After studying this chapter, you should be able to

1. Discuss the external environment of marketing, and explain how it affects a firm
2. Describe the social factors that affect marketing
3. Explain the importance to marketing managers of current demographic trends
4. Explain the importance to marketing managers of multiculturalism and growing ethnic markets
5. Identify consumer and marketer reactions to the state of the economy
6. Identify the impact of technology on a firm
7. Discuss the political and legal environment of marketing
8. Explain the basics of foreign and domestic competition
9. Describe the role of ethics and ethical decisions in business
10. Discuss corporate social responsibility
THE MARKETING ENVIRONMENT AND
MARKETING ETHICS

New Balance, Inc., has been spending a scant $4 million a year to advertise its athletic shoes. Its best-known endorser is a marathoner named Mark Coogan, who placed forty-first in the last Olympics. Its logo is a prosaic NB, and its shoes are jumping off retailers’ shelves.

While Nike, Inc., and other sneaker makers struggle to eke out gains in shoe sales, New Balance is riding a boom—specifically, the baby boom. Using an unflashy formula that includes moderate prices, links to podiatrists, and an expansive range of widths tailored to an aging population’s expanding heft, the company gobbled up market share with sales of more than $560 million annually.

New Balance “is becoming the Nike of the baby-boom generation,” says Mike Kormas, president of Footwear Market Insights, a research firm based in Nashville, Tennessee. Kormas, whose firm polls twenty-five thousand households every four months on footwear-purchasing preferences, states that “the average age of a Nike consumer is 25, the average age of a Reebok consumer is 33, and the average age of a New Balance consumer is 42.” It’s a triumph of demographics over razzle-dazzle. While industry leaders like Nike, Reebok International Ltd., and Fila Holdings SpA jump through expensive hoops to court youngsters, New Balance is quietly tracking America’s changing population.

Although a youngster tends to buy more sneakers than a middle-ager, New Balance’s older-age niche has some potent marketing virtues. Customers are less fickle, so the company doesn’t worry as much about fashion swings. Thus, whereas competitors come out with new models about every six weeks, New Balance introduces one about every seventeen weeks. That schedule allows retailers to hold onto inventory longer without needing to discount it to free up space.

With fewer models and fewer expensive updates, the company believes it can risk skimping on marketing and big-name endorsers. ‘You won’t find a poster of Michael Jordan hanging in the bedroom of a New Balance customer,” says Jim Davis, New Balance’s president and chief executive. The $4 million the company spends on advertising and promotions is less than 1 percent...
of Nike’s $750 million or Reebok’s $425 million. Changing demographics can pose both threats and opportunities to companies. Demographics is only one of a number of factors in the external environment that can impact a firm. Does the external environment affect the marketing mix of most companies? What other uncontrollable factors in the external environment might impact New Balance?

The External Marketing Environment

As you learned in Chapter 1, managers create a marketing mix by uniquely combining product, distribution, promotion, and price strategies. The marketing mix is, of course, under the firm’s control and is designed to appeal to a specific group of potential buyers. A target market is a defined group that managers feel is most likely to buy a firm’s product.

Over time, managers must alter the marketing mix because of changes in the environment in which consumers live, work; and make purchasing decisions. Also, as markets mature, some new consumers become part of the target market; others drop out. Those who remain may have different tastes, needs, incomes, lifestyles, and buying habits than the original target consumers.

Although managers can control the marketing mix, they cannot control elements in the external environment that continually mold and reshape the target market. Exhibit 2.1 shows the controllable and uncontrollable variables that affect the target market, whether it consists of consumers or business purchasers. The uncontrollable elements in the center of the diagram continually evolve and create changes in the target market. In contrast, managers can shape and reshape the marketing mix, depicted on the left side of the exhibit, to influence the target market.

Understanding the External Environment

Unless marketing managers understand the external environment, the firm cannot intelligently plan for the future. Thus, many organizations assemble a team of specialists to continually collect and evaluate environmental information, a process called environmental scanning. The goal in gathering the environmental data is to identify future market opportunities and threats.

For example, as technology continues to blur the line between personal computers, television, and compact disc players, a company like Sony may find itself competing against a company like Compaq. Research shows that children would like to find more games bundled with computer software, while adults are more likely to mention desiring various word-processing and business-related software. Is this information an opportunity or a threat to Compaq marketing managers?

Environmental Management

No one business is large or powerful enough to create major change in the external environment. Thus, marketing managers are basically adapters rather than agents of change. For example, despite the huge size of General Motors and Ford, these companies have only recently been able to stem the competitive push by the Japanese for an ever-growing share of the U.S.
automobile market. Competition is basically an uncontrollable element in the external environment.

However, a firm is not always completely at the mercy of the external environment. Sometimes a firm can influence external events. For example, extensive lobbying by Federal Express enabled it to recently acquire virtually all of the Japanese routes that it has sought. Japan had originally opposed new cargo routes for Federal Express. The favorable decision was based on months of lobbying by Federal Express at the White House, at several agencies, and in Congress for help in overcoming Japanese resistance. When a company implements strategies that attempt to shape the external environment within which it operates, it is engaging in environmental management.

The factors within the external environment that are important to marketing managers can be classified as social, demographic, economic, technological, political and legal, and competitive.

Social Factors

Social change is perhaps the most difficult external variable for marketing managers to forecast, influence, or integrate into marketing plans. Social factors include our attitudes, values, and lifestyles. Social factors influence the products people buy, the prices paid for products, the effectiveness of specific promotions, and how, where, and when people expect to purchase products.

Marketing-Oriented Values of Today

A major change has been taking place in American culture. It is a comprehensive shift in values, world views, and ways of life. It appeals to nearly one-fourth of American adults, or forty-four million people. People who follow this new path are on the leading edge of several kinds of cultural change. They are interested in new kinds of products and services, and they often respond to advertising and marketing in unexpected ways. These people have been labeled cultural creatives. Cultural creatives are good at synthesizing this information into a “big picture.” Their style is to scan an information source efficiently, seize on something they are interested in, and explore that topic in depth.
A second world view is that of traditionalism. It is the belief system for about 29 percent of Americans (fifty-six million adults), who might also be called heartlanders. In America, traditionalism often takes the form of country folks rebelling against big-city slickers. Heartlanders believe in a nostalgic image of small towns and strong churches that defines the Good Old American Ways.³

The third world view is modernism. It is the value set of 47 percent of Americans, or eighty-eight million adults. Modernists include politicians, military leaders, scientists, and intellectuals. Modernists place high value on personal success, consumerism, materialism, and technological rationality. It’s valid to say that modernists see the world through the same filters as does Time magazine. The values of these three American subcultures are shown in Exhibit 2.2.

Today’s shoppers are also environmentalists. Eight in ten U.S. consumers regard themselves as environmentalists, and half of those say they are strong ones.⁴ Four out of five shoppers are willing to pay 5 percent more for products packaged with recyclable or biodegradable materials. Many marketers predict that soon it will be very hard to sell a product that isn’t environmentally friendly.

In the 1990s, fewer consumers said that expensive cars, designer clothes, pleasure trips, and “gold” credit cards are necessary components of a happy life. Instead, they put value on nonmaterial accomplishments, such as having control of their lives and being able to take a day off when they want.⁵ Dual-career families have a poverty of time, with few hours to do anything but work and commute to work, handle family situations, do housework, shop, sleep, and eat. Of the people who say they don’t have enough time, only 33 percent said that they were very happy with their lives.⁶

There’s a sense that the daily slack of earlier eras—the weekday golf foursome, the bridge games and vegetable gardens, the three-martini lunches, chats across the fence, and pure, uncontrollable laughter—is fast disappearing. Work consumes a huge portion of Americans’ days. Their productivity pressure is exacerbated by the explosion in two-income households: No chief operating officer manages the family—even though, with aging parents and growing children, it is an increasingly complex unit. Also, in the age of the “virtual office” (working at home with a computer and modem), it has become increasingly difficult for many professionals to separate or measure the time they spend on work or leisure. Perhaps, however, the 7 percent annual growth in home-based self-employment is a backlash against the lack of quality family time.⁷

The Growth of Component Lifestyles
People in the United States today are piecing together component lifestyles. A lifestyle is a mode of living; it is the way people decide to live their lives. In other words, they are choosing products and services that meet diverse needs and interests rather than conforming to traditional stereotypes.

In the past, a person’s profession—for instance, banker—defined his or her lifestyle. Today a person can be a banker and also a gourmet, fitness enthusiast, dedicated single parent, and Internet guru. Each of these lifestyles is associated with different goods and services and represents a target audience. For example, for the gourmet, marketers offer cooking utensils, wines, and exotic foods through magazines like Bon Appetit and Gourmet. The fitness enthusiast buys Adidas equipment and special jogging outfits and reads Runner magazine. Component lifestyles increase the complexity of consumers’ buying habits. The banker may own a BMW but change the oil himself or herself. He or she may buy fast food for lunch but French wine for dinner, own sophisticated photographic equipment and a low-priced home stereo, and shop for socks at Kmart or Wal-Mart and suits or dresses at Brooks Brothers.

The unique lifestyles of every consumer can require a different marketing mix. Sometimes blending products for a single target market can result in failure. To the bright young founders of WebTV, it looked

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poverty of time
Lack of time to do anything but work, commute to work, handle family situations, do housework, shop, sleep, and eat.

component lifestyles
Practice of choosing goods and services that meet one’s diverse needs and interests rather than conforming to a single, traditional lifestyle.
### Heartland Values

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<thead>
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<th>Heartlanders (%)</th>
<th>Modernists (%)</th>
<th>Cultural Creatives (%)</th>
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### Modernist Values

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<td>Want creative time</td>
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like a home run: hook televisions up to the Net and tap into the vast market of couch potatoes curious about this new phenomenon called the World Wide Web. After burning through an estimated $50 million to advertise the new service, however, WebTV and partners Sony and Philips Electronics counted a disappointing fifty thousand subscribers.

The problem, WebTV now acknowledges, was the wrong marketing message. Couch potatoes want to be better entertained, whereas computer users are content to explore the Internet using small PC screens. A revamped campaign now emphasizes entertainment over education.8
The Changing Role of Families and Working Women

Component lifestyles have evolved because consumers can choose from a growing number of goods and services, and most have the money to exercise more options. Rising purchasing power has resulted from the growth of dual-income families.

Approximately 58 percent of all females between sixteen and sixty-five years old are now in the workforce, and female participation in the labor force is expected to grow to 63 percent by 2005. By the mid-1990s, more than 7.7 million women-owned businesses in the United States generated $1.4 trillion in revenues. The phenomenon of working women has probably had a greater effect on marketing than has any other social change.

As women’s earnings grow, so do their levels of expertise, experience, and authority. Working-age women are not the same group businesses targeted thirty years ago. They expect different things in life—from their jobs, from their spouses, and from the products and services they buy.

The automotive industry has finally begun to realize the power of women in vehicle purchase decisions. Women are the principal buyers for 45 percent of all cars and trucks sold in the United States. Saturn’s advertising not only aims to attract women as customers, but also to woo them into the business. In an industry with a woefully small representation of women in sales, 16 percent of Saturn’s sales staff are women, compared with 7 percent industry-wide. This has had a visible impact on sales to women. Even though about half of all automotive purchases are made by women, Saturn claims that women buy 64 percent of its cars.

The growth in the number of working women has meant an increase in dual-career families. Although dual-career families typically have greater household incomes, they have less time for family activities (poverty of time). Their purchasing roles (which define the items traditionally bought by the man or the woman) are changing, as are their purchasing patterns. Consequently, new opportunities are being created. For example, small businesses are opening daily that cater to dual-career households by offering specialized goods and services. Ice cream and yogurt parlors, cafes, and sports footwear shops have proliferated. With more women than ever working full time, there is a special demand for new household services. San Francisco Grocery Express, a warehouse operation, uses computers to take customers’ telephone orders. Customers refer to a catalog listing grocery items and prices. Later, vans deliver the food to the purchasers’ front doors.

Demographic Factors

3 Explain the importance to marketing managers of current demographic trends

demography
The study of people’s vital statistics, such as their age, race and ethnicity, and location.

Demographic factors—another uncontrollable variable in the external environment—are also extremely important to marketing managers. Demography is the study of people’s vital statistics, such as their age, race and ethnicity, and location. Demographics are significant because the basis for any market is people. Demographic characteristics are strongly related to consumer buyer behavior in the marketplace and are good predictors of how the target market will respond to a specific marketing mix. This section describes some marketing trends related to age and location. We will begin by taking a closer look at key age groups.
Generation Y: Born to Shop

Today, there are about fifty-eight million Americans age sixteen and under. These are the people of “Generation Y.” Although Generation Y is much smaller than the baby boom, which lasted nearly twenty years and produced seventy-eight million children, its members are plentiful enough to put their own footprints on society.

The marketing impact of Generation Y has been immense. Companies that sell toys, videos, software, and clothing to kids have boomed in recent years. Nine of the ten best-selling videos of all time are animated films from Walt Disney Company. Club Med, the French vacation company, now earns half its U.S. revenues from family resorts. Generation Y was born into a world so different from the one their parents entered that they could be on different planets. The changes in families, the workforce, technology, and demographics in recent decades will no doubt affect their attitudes, but in unpredictable ways. Among those changes:

- Nearly 60 percent of children under the age of six have mothers who work outside the home, compared with just 18 percent in 1960.
- Some 61 percent of U.S. children aged three to five are attending preschool, compared with 38 percent in 1970.
- Nearly 60 percent of households with children aged seven or younger have personal computers, according to IDC/LINK Resources Corp., a market-research firm in New York.
- More than one-third of elementary school students nationwide are black or Hispanic, compared with 22 percent in 1974. If current trends continue, “minorities” will make up the majority of the U.S. population by 2050, according to the Census Bureau.
- Approximately 15 percent of U.S. births in recent years were to foreign-born mothers, with origins so diverse that more than one hundred different languages are spoken in the school systems of New York City, Chicago, Los Angeles, and Fairfax County, Virginia.
- Nearly one of three births in the early 1990s was to an unmarried woman. With approximately one in three marriages ending in divorce, a significant portion of this generation will spend at least part of childhood in a single-parent home.
- One-quarter of children under age six are living in poverty—that is, with cash income of less than $15,141 for a family of four.13

Generation Y is also driving the educational-software industry, which has grown to a $600 million business from practically nothing in 1990. Titles like Baby-ROM from Byron Preiss Multimedia Co. are designed to help infants as young as six months learn to identify numbers, shapes, colors, and body parts.

Apparel manufacturers from Ralph Lauren to Gap Inc. are also targeting the Generation Y crowd, which prefers jeans, sports jerseys, and baseball caps to dress-up clothes. Automakers are courting their parents with minivans and sport utility vehicles, many with built-in child seats. Hotels and cruise lines are offering kids programs. Some malls, furniture stores, and even supermarkets provide on-site baby-sitting. Restaurants are setting out crayons, putting changing tables in restrooms, and offering more take-out services, all to serve families with children.

Although smaller in numbers than the baby boom generation, Generation Y has already had a significant impact on how companies market to families and to children and teens. Changes in demographics, workforce, and technology pose particular challenges as marketers attempt to identify the needs and wants of this group.

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Generation X: Savvy and Cynical

Today, approximately forty-eight million consumers are between the ages of eighteen and twenty-nine. This group has been labeled Generation X. It is the first generation of latchkey children—products of dual-career households or, in roughly half of the cases, of divorced or separated parents. Generation X began entering the workforce in the era of downsizing and downturn, so its members are likelier than the previous generation to be unemployed, underemployed, and living at home with Mom and Dad. On the other hand, ten million are full-time college students, and fifteen million are married and not living at home. Yet, as a generation that’s been bombarded by multiple media since their cradle days, they’re savvy and cynical consumers.

The members of Generation X don’t mind indulging themselves. Among the young women of Generation X, 38 percent go to the movies in a given month, compared with 19 percent of the women who are now in their thirties and forties. The members of Generation X devote a larger-than-average share of their spending dollars to restaurant meals, alcoholic beverages, clothing, and electronic items such as televisions and stereos. One survey found that the members of Generation X aspire to having a home of their own (87 percent), a lot of money (42 percent), a swimming pool (42 percent), and a vacation home (41 percent). They are more materialistic than past generations, but have less hope of achieving their goals.

Perhaps it is this combination of high aspirations and low expectations that makes Generation X such a challenge for marketers. “This is a generation that hates to be marketed to,” says Scott Kauffman, vice president of broadcast and news media at Entertainment Weekly. ‘You have the youth of America reading novels in which chapters are titled, ‘I am not a target market.”

For decades, Ford has marketed its light-duty pickups by showing roughness and toughness. Advertisements featured trucks climbing rugged mountains or four-wheeling through mud. But Ford quickly realized that this was not going to work with Generation Xers.

Ford chose to lead with a new product. The company created a new version of its popular Ranger pickup, giving it flares on the fenders, jazzy graphics, and a youthful new name: Splash. The promotion campaign attempted to infuse the vehicle with personality by combining adventure-some sports with the truck. For example, one ad features a young surfer shooting the curl in the bed of a Splash parked in the middle of a wheat field. There is minimal copy—just one line listing five features and a new logo.

Baby Boomers: America’s Mass Market

Almost seventy-eight million babies were born in the United States between 1946 and 1964, which created a huge market. The oldest baby boomers are now over fifty, but they cling to their youth. One study found that baby boomers see themselves as continuing to be very active after they turn fifty. They won’t even think of themselves as being senior citizens until after they turn sixty (39 percent) or seventy (42 percent).

This group cherishes convenience, which has resulted in a growing demand for home delivery of items like large appliances, furniture, and groceries. In addition, the spreading culture of convenience explains the tremendous appeal of prepared take-out foods and the necessity of VCRs and portable telephones.

Baby boomers’ parents raised their children to think for and of themselves. Studies of child-rearing practices show that parents of the 1950s and 1960s consistently ranked “to think for themselves” as the number-one trait they wanted to instill in their children. Postwar affluence also allowed parents to indulge their children as never before. They invested in their children’s skills by sending them to college. They encouraged their children to succeed in a job market that rewarded competitive drive more than cooperative spirit and individual skills more than teamwork.
In turn, the sheer size of the generation encouraged businesses to promote to the emerging individuality of baby boomers. Even before the oldest baby boomers started earning their own living more than two decades ago, astute businesspeople saw the profits that come from giving millions of young people what they want. Businesses offered individualistic baby boomers a growing array of customized products and services—houses, cars, furniture, appliances, clothes, vacations, jobs, leisure time, and even beliefs.

The importance of individualism among baby boomers led to a personalized economy. A personalized economy delivers goods and services at a good value on demand. Successful businesses in a personalized economy give customers what they want when they want it. To do this, they must know their customers extremely well. In fact, the intimacy between producer and consumer is exactly what makes an economy personalized.

In the personalized economy, successful products share three characteristics:

- **Customization:** Products are custom designed and marketed to ever-smaller target markets. Today, for example, there are hundreds of cable TV channels from which to choose. In 1950, the average grocery store carried about four thousand items; today, that number is closer to sixteen thousand, as manufacturers target increasingly specific needs.

- **Immediacy:** Successful businesses deliver products and services at the convenience of the consumer rather than the producer. Bank One, with locations in the eastern and southern states, for example, opens some of its branches on Saturdays and Sundays. Its twenty-four-hour hot line, staffed by real people, solves problems at the customer's convenience. The immediacy of the personalized economy explains the booming business in one-hour film processing, walk-in medical clinics, and thirty-minute pizzas.

- **Value:** Businesses must price competitively or create innovative products that can command premium prices. Even the most innovative products quickly become commodities in the fast-paced personalized economy, however. Apple fell prey to this danger: Its once-innovative Macintosh computers must now compete against less expensive machines that offer similar functions.

As the age of today’s average consumer moves toward forty, average consumption patterns are also changing. People in their early forties tend to focus on their families and finances. As this group grows in number, its members will buy more furniture from manufacturers like Lazy Boy, American Martindale, Baker, and Drexel-Heritage to replace the furniture they bought early in their marriages. The demand for family counselors and wellness programs should also increase. Additionally, discount investment brokers like Charles Schwab and mutual funds like Fidelity and Dreyfus should profit. However, baby boomers are more likely than any other age group to have negative opinions about financial services such as banking and stockbrokers. This may reflect the boomers' mistrust of authority. Because middle-aged consumers buy more reading materials than any other age group, the market for books and magazines should remain strong throughout the early 2000s. People who buy magazines on the newsstand tend to be younger, so newsstand sales may falter whereas subscription sales take off.

Right now, baby boomers are concerned with their children and their jobs. These worries will fade as the kids move out of the house and boomers retire. But some things will never change. Baby boomers may always be a little selfish about their leisure time. They may always be a little careless about the way they
spend their money. They will probably remain suspicious of the status quo. And they will always love rock and roll.

**Older Consumers: Not Just Grandparents**

As mentioned above, the oldest baby boomers have already crossed the fifty-plus threshold that many demographers use to define the “mature market.” Yet, today’s mature consumers are wealthier, healthier, and better educated than those of earlier generations. Although they make up only 26 percent of the population, fifty-plus consumers buy half of all domestic cars, half of all silverware, and nearly half of all home remodeling. Smart marketers are already targeting this growing segment. By 2020, over a third of the population will be fifty years old or older.

Many marketers have yet to tap the full potential of the huge and lucrative senior market because of enduring misconceptions about mature adults, all based on stereotypes. Here are a few:

- **Stereotype:** Older consumers are sick or ailing. **Fact:** A full 85 percent of mature citizens report themselves to be in good or excellent health. Over two-thirds of the elderly have no chronic health problems. People like Mick Jagger are approaching fifty-five. These people are fit and healthy.
- **Stereotype:** Older consumers are sedentary. **Fact:** Of all travel dollars spent in the United States, 80 percent are spent by people over fifty years old.
- **Stereotype:** Older consumers have a poor retention rate. **Fact:** Senior citizens are readers and much less influenced by TV than are younger consumers. Not only do they retain what they read, but they are willing to read far more copy than younger people are.
- **Stereotype:** Older consumers are interested only in price and are intolerant of change. **Fact:** Although senior citizens are as interested in price as anyone else, they are more interested in value. And a generation that has survived the better part of a century characterized by more technological change than any other in history can hardly be considered resistant to change.

Acceptance of change, however, doesn’t mean a lack of brand loyalty. For example, the most critical factor in determining car-owner loyalty is age. The oldest consumers (ages sixty-five and up) are twice as loyal to the make of car as the youngest customers are. The cars most popular with older Americans are Lincoln, Cadillac, and Buick.

Marketers who want to actively pursue the mature market must understand it. Aging consumers create some obvious opportunities. JCPenney’s Easy Dressing clothes feature Velcro-fastened clothing for women with arthritis or other ailments who may have difficulty with zippers or buttons. Sales from the first Easy Dressing catalog were three times higher than expected. Chicago-based Cadaco offers a line of games with easy-to-read big print and larger game pieces. The series focuses on nostalgia by including Michigan rummy, hearts, poker, and bingo. Trivia buffs more familiar with Mitch Miller than Guns ‘n’ Roses can play Parker Brothers’ “The Vintage Years” edition of Trivial Pursuit. The game, aimed at the fifty-plus crowd, poses questions covering the era from Charles Lindbergh to Dwight D. Eisenhower. Consider these other examples, as well, of savvy marketers targeting the mature market:

- To counter sliding grip strength associated with advancing age, Procter & Gamble offers its Tide laundry detergent with snap-on lids rather than the usual perforated flap.
- Wheaton Medical Technologies markets a pill bottle that has a tiny battery-operated clock that registers the time the container was last opened to take out a pill.
Knowing that grandparents purchase 25 percent of all toys (about $819 per year spent on their grandkids), F.A.O. Schwarz has added a Grandma’s Shop to its two largest stores, complete with older-adult salespeople.

Mattel, Inc., invited readers of Modern Maturity to join its Grandparents Club. For a $10 fee, readers could receive a book of discount coupons; meanwhile, Mattel acquired an invaluable mailing list of potential customers.

**Americans on the Move**

The average U.S. citizen moves every six years. This trend has implications for marketers. A large influx of new people into an area creates many new marketing opportunities for all types of businesses. Remember, the primary basis of all consumer marketing is people. Conversely, significant out-migration from a city or town may force many of its businesses to move or close down. The cities with the greatest projected population growth from 1995 to 2005 are Houston, Washington, D.C., Atlanta, San Diego, Phoenix, Orlando, and Dallas.

The most populous metro area is Los Angeles–Long Beach with 9,605,904 by 2001. New York follows with 8,723,921 for the same year. New York also has the greatest population density at 7,464 persons per square mile. The lowest population density of the top twenty-four metro areas is Riverside–San Bernardino, California, at 123 people per square mile.

The United States experiences both immigration from other countries and migration within U.S. borders. In the past decade, the six states with the highest levels of immigration from abroad were California, New York, New Jersey, Illinois, Texas, and Massachusetts. The six states with the greatest population increases due to interstate migration were Florida, Georgia, North Carolina, Virginia, Washington, and Arizona.

Immigration raises the cost of public services in areas with large numbers of immigrants, but the influx also benefits the U.S. economy overall. Immigrants add approximately $10 billion to the economy each year with little negative impact on job opportunities for most other residents.

**Growing Ethnic Markets**

The United States is undergoing a new demographic transition: It is becoming a multicultural society. The 1990 census found that eight in ten people in the United States are white, down from nine in ten in 1960. During the next decade, the United States will shift further from a society dominated by whites and rooted in Western culture to a society characterized by three large racial and ethnic minorities: African-Americans, U.S. Hispanics, and Asian-Americans. All three minorities will grow in size and in share of the population, while the white majority declines as a percentage of the total. Native Americans and people with roots in Australia, the Middle East, the former Soviet Union, and other parts of the world will further enrich the fabric of U.S. society.

The labor force of the past was dominated by white men who are now retiring. Today’s senior workers are equal parts women and men, and still overwhelmingly white. But in the entry-level jobs of 1998, a multicultural labor force emerged. The proportion of workers who are non-Hispanic whites should decrease from 77 percent in 1998 to 74 percent in 2005.
Because so many white men are retiring, the non-Hispanic white labor force will grow only 8 percent between 1994 and 2005. The number of Hispanic workers should grow 36 percent, due to the continued immigration of young adults, higher birth rates, and relatively few retirees. These forces will also boost the number of Asian workers by 39 percent. The number of black workers will increase by 15 percent, a rate slightly slower than the rate of growth of black adults in general (16.5 percent).37

**Ethnic and Cultural Diversity**

**Multiculturalism** occurs when all major ethnic groups in an area—such as a city, county, or census tract—are roughly equally represented. Because of its current demographic transition, the trend in the United States is toward greater multiculturalism.

San Francisco County is the most diverse county in the nation. The proportions of major ethnic groups are closer to being equal there than anywhere else. People of many ancestries have long been attracted to the area. The least multicultural region is a broad swath stretching from northern New England through the Midwest and into Montana. These counties have few people other than whites. The counties with the very lowest level of diversity are found in the agricultural heartland: Nebraska and Iowa.

**Marketing Implications of Multiculturalism** The demographic shift and growing multiculturalism create new challenges and opportunities for marketers. The U.S. population grew from 226 million in 1980 to 274 million in 2000, much of that growth taking place in minority markets. Asians are the nation’s fastest growing minority group, increasing 108 percent in the 1980s, to 7.3 million. The Hispanic population grew 53 percent, to 22.3 million; with 7.7 million new members, it had the biggest numerical gain of any minority group. African-Americans, who remain the largest minority, saw their numbers increase during the past decade by 13 percent, to 30 million. In contrast, the number of non-Hispanic whites grew by 4.4 percent. By 1994, about a quarter of the U.S. population were members of minority groups. The last census identified 110 different ethnic groups in the United States.38

Demographic shifts will be even more pronounced in the future. Exhibit 2.3 compares the 1999 population mix and the forecasted population mix for 2023. Note that Hispanics will be the fastest growing segment of the population. The diversity of the U.S. population is projected to stabilize around 2023, as the birthrate among minorities levels off.

The marketer’s task in a diverse society is more challenging because of differences in educational level and demand for goods and services. What’s more, ethnic markets are not homogeneous. There is not an African-American market or a Hispanic market, any more than there is a white market. Instead, there are many niches within ethnic markets that require micro-marketing strategies. For example, African Eye, which offers women’s designer fashions from Africa, attracted a thousand women to a fashion show at Prince Georges Plaza near Washington, D.C. The show featured the latest creations by Al-fadi, a high-fashion Nigerian designer, who also hosted the show. African Eye’s dresses and outfits blend African and Western influences and are priced at $50 to $600. Says Mozella Perry Ademiluyi, the president and cofounder of African Eye: “Our customer is professional, 30 to 65, has an income level of $30,000-plus and often is well-traveled. They don’t just want to wear something that is African. They want something that is well-tailored, unique, and creative as well.”39

An alternative to the niche strategy is to maintain a brand’s core identity while straddling different languages, cultures, ages, and incomes. Executives with BellSouth Corp. had a message for both Spanish-speaking Hispanic and English-speaking customers throughout the Southeast. Instead of going with two distinct campaigns, they chose Daisy Fuentes, a former MTV personality well known...
among both audiences. More importantly, she spoke to a third audience: acculturated, bilingual Hispanics. The potential audience included more than 1.422 million Hispanics in 491,000 Hispanic households in Miami-Dade, Broward, and Monroe Counties plus an additional 1 million-plus general market households in the area, according to Strategy Research Corp.  

A third strategy for multicultural marketing is to seek common interests, motivations, or needs across ethnic groups. This strategy is sometimes called stitching niches, which means combining ethnic, age, income, and lifestyle markets, on some common basis, to form a large market. The result may be a cross-cultural product, such as a frozen pizza-flavored egg roll. Or it may be a product that serves several ethnic markets simultaneously. Ringling Brothers and Barnum and Bailey Circus showcases acts that appeal to many ethnic groups. It broadened its appeal to Asian-Americans by adding the “Mysterious Oriental Art of Hair Hanging.” Marguerite Michelle, known as the “ravishing Rapunzel,” is suspended in the air on a wire attached to her waist-length hair. When the circus comes to town, the Mexican-born Michelle also goes on Spanish-language radio shows to build recognition for Ringling in the Hispanic market. The circus is promoted as “El Espectáculo Más Grande del Mundo.”

**Economic Factors**

In addition to social and demographic factors, marketing managers must understand and react to the economic environment. The three economic areas of greatest concern to most marketers are the distribution of consumer income, inflation, and recession.

**Rising Incomes**

As disposable (or after-tax) incomes rise, more families and individuals can afford the “good life.” Fortunately, U.S. incomes have continued to rise. After adjustment for inflation, real per capita personal income continued to rise in 2009. The U.S. Census Bureau estimates that the typical family had a disposable income of $44,380, up 2.6% from 2008. While this was a smaller increase than in the previous year, it was still a sizable rise. The average family size in the United States is about 2.5 people. If we assume that the average family spends 60% of its disposable income, the average family income is about $26,628. This means that the typical family has enough income to support a middle-class lifestyle. The median household income in the United States is $44,689. This means that half of all households have an income greater than $44,689 and half have an income less than $44,689. This is a significant increase from the previous year, and it indicates that the economy is improving.

**stitching niches**

Strategy for multicultural marketing that combines ethnic, age, income, and lifestyle markets, on some common basis, to form a large market.
for inflation, median incomes in the United States rose less than 4 percent be-

Today about two-thirds of all U.S. households earn a ‘‘middle-class’’ income. 
The rough boundaries for a middle-class income are $18,000, above poverty, to 
about $75,000, just short of wealth. In 1999, almost half the households were 
in the upper end of the $18,000 to $75,000 range, as opposed to only a quarter in 
1980. The percentage of households earning above $75,000 is now over 8 per-
cent.** As a result, Americans are buying more goods and services than ever be-
fore. For example, in raising a child to age seventeen, a middle-class family will 
spend about $124,000 in 1999 dollars. This new level of affluence is not limited to 
professionals or even individuals within specific age or education brackets. Rather, 
it cuts across all household types, well beyond what businesses traditionally con-
sider to be markets for high-priced goods and services. This rising affluence stems 
primarily from the increasing number of dual-income families.

During the 2000s, many marketing managers will focus on families with in-
comes over $35,000, because this group will have the most discretionary income. 
The average American household has over $12,000 in discretionary income each 
year. Some marketers will concentrate their efforts on higher quality, higher 
priced goods and services. The Lexus automobile and American Airlines’ ‘‘in-
ternational class’’ service for business-class seats on transcontinental flights are 
examples of this trend.

Inflation

Inflation is a general rise in prices without a corresponding increase in wages, 
which results in decreased purchasing power. Fortunately, the United States has 
had a low rate of inflation for over a decade. The late 1990s have been marked by 
an inflation rate under 4 percent. The low rate of inflation is due to the tremen-
dous productivity of the high-tech sector of the economy and the stability of the 
price of services. Both education and healthcare costs are rising much more 
slowly than in the past. The other good news is that the American economy has 
grown at an annual rate of 2.6 percent from 1992 to 1999. This may not seem 
high, but it is twice the rate of Europe and Japan. These economic conditions 
benefit marketers, because real wages, and hence purchasing power, go up when 
inflation stays down. A significant increase in inflation almost always depresses real 
wages and the ability to buy more goods and services.

In times of low inflation, businesses seeking to increase their profit margins 
can do so only by increasing their efficiency. If they significantly increase prices, 
no one will purchase their goods or services.

In more inflationary times, marketers use a number of pricing strategies to 
cope. (See Chapter 15 for more on these strategies.) But in general, marketers 
must be aware that inflation causes consumers to either build up or diminish 
their brand loyalty. In one research session, a consumer panelist noted, “I used 
to use just Betty Crocker mixes, but now I think of either Betty Crocker or Dun-
can Hines, depending on which is on sale.” Another participant said, “Pennies 
count now, and so I look at the whole shelf, and I read the ingredients. I don’t 
really understand, but I can tell if it’s exactly the same. So now I use this cheaper 
brand, and honestly, it works just as well.” Inflation pressures consumers to make 
more economical purchases. However, most consumers try hard to maintain 
their standard of living.

In creating marketing strategies to cope with inflation, managers 
must realize that, despite what happens to the seller’s cost, the buyer is 
not going to pay more for a product than the subjective value he or she 
places on it. No matter how compelling the justification might be for a 10 percent 
price increase, marketers must always examine its impact on demand. Many mar-
keters try to hold prices level as long as is practical.
Recession

A recession is a period of economic activity when income, production, and employment tend to fall—all of which reduce demand for goods and services. The problems of inflation and recession go hand in hand, yet recession requires different marketing strategies:

- Improve existing products and introduce new ones: The goal is to reduce production hours, waste, and the cost of materials. Recessions increase the demand for goods and services that are economical and efficient, offer value, help organizations streamline practices and procedures, and improve customer service.
- Maintain and expand customer services: In a recession, many organizations postpone the purchase of new equipment and materials. Sales of replacement parts and other services may become an important source of income.
- Emphasize top-of-the-line products and promote product value: Customers with less to spend will seek demonstrated quality, durability, satisfaction, and capacity to save time and money. High-priced, high-value items consistently fare well during recessions.

Technological and Resource Factors

Sometimes new technology is an effective weapon against inflation and recession. New machines that reduce production costs can be one of a firm’s most valuable assets. The power of a personal-computer microchip doubles about every eighteen months. The Pentium Pro, for example, introduced in 1995, contains 5.3 million transistors and performs three hundred million instructions per second (MIPS). The 886 chip, due in 2000, will have fifteen million transistors and perform one thousand MIPS. Our ability, as a nation, to maintain and build wealth depends in large part on the speed and effectiveness with which we invent and adopt machines that lift productivity. For example, coal mining is typically thought of as unskilled, backbreaking labor. But visit Cyprus Amax Mineral Company’s Twenty-mile Mine near Oak Creek, Colorado, and you will find workers with push-button controls who walk along massive machines that shear thirty-inch slices from an 850-foot coal wall. Laptop computers help miners track equipment breakdowns and water quality.

U.S. companies often have difficulty translating the results of R&D into goods and services. The Japanese are masters at making this transformation. For example, VCRs, flat-panel displays, and compact disc players are based on U.S. research that wasn’t exploited at home. The United States excels at basic research (or pure research), which attempts to expand the frontiers of knowledge but is not aimed at a specific, pragmatic problem. Basic research aims to confirm an existing theory or to learn more about a concept or phenomenon. For example, basic research might focus on high-energy physics. Applied research, in contrast, attempts to develop new or improved products. It is where the United States sometimes falls short, although many U.S. companies do conduct applied research. For example, Motorola is using applied research to create Iridium, a constellation of sixty-six satellites that will offer telephone service anywhere on the globe.

The U.S. government spends about $75 billion a year on R&D; private industry spends another $120 billion. In the 1990s, the United States has thus far spent 16 percent more on R&D than Japan, Germany, France, and the United Kingdom combined. Yet these four countries together spend 12 percent more than the United States on R&D not related to defense.
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R&D expenditures are only a rough measure of where the United States stands in terms of innovation. A look at management of the R&D process can be even more revealing. U.S. managers tend to be obsessed with short-term profits (one to three years) and minimal risk taking. The result is an infatuation with slight variations of existing products, which are often very profitable, instead of true innovations. Developing new products like Honey Nut Cheerios and Diet Cherry Coke is probably not the path to world economic leadership.

Companies must also learn how to innovate, and large R&D budgets aren’t the sole answer. One of the biggest R&D spenders in the United States is General Motors, which by most standards is not a leading innovator. On the other hand, Corning has relatively low R&D budgets but is arguably one of the five most innovative companies in the world. The difference is in management and corporate culture.

Again, we might take a cue from the Japanese. In Japan, a team composed of engineers, scientists, marketers, and manufacturers works simultaneously at three levels of innovation. At the lowest level, they seek small improvements in an existing product. At the second, they try for a significant jump, such as Sony’s move from the microcassette tape recorder to the Walkman. The third is true innovation, an entirely new product. The idea is to produce three new products to replace each current product, with the same investment of time and money. One of the three may then become the new market leader and produce the innovator’s profit.

Innovation and new products can create vast new challenges for marketing managers. One of the greatest opportunities of this decade is the tremendous growth of the Internet. In 1996, advertising on the Web was just $267 million. In 1998, advertising spending on the Internet topped $1 billion. In addition to advertising, many retailers are finding the Web an excellent way to build direct sales. The most successful retail operation to date is Amazon.com: Books, Music & More at http://www.amazon.com.

The growth of the Internet has created new challenges and great opportunities for marketing managers in nearly all industries. Amazon.com has leveraged the technology of the Internet and created the most successful Web-based retail operation to date. Courtesy amazon.com
The Net has also helped marketing operate more efficiently through better communications. The use of e-mail has explosively in the past several years. E-mail, for example, enables companies like Ford Motor and Nestle to communicate quickly with employees in far-flung operations throughout the world. The convenience of e-mail results in many of us using it for personal messages as well as business matters. The notion of e-mail privacy is discussed in the “Ethics in Marketing” box.

Political and Legal Factors

Business needs government regulation to protect innovators of new technology, the interests of society in general, one business from another, and consumers. In turn, government needs business, because the marketplace generates taxes that support public efforts to educate our youth, protect our shores, and so on. The private sector also serves as a counterweight to government. The decentralization of power inherent in a private-enterprise system supplies the limitation on government essential for the survival of a democracy.

Every aspect of the marketing mix is subject to laws and restrictions. It is the duty of marketing managers or their legal assistants to understand these laws and conform to them, because failure to comply with regulations can have major consequences for a firm. Sometimes just sensing trends and taking corrective action before a government agency acts can help avoid regulation. This didn’t happen in the case of the tobacco industry. As a result, Joe Camel and the Marlboro Man are fading into the sunset along with other strategies used to promote tobacco products.

However, the challenge is not simply to keep the marketing department out of trouble, but to help it implement creative new programs to accomplish

The Myth of E-Mail Privacy

Michael Smyth, a regional manager at Pillsbury in Pennsylvania, fired an e-mail to his supervisor, blasting company managers and threatening to “kill the backstabbing.” Backstabbing may have been the right word. Though Pillsbury had assured employees that e-mail was private, it intercepted the message and fired Smyth. When he sued for wrongful discharge, the court threw out the case. He learned the hard way: Never expect privacy for e-mail sent through a company system.

Typically the company asserts ownership of e-mail messages. To boost morale and encourage communication among employees, the company may also promise a degree of privacy. But as the Pillsbury episode shows, such promises aren’t binding. It will take time for practices to become more coherent.

Employees who are adept with computers occasionally take privacy into their own hands. Using software they buy or download from the Internet, they encrypt, or scramble, mail they don’t want the boss to see. Before you try this, beware. Encryption is still somewhat cumbersome—penpals must have the same software, for one thing. And if you’re working for a paranoid boss, scrambling may afford less protection than you think. Says a computer designer in an office where the boss’s e-mail snooping preceded a savage firing spree: “I was afraid that if I merely sent an encrypted letter, they’d think I was up to something bad.”

Bottom line: If you write love notes on a company PC, you’re wearing your heart on your screen. The only truly safe ways to send? Be subtle when you flirt or lampoon the boss. Or pay for your own America Online account and use it at night on your home machine.

Unless it is a customer service call, companies rarely monitor employees’ telephone calls. Should they monitor an employee’s e-mail? Did Michael Smyth deserve to be fired? What would you do if you were told to monitor another employee’s e-mail and report your findings to your boss?
marketing objectives. It is all too easy for a marketing manager or sometimes a lawyer to say no to a marketing innovation that actually entails little risk. For example, an overly cautious lawyer could hold up sales of a desirable new product by warning that the package design could prompt a copyright infringement suit. Thus, it is important to understand thoroughly the laws established by the federal government, state governments, and regulatory agencies to control marketing-related issues.

**Federal Legislation**

Federal laws that affect marketing fall into several categories. First, the Sherman Act, the Clayton Act, the Federal Trade Commission Act, the Celler-Kefauver Antimerger Act, and the Hart-Scott-Rodino Act were passed to regulate the competitive environment. Second, the Robinson-Patman Act was designed to regulate pricing practices. Third, the Wheeler-Lea Act was created to control false advertising. These key pieces of legislation are summarized in Exhibit 2.4.

### Exhibit 2.4

Primary US. Laws That Affect Marketing

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Impact on Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sherman Act of 1890</strong></td>
<td>Makes trusts and conspiracies in restraint of trade illegal; makes monopolies and attempts to monopolize a misdemeanor.</td>
</tr>
<tr>
<td><strong>Clayton Act of 1914</strong></td>
<td>Outlaws discrimination in prices to different buyers; prohibits tying contracts (which require the buyer of one product to also buy another item in the line); makes illegal the combining of two or more competing corporations by pooling ownership of stock.</td>
</tr>
<tr>
<td><strong>Federal Trade Commission Act of 1914</strong></td>
<td>Creates the Federal Trade Commission to deal with antitrust matters; outlaws unfair methods of competition.</td>
</tr>
<tr>
<td><strong>Robinson-Patman Act of 1936</strong></td>
<td>Prohibits charging different prices to different buyers of merchandise of like grade and quantity; requires sellers to make any supplementary services or allowances available to all purchasers on a proportionately equal basis.</td>
</tr>
<tr>
<td><strong>Wheeler-Lea Amendments to the FTC Act of 1938</strong></td>
<td>Broadens the Federal Trade Commission's power to prohibit practices that might injure the public without affecting competition; outlaws false and deceptive advertising.</td>
</tr>
<tr>
<td><strong>Lanham Act of 1946</strong></td>
<td>Establishes protection for trademarks.</td>
</tr>
<tr>
<td><strong>Celler-Kefauver Antimerger Act of 1950</strong></td>
<td>Strengthens the Clayton Act to prevent corporate acquisitions that reduce competition.</td>
</tr>
<tr>
<td><strong>Hart-Scott-Rodino Act of 1976</strong></td>
<td>Requires large companies to notify the government of their intent to merge.</td>
</tr>
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</table>
State Laws
State legislation that affects marketing varies. Oregon, for example, limits utility advertising to 0.5 percent of the company’s net income. California has forced industry to improve consumer products and has also enacted legislation to lower the energy consumption of refrigerators, freezers, and air conditioners. Several states, including New Mexico and Kansas, are considering levying a tax on all in-state commercial advertising.

Regulatory Agencies
Although some state regulatory bodies more actively pursue violations of their marketing statutes, federal regulators generally have the greatest clout. The Consumer Product Safety Commission, the Federal Trade Commission, and the Food and Drug Administration are the three federal agencies most directly and actively involved in marketing affairs. These agencies, plus others, are discussed throughout the book, but a brief introduction is in order at this point.

The sole purpose of the Consumer Product Safety Commission (CPSC) is to protect the health and safety of consumers in and around their homes. The CPSC has the power to set mandatory safety standards for almost all products that consumers use (about fifteen thousand items). The CPSC consists of a five-member committee and about eleven hundred staff members, including technicians, lawyers, and administrative help. The commission can fine offending firms up to $500,000 and sentence their officers to up to a year in prison. It can also ban dangerous products from the marketplace.

The Federal Trade Commission (FTC) also consists of five members, each holding office for seven years. The Federal Trade Commission is empowered to

<table>
<thead>
<tr>
<th>Remedy</th>
<th>Procedure</th>
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<tr>
<td>Cease-and-Desist Order</td>
<td>A final order is issued to cease an illegal practice—and is often challenged in the courts.</td>
</tr>
<tr>
<td>Consent Decree</td>
<td>A business consents to stop the questionable practice without admitting its illegality.</td>
</tr>
<tr>
<td>Affirmative Disclosure</td>
<td>An advertiser is required to provide additional information about products in advertisements.</td>
</tr>
<tr>
<td>Corrective Advertising</td>
<td>An advertiser is required to correct the past effects of misleading advertising. (For example, 25% of a firm’s media budget must be spent on FTC-approved advertisements or FTC-specified advertising.)</td>
</tr>
<tr>
<td>Restitution</td>
<td>Refunds are required to be given to consumers misled by deceptive advertising. According to a 1975 court-of-appeals decision, this remedy cannot be used except for practices carried out after the issuance of a cease-and-desist order (still on appeal).</td>
</tr>
<tr>
<td>Counteradvertising</td>
<td>The FTC proposed that the Federal Communications Commission permit advertisements in broadcast media to counteract advertising claims (also that free time be provided under certain conditions).</td>
</tr>
</tbody>
</table>

Consumer Product Safety Commission (CPSC)
Federal agency established to protect the health and safety of consumers in and around their homes.

Federal Trade Commission (FTC)
Federal agency empowered to prevent persons or corporations from using unfair methods of competition in commerce.
prevent persons or corporations from using unfair methods of competition in commerce. It is authorized to investigate the practices of business combinations and to conduct hearings on antitrust matters and deceptive advertising. The FTC has a vast array of regulatory powers. (See Exhibit 2.5.) Nevertheless, it is not invincible. For example, the FTC had proposed to ban all advertising to children under age eight, to ban all advertising of the sugared products that are most likely to cause tooth decay to children under age twelve, and to require dental health and nutritional advertisements to be paid for by industry. Business reacted by lobbying to reduce the FTC’s power. The two-year lobbying effort resulted in passage of the FTC Improvement Act of 1980. The major provisions of the act are as follows:

- It bans the use of unfairness as a standard for industrywide rules against advertising. All the proposals concerning children’s advertising were therefore suspended, because they were based almost entirely on the unfairness standard.
- It requires oversight hearings on the FTC every six months. This congressional review is designed to keep the commission accountable. Moreover, it keeps Congress aware of one of the many regulatory agencies it has created and is responsible for monitoring.

Businesses rarely band together to create change in the legal environment as they did to pass the FTC Improvement Act. Generally, marketing managers only react to legislation, regulation, and edicts. It is usually less costly to stay attuned to the regulatory environment than to fight the government. If marketers had toned down their hard-hitting advertisements to children, they might have avoided an FTC inquiry altogether. The Food and Drug Administration (FDA), another powerful agency, is charged with enforcing regulations against selling and distributing adulterated, misbranded, or hazardous food and drug products. It has recently taken a very aggressive stance against tobacco products.

Competitive Factors

The competitive environment encompasses the number of competitors a firm must face, the relative size of the competitors, and the degree of interdependence within the industry. Management has little control over the competitive environment confronting a firm.

Even when faced with a highly competitive environment, innovative smaller firms can survive and even prosper. An excellent example of holding your own against the giants is offered by Wild Rumpus bookstore in the “Entrepreneurial Insights” story on the next page.

Competition for Market Share

As U.S. population growth slows, costs rise, and available resources tighten, firms find that they must work harder to maintain their profits and market share regardless of the form of the competitive market. Take, for example, the salty snacks market. Recently, Anheuser-Bush announced that it was selling its Eagle snacks business because it couldn’t compete against Frito-Lay. One consultant noted, “Frito’s is a fortress—I would tell anyone trying to get into the salty snack business not to impinge on Frito’s territory or you’ll get crushed.”52 Eagle is only the latest example. Borden, Inc., sold off many of its regional snack companies as part of a huge restructuring. Industry executives say dozens of regional companies have collapsed in the past year or two under Frito-Lay’s weight.

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Frito-Lay is feeding much of its growth with new products. The company’s approach has been two-pronged—expanding its core line of Fritos, Doritos, Rold Gold Pretzels, and Lays potato chips, whilebranching out into new “better for you” products like Baked Lays, Baked Tostitos, and Rold Gold Fat Free Pretzels. Its cheesier Doritos have turned the previously sleepy chip into a billion-dollar brand, and spicier flavors have made Lays the No. 1 potato chip.

Wild Rumpus Sells Books and Fun

Minneapolis is home to the nation’s largest mall and some of the first big Barnes & Noble and Borders bookstores. So you’d have to be crazy to open a small, neighborhood bookshop in that sort of retail environment, right? Well, maybe not—if you work hard at finding a market niche and learning all there is to know about your particular brand of customers. That’s how husband-and-wife team Tom Braun and Collette Morgan, proprietors of a children’s bookstore called Wild Rumpus, have managed to thrive in the land of giant retailers.

When the couple opened the store in 1992, Morgan had just finished a two-year stint at Odegard Books, an independent bookstore that had closed. She and Braun knew that they too would fail unless they understood their market better than anyone else. “Most children’s bookstores are completely sterile,” Morgan says. “There are walls painted in primary colors, but rarely does anyone stop and think about what actually excites children.”

Depending on your size, you can enter Wild Rumpus through the standard-size front door or the purple four-foot children’s aperture that’s built into it. Immediately you encounter a kind of unruly menagerie. Two cats roam free, as does Flicka the rooster. There are song-birds, lizards, and a tarantula in cages. The scary-books section has a floor that’s made partially of glass, so kids can see the family of rats that lives in a cage underneath.

Just for fun, try calling the store sometime to experience the cacophony of cackling roosters, shrieking children, and zydeco music. You could make a fortune selling Advil at this place. But kids aren’t the only customers. One crucial part of running a children’s bookstore is establishing strong links with educators, who can use the store to run school book fairs and bring classes in for field trips. Before Wild Rumpus even opened, Morgan and Braun invited teachers to visit, and they eventually returned with students in tow. “Very quickly we began to see weekend traffic,” says Braun. “Kids who had been here with school groups were coming back with their parents to show them the store.”

Early on, the staff also began scheduling regular Saturday events. “We wanted parents to bring their kids each week, knowing that we would have something creative planned,” Morgan says. The staff has brought in a rock band that uses power tools for instruments and an archaeology professor who taught the assembled mass of little girls how to mummify their Barbies. One Mother’s Day the staff even had lamas out back for a mama versus llama spitting contest. While these events don’t have much to do with books, their sheer uniqueness draws tons of traffic.

Who is the true customer for Wild Rumpus? Can the giant bookstore chains easily duplicate Wild Rumpus’s tactics? What can the chains do to fight back?
Frito-Lay also kills the competition with its distribution. Over its thirty-five-year history, the company has built a network of forty-two plants, 12,800 delivery people, and more than nine hundred tractor trailers into a retail delivery powerhouse. The company was one of the first to give its drivers handheld computers to transmit sales back to headquarters. Frito-Lay is working on another overhaul of its distribution operation to better serve its expanding range of retail customers—everything from drugstores and discount giants to grocery stores and convenience marts.

**Global Competition**

Both Kraft General Foods and Procter & Gamble are savvy international competitors. They each conduct business in over a hundred different nations. Many foreign competitors also consider the United States to be a ripe target market. Thus, a U.S. marketing manager can no longer worry about only domestic competitors. In automobiles, textiles, watches, televisions, steel, and many other areas, foreign competition has been strong. Global competition is discussed in much more detail in Chapter 3.

In the past, foreign firms penetrated U.S. markets by concentrating on price, but today the emphasis has switched to product quality. Nestlé, Sony, Rolls Royce, and Sandoz Pharmaceuticals are noted for quality, not cheap prices.

With the expansion of global marketing, U.S. companies often battle each other in international markets just as intensively as in the domestic market, using very different marketing strategies. Consider the case of Coca-Cola Co. and PepsiCo, Inc., in the following “Global Perspectives” box.

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**The French Government Steps into the Coke Versus Pepsi Turf Wars**

The French government rejected Coca-Cola Co.’s proposed $880 million purchase of Orangina from Pernod Ricard, SA on antitrust grounds. The move shows how Coke is coming under greater scrutiny as rival PepsiCo, Inc., is drawing attention to Coke’s dominance in the global soft-drink business.

When Coke reached its agreement to buy Orangina, Pepsi cried foul; it relies on Orangina to distribute Pepsi products in cafes, hotels, and other “on-premise” locations. Furthermore, Pepsi argued that Coke’s purchase of Orangina would give its archrival a near monopoly in France, because Coke already controls about 50 percent of the French carbonated soft-drink market.

Despite those complaints, Coke officials and industry analysts seemed confident that the French government would approve the deal, although only after Coke agreed to certain conditions to satisfy competition and labor concerns. Coke, based in Atlanta, addressed the latter concern by signing an accord with Orangina employees, guaranteeing jobs and salaries through the year 2000 and maintaining a thirty-five-hour workweek.

But the government, in its decision, said the French antitrust authorities’ recommendation “substantiated the serious risks” to competition being impeded in the on-premise market. “Intensive discussion with the Coca-Cola co. did not result in sufficient commitments to prevent the risks” to competition, the French government said.

Pepsi wouldn’t speculate on whether it would make an offer for Orangina. “We’re obviously pleased” by the government’s decision, the spokesperson said. “This sends an important signal that France has solid and well-defined rules regarding open competition and is prepared to enforce those rules.”

Do you think that the French government should get involved in the Coke versus Pepsi battle for market share? If you were Pepsi management, what factors should you consider before making an offer to buy Orangina? Do you think Pepsi could market Orangina, which is a lightly carbonated drink that contains orange juice and pulp, in the United States?
Regardless of the intensity of the competition, firms must compete in an ethical manner. Ethics refers to the moral principles or values that generally govern the conduct of an individual or a group. Ethics also can be viewed as the standard of behavior by which conduct is judged. Standards that are legal may not always be ethical, and vice versa. Laws are the values and standards enforceable by the courts. Ethics consists of personal moral principles and values rather than societal prescriptions.

Defining the boundaries of ethicality and legality can be difficult. Often, judgment is needed to determine whether an action that may be legal is indeed ethical. For example, advertising liquor, tobacco, and X-rated movies in college newspapers is not illegal in many states, but is it ethical?

Morals are the rules people develop as a result of cultural values and norms. Culture is a socializing force that dictates what is right and wrong. Moral standards may also reflect the laws and regulations that affect social and economic behavior. Thus, morals can be considered a foundation of ethical behavior.

Morals are usually characterized as good or bad. “Good” and “bad” have different connotations, including “effective” and “ineffective.” A good salesperson makes or exceeds the assigned quota. If the salesperson sells a new stereo or television set to a disadvantaged consumer—knowing full well that the person can’t keep up the monthly payments—is the salesperson still a good one? What if the sale enables the salesperson to exceed his or her quota?

Another set of connotations for “good” and “bad” are “conforming” and “deviant” behaviors. A doctor who runs large ads for discounts, on open-heart surgery would be considered bad, or unprofessional, in the sense of not conforming to the norms of the medical profession. “Bad” and “good” are also used to express the distinction between criminal and law-abiding behavior. And finally, the terms “good” and “bad” as defined by different religions differ markedly. A Moslem who eats pork would be considered bad, as would a fundamentalist Christian who drinks whiskey.

Morality and Business Ethics

Today’s business ethics actually consists of a subset of major life values learned since birth. The values businesspeople use to make decisions have been acquired through family, educational, and religious institutions.

Ethical values are situation specific and time oriented. Nevertheless, everyone must have an ethical base that applies to conduct in the business world and in personal life. One approach to developing a personal set of ethics is to examine the consequences of a particular act. Who is helped or hurt? How long lasting are the consequences? What actions produce the greatest good for the greatest number of people? A second approach stresses the importance of rules. Rules come in the form of customs, laws, professional standards, and common sense. Consider these examples of rules:

• Always treat others as you would like to be treated.
• Copying copyrighted computer software is against the law.
• It is wrong to lie, bribe, or exploit.

The last approach emphasizes the development of moral character within individuals. Ethical development can be thought of as having three levels:

• *Preconventional morality*, the most basic level, is childlike. It is calculating, self-centered, and even selfish, based on what will be immediately punished or rewarded. Fortunately, most businesspeople have progressed beyond the self-centered and manipulative actions of preconventional morality.
Conventional morality moves from an egocentric viewpoint toward the expectations of society. Loyalty and obedience to the organization (or society) become paramount. At the level of conventional morality, an ethical marketing decision would be concerned only with whether or not it is legal and how it will be viewed by others. This type of morality could be likened to the adage "When in Rome, do as the Romans do."

Postconventional morality represents the morality of the mature adult. At this level, people are less concerned about how others might see them and more concerned about how they see and judge themselves over the long run. A marketing decision maker who has attained a postconventional level of morality might ask, "Even though it is legal and will increase company profits, is it right in the long run? Might it do more harm than good in the end?"

Ethical Decision Making

How do businesspeople make ethical decisions? There is no cut-and-dried answer. Some of the ethical issues managers face are shown in Exhibit 2.6. Studies show that the following factors tend to influence ethical decision making and judgments:

- **Extent of ethical problems within the organization**: Marketing professionals who perceive fewer ethical problems in their organizations tend to disapprove more strongly of "unethical" or questionable practices than those who perceive more ethical problems. Apparently, the healthier the ethical environment, the greater is the likelihood that marketers will take a strong stand against questionable practices.

- **Top-management actions on ethics**: Top managers can influence the behavior of marketing professionals by encouraging ethical behavior and discouraging unethical behavior.

- **Potential magnitude of the consequences**: The greater the harm done to victims, the more likely it is that marketing professionals will recognize a problem as unethical.

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**Exhibit 2.6**

Unethical Practices Marketing Managers May Have to Deal With

- Entertainment and gift giving
- False or misleