewed in greater detail in **Chapter 15**.

## Advertising- and Promotion-Related Legislation

### VIDEO 3-4

Federal Trade Commission (FTC)

[kerin.tv/13e/v3-4](http://kerin.tv/13e/v3-4)



Promotion and advertising are aspects of marketing closely monitored by the FTC, which was established by the *FTC Act of 1914*. The FTC is concerned with deceptive or misleading advertising and unfair business

practices and has the power to (1) issue cease and desist orders and (2) order corrective advertising. In issuing a *cease and desist order*, the FTC orders a company to stop practices the commission considers unfair. With *corrective advertising*, the FTC can require a company to spend money on advertising to correct previous misleading ads. The enforcement powers of the FTC are so significant that often just an indication of concern from the commission can cause companies to revise their promotion.

A landmark legal battle regarding deceptive advertising involved the FTC and Campbell Soup Co. It had been Campbell's practice to insert clear glass marbles into the bottom of soup containers used in print advertisements to bring the soup ingredients (e.g., noodles or chicken) to the surface. The FTC ruled that the advertising was deceptive because it misrepresented the amount of solid ingredients in the soup, and it issued a cease and desist order. Campbell and its advertising agency agreed to discontinue the practice. Future ads used a ladle to show the ingredients.<sup>45</sup>

Other laws have been introduced to regulate promotion practices. The *Deceptive Mail Prevention and Enforcement Act* (1999), for example, provides specifications for direct-mail sweepstakes, such as the requirement that the statement "No purchase is necessary to enter" be displayed in the mailing, in the rules, and on the entry form. Similarly, the *Telephone Consumer Protection Act* (1991) provides requirements for telemarketing promotions, including fax promotions. Telemarketing is also subject to a law that created the *National Do Not Call Registry*, which is a list of consumer phone numbers of people who do not want to receive unsolicited telemarketing calls.

Finally, new laws such as the *Children's Online Privacy Protection Act* (1998), the *European Union Data Protection Act* (1998), and the *Controlling the Assault of Non-Solicited Pornography and Marketing (CAN-SPAM) Act* (2004) are designed to restrict information collection and unsolicited e-mail promotions and specify simple opt-out procedures on the Internet. See the Marketing Matters box to learn about the FTC's effort to create a "Do Not Track" system to ensure online privacy.<sup>46</sup> A related Internet issue, taxation, has generated an ongoing debate and temporary laws such as the *Internet Tax Freedom Act* (2007).<sup>47</sup>

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## Marketing Matters

## Technology

### Online Tracking: Is Big Brother Watching?

Have you ever wondered how your web browser determines which advertisements appear on your screen? The answer is that your actions are “tracked” to create a profile of your interests. Each of the major browser makers—Microsoft, Google, Mozilla, and Apple—can keep a record of the web pages you visit or the topics you discuss in your e-mail. The information allows advertisers to match their advertising specifically to you. So, ideally, you only see advertising that offers products or services of interest to you. You see dog food ads if you are a dog owner and cat food ads if you are a cat owner, for example.

The collection of this information, however, has also raised the issue of privacy. Privacy advocates suggest that many consumers do not realize that the information is being collected and used without their consent. They also argue that in extreme situations the information could lead to unintended outcomes for the consumers—being turned down for a mortgage or a health insurance policy because of online book or food purchases, for example.

To facilitate the debate, the FTC recently released a report calling for better self-regulation of online information collection. In its report, the FTC suggests that each browser should offer users a “Do Not Track” option to signal a computer user’s desire not to be tracked. Advertisers would be asked to comply with the request. This opt-out system would be very similar to the current “Do Not Call” system. In Europe, the guidelines are more restrictive, requiring consumers to explicitly “opt-in.”

The questions related to this issue are not simple. Consumers will need to decide if giving up some privacy by sharing data is a reasonable trade-off for targeted advertising, customized news sites, and online social networks. Organizations in the \$24 billion advertising industry will need to evaluate their ability to self-regulate, and

the FTC eventually will need to decide whether legislation is needed. The situation is likely to become even more complicated in the near future as consumers, and especially children, increase their use of smartphone mobile apps that generate tracking data. How do you think the debate will be resolved?

## Control through Self-Regulation



Companies must meet certain requirements before they can display this logo on their websites.

Better Business Bureau  
[www.bbb.org](http://www.bbb.org)

*Better Business Bureau logo.  
 Used with permission.*

The government has provided much legislation to create a competitive business climate and protect the consumer. An alternative to government control is **self-regulation**, where an industry attempts to police itself. The major television networks, for example, have used self-regulation to set their own guidelines for TV ads for children's toys. These guidelines have generally worked well. There are two problems with self-regulation, however: noncompliance by members and enforcement. In addition, if attempts at self-regulation are too strong, they may violate the Robinson-Patman Act.

The best-known self-regulatory group is the Better Business Bureau (BBB). This agency is a voluntary alliance of companies whose goal is to help maintain fair practices. The BBB is a nonprofit corporation that tries to use “moral suasion” to encourage members to comply with its standards. The BBB offers an Accredited Business Seal Program to provide consumers assurance that an organization is part of a community of trustworthy businesses. Before they display the BBB Accredited Business Seal, participating companies must, among other things, first agree to adhere to the BBB Code of Business Practices, have been in business for at least one year, respect the privacy and e-mail preference of its online visitors, and commit to work with its customers and BBB to resolve disputes that arise over products or services promoted or advertised on their site.<sup>48</sup>

## learning review

- 3-7.** The \_\_\_\_\_ Act was punitive toward monopolies, whereas the \_\_\_\_\_ Act was preventive.
- 3-8.** Describe some of the recent changes in trademark law.
- 3-9.** How does the Better Business Bureau encourage companies to follow its standards for commerce?

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## LEARNING OBJECTIVES REVIEW

**LO 3-1** *Explain how environmental scanning provides information about social, economic, technological, competitive, and regulatory forces.*

Many businesses operate in environments where important forces change. Environmental scanning is the process of acquiring information about these changes to allow marketers to identify and interpret trends. There are five environmental forces businesses must monitor: social, economic, technological, competitive, and regulatory. By identifying trends related to each of these forces, businesses can develop and maintain successful marketing programs. Several trends that most businesses are monitoring include the growing popularity of video bloggers, the increasing mobility and connectivity of consumers, and the importance of issues such as net neutrality.

**LO 3-2** *Describe how social forces such as demographics and culture can have an impact on marketing strategy.*

Demographic information describes the world population; the U.S. population; the generational cohorts such as baby boomers, Generation X, and Generation Y; the structure of the American household; the geographic shifts of the population; and the racial and ethnic diversity of the population, which has led to multicultural marketing programs. Cultural factors include the trend toward fewer differences in male and female consumer behavior and the impact of values such as sustainability on consumer preferences.

**LO 3-3** *Discuss how economic forces such as macroeconomic conditions and consumer income affect marketing.*

Economic forces include the strong relationship between consumers' expectations about the economy and their spending. Gross income has remained stable for more than 40 years although the rate of saving has fluctuated, declining to 2 percent before rising to 5.8 percent recently.

**LO 3-4** *Describe how technological changes can affect marketing.*

Technological innovations can replace existing products and services. Changes in technology can also have an impact on customer value by reducing the cost of products, improving the quality of products, and providing new products that were not previously feasible. Electronic commerce is transforming how companies do business.

**LO 3-5** *Discuss the forms of competition that exist in a market and the key components of competition.*

There are four forms of competition: pure competition, monopolistic competition, oligopoly, and monopoly. The key components of competition include the likelihood of new competitors, the power of buyers and suppliers, and the presence of competitors and possible substitutes. While large companies are often used as examples of marketplace competitors, there are 28.2 million small businesses in the United States, which have a significant impact on the economy.

**LO 3-6** *Explain the major legislation that ensures competition and regulates the elements of the marketing mix.*

Regulation exists to protect companies and consumers. Legislation that ensures a competitive marketplace includes the Sherman Antitrust Act. Product-related legislation includes copyright and trademark laws that protect companies and packaging and labeling laws that protect consumers. Pricing- and distribution-related laws are designed to create a competitive marketplace with fair prices and availability. Regulation related to promotion and advertising reduces deceptive practices and provides enforcement through the Federal Trade Commission. Self-regulation through organizations such as the Better Business Bureau provides an alternative to federal and state regulation.

## LEARNING REVIEW ANSWERS

**3-1 Describe three generational cohorts.**

Answer: (1) Baby boomers are the generation of 76 million among the U.S. population born between 1946 and 1964. These Americans are growing older and will all be 65 or older by 2030. (2) Generation X are those among the 15

percent of the U.S. population born between 1965 and 1976. These well-educated Americans, also known as the baby bust cohort because of declining birthrates, are supportive of racial and ethnic diversity. (3) Generation Y, or millennials, are the 72 million Americans among the U.S. population born between 1977 and 1994. The rising birthrate of this “baby boomlet” cohort is the result of baby boomers having children.

**3-2 Why are many companies developing multicultural marketing programs?**

Answer: Multicultural marketing programs consist of combinations of the marketing mix that reflect the unique attitudes, ancestry, communication preferences, and lifestyles of different races and ethnic groups. The reason for developing these programs is that the racial and ethnic diversity of the U.S. is changing rapidly due to the increases in the African American, Asian, and Hispanic populations, which increases their economic impact.

**3-3 How are important values such as sustainability reflected in the marketplace today?**

Answer: Many Americans desire and practice sustainability to preserve the environment. Specifically, these consumers buy products such as hybrid gas-electric cars. Consumers also prefer brands that have a strong link to social action (like Ben & Jerry’s—see **Chapter 2**). Companies are responding to this consumer trend by producing products that use renewable energy and less packaging.

**3-4 What is the difference between a consumer’s disposable and discretionary income?**

Answer: Disposable income is the money a consumer has left after paying taxes to use for necessities such as food, housing, clothing, and transportation. Discretionary income is the money that remains after paying for taxes and necessities and is usually spent on luxury items.

**3-5 How does technology impact customer value?**

Answer: (1) Because the cost of technology is plummeting, this allows consumers to assess the value of technology-based products on other dimensions, such as quality, service, and relationships. (2) Technology provides value through the development of new products. (3) Technology has changed the way existing products are produced through recycling and precycling. (4) Technology enables the collection of data used in the growing field of data analytics.

**3-6** In pure competition there are a \_\_\_\_\_ number of sellers.

Answer: large

**3-7** The \_\_\_\_\_ Act was punitive toward monopolies, whereas the \_\_\_\_\_ Act was preventive.

Answer: *Sherman Antitrust, Clayton*

**3-8**

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**Describe some of the recent changes in trademark law.**

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Answer: Trademarks are intended to protect both the firm selling a trademarked product and the consumer buying it. The *Lanham Act* (1946) provides for registration of a company's trademarks. The *Trademark Law Revision Act* (1988), which modified the *Lanham Act*, allows companies to secure rights to a name before its actual use by declaring an intent to use the name. In 2003, the United States agreed to participate in the *Madrid Protocol*, which is a treaty that facilitates the protection of U.S. trademark rights. Also, the U.S. Supreme Court recently ruled that a company may obtain trademarks for colors associated with their products. Finally, the *Federal Dilution Act* (1995, 2006) prevents someone from using a trademark on a noncompeting product (such as the "Cadillac" of brushes).

**3-9 How does the Better Business Bureau encourage companies to follow its standards for commerce?**

Answer: The Better Business Bureau (BBB) uses moral suasion to get members to comply with its standards. Companies, which join the BBB voluntarily, must agree to follow these standards before they are allowed to display the BBB Accredited Business logo.

## FOCUSING ON KEY TERMS

**baby boomers , 75**

**barriers to entry , 87**

**blended family , 77**

**competition , 86**

**consumerism , 89**

**culture , 80**

**demographics , 74**

**discretionary income , 83**  
**disposable income , 83**  
**economy , 82**  
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**environmental scanning , 72**  
**Generation X , 75**  
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**gross income , 82**  
**Internet of Things (IoT) , 86**  
**marketspace , 86**  
**multicultural marketing , 79**  
**regulation , 88**  
**self-regulation , 92**  
**social forces , 74**  
**technology , 84**  
**value consciousness , 81**

## APPLYING MARKETING KNOWLEDGE

1. For many years Gerber has manufactured baby food in small, single-sized containers. In conducting an environmental scan, (a) identify three trends or factors that might significantly affect this company's future business, and (b) propose how Gerber might respond to these changes.
2. Describe the new features you would add to an automobile designed for consumers in the 55+ age group. In what magazines would you advertise to appeal to this target market?
3. The population shift from suburbs to exurbs and small towns was discussed in this chapter. What businesses and industries are likely to benefit from this trend? How will retailers need to change to accommodate these consumers?
4. New technologies are continuously improving and replacing existing products. Although technological change is often difficult to predict, suggest how the following companies and products might be affected by the Internet and digital

technologies: (a) Kodak cameras and film, (b) American Airlines, and (c) the Metropolitan Museum of Art.

5. In recent years in the brewing industry, a couple of large firms that have historically had most of the beer sales (Anheuser-Busch and Miller) have faced competition from many small “micro” brands. In terms of the continuum of competition, how would you explain this change?
6. The Johnson Company manufactures buttons and pins with slogans and designs. These pins are inexpensive to produce and are sold in retail outlets such as discount stores, hobby shops, and bookstores. Little equipment is needed for a new competitor to enter the market. What strategies should Johnson consider to create effective barriers to entry?
7. Why would Xerox be concerned about its name becoming generic?
8. Develop a “Code of Business Practices” for a new online vitamin store. Does your code address advertising? Privacy? Use by children? Why is self-regulation important?

## BUILDING YOUR MARKETING PLAN

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

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

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## Video Case 3 **Video Case 3: Geek Squad: A New Business for a New Environment**

### VIDEO 3-5

#### Geek Squad Video Case

[kerin.tv/13e/v3-5](http://kerin.tv/13e/v3-5)

“As long as there’s innovation there is going to be new kinds of chaos,” explains Robert Stephens, founder of the technology support company Geek Squad. The chaos Stephens is referring to is the difficulty we have all experienced trying to keep up with the many changes in our environment, particularly those related to computers, technology, software, communication, and entertainment. Generally, consumers have found it difficult to install, operate, and use many of the electronic products available today. “It takes time to read the manuals,” Stephens says. “I’m going to save you that time because I stay home on Saturday nights and read them for you!”

### THE COMPANY

The Geek Squad story begins when Stephens, a native of Chicago, passed up an Art Institute scholarship to pursue a degree in computer science. While Stephens was a computer science student he took a job fixing computers for a research laboratory, and he also started consulting. He could repair televisions, computers, and a variety of other items, although he decided to focus on computers. His experiences as a consultant led him to realize that most people needed help with technology and that they saw value in a service whose employees would show up at a specified time, be

friendly, use understandable language, and solve the problem. So, with just \$200, Stephens formed Geek Squad in 1994.



© Tim Boyle/Getty Images

Geek Squad set out to provide timely and effective help with all computing needs regardless of the make, model, or place of purchase. Geek Squad employees were called “agents” and wore uniforms consisting of black pants or skirts, black shoes, white shirts, black clip-on ties, a badge, and a black jacket with a Geek Squad logo to create a “humble” attitude that was not threatening to customers. Agents drove black-and-white Volkswagen Beetles, or Geekmobiles, with a logo on the door, and charged fixed prices for services, regardless of how much time was required to provide the service. The “house call” services ranged from installing networks, to debugging a computer, to setting up an entertainment system, and cost from \$100 to \$300. “We’re like ‘Dragnet’; we show up at people’s homes and help,” Stephens says. “We’re also like *Ghostbusters* and there’s a pseudogovernment feel to it like *Men in Black*.”

In 2002, Geek Squad was purchased by leading consumer electronics retailer Best Buy for about \$3 million. Best Buy had observed very high return rates for most of its complex products. Shoppers would be excited about new products, purchase them and take them home, get frustrated trying to make them actually work, and then return them to the store demanding a refund. In fact, Best Buy research revealed that consumers were beginning to see service as a critical element of the purchase. The partnership was an excellent match. Best Buy consumers welcomed the help. Stephens became Geek Squad’s chief inspector and a Best Buy vice president and began putting a Geek Squad “precinct” in every Best Buy store, creating some stand-alone Geek Squad Stores, and providing 24-hour telephone support. There are now more than 20,000 agents in the United States, Canada, the United Kingdom, and China, and return rates

have declined by 25 to 35 percent. Geek Squad service plans are also being sold on eBay. The Geek Squad website proclaims that the company is “Serving the Public, Policing Technology and Protecting the World.”

## THE CHANGING ENVIRONMENT

Many changes in the environment occurred to create the need for Geek Squad’s services. Future changes are also likely to change the way Geek Squad operates. An environmental scan helps illustrate the changes.

The most obvious changes may be related to technology. Wireless broadband technology, high-definition televisions, products with Internet interfaces, and a general trend toward computers, smartphones,

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entertainment systems, and even appliances being interconnected are just a few examples of new products and applications for consumers to learn about. There are also technology-related problems such as viruses, spyware, lost data, and “crashed” or inoperable computers. New technologies have also created a demand for new types of maintenance such as password management, operating system updates, disk cleanup, and “defragging.”

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Another environmental change that contributes to the popularity of Geek Squad is the change in social factors such as demographics and culture. In the past many electronics manufacturers and retailers focused primarily on men. Women, however, are becoming increasingly interested in personal computing and home entertainment and, according to the Consumer Electronics Association, are likely to outspend men in the near future. Best Buy’s consumer research indicates that women expect personal service during the purchase as well as during the installation after the purchase—exactly the service Geek Squad is designed to provide. Our culture is also embracing the Geek Squad concept. For example, in the recently discontinued television series *Chuck* (2007–2012), one of the characters worked for the “Nerd Herd” at “Buy More” and drove a car like a Geekmobile on service calls!

Competition, economics, and the regulatory environment have also had a big influence on Geek Squad. As discount stores such as Walmart and PC makers such as Dell began to compete with Best Buy, new services such as in-home installation were needed to create value for customers. Now, just as change in competition created an opportunity for Geek Squad, it is also leading to another level of competition as Staples has introduced EasyTech services and Office Depot has introduced Tech Depot services. The economic situation for electronics continues to improve as prices decline and demand increases. Consumers purchased 2 million 3D TVs in 2010, and sales of all consumer electronics exceeded \$180 billion. Finally, the regulatory environment continues to change with respect to the electronic transfer of copyrighted materials such as music and movies and software. Geek Squad must monitor the changes to ensure that its services comply with relevant laws.



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## THE FUTURE FOR GEEK SQUAD

The combination of many positive environmental factors helps explain the extraordinary success of Geek Squad. Today, it repairs more than 3,000 PCs a day and generates more than \$2 billion in revenue. Because Geek Squad services have a high profit margin they contribute to the overall performance of Best Buy, and they help generate traffic in the store and create store loyalty. To continue to grow, however, Geek Squad will need to continue to scan the environment and try new approaches to creating customer value.

One possible new approach is to create new partnerships. Geek Squad and Ford, for example, have developed a partnership to help consumers install in-car communication systems. In the future, Best Buy will offer 240-volt home charging stations for Ford's electric vehicle, the Focus. Geek Squad will offer electrical audits and residential installations for the car owners. Geek Squad is also using new technology to improve. Agents now use a smartphone to access updated schedules, log in their hours, and run diagnostics tests on clients' equipment. Best Buy is also testing a "Solutions Central" desk, similar to the Genius Bar concept in Apple stores, and staffing it with Geek Squad agents. Finally, to attract the best possible employees, Geek Squad and Best Buy are trying a "results-only work environment" that has no fixed schedules and no mandatory meetings. By encouraging employees to make their own work-life decisions, the Geek Squad hopes to keep morale and productivity high.

Other changes and opportunities are certain to appear soon. However, despite the success of the Geek Squad and the potential for additional growth, Robert Stephens is modest and claims, “Geeks may inherit the Earth, but they have no desire to rule it!”<sup>49</sup>

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## Questions

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1. What are the key environmental forces that created an opportunity for Robert Stephens to start the Geek Squad?
2. What changes in the purchasing patterns of (a) all consumers and (b) women made the acquisition of Geek Squad particularly important for Best Buy?
3. Based on the case information and what you know about consumer electronics, conduct an environmental scan for Geek Squad to identify key trends. For each of the five environmental forces (social, economic, technological, competitive, and regulatory), identify trends likely to influence Geek Squad in the near future.
4. What promotional activities would you recommend to encourage consumers who currently use independent installers to switch to Geek Squad?

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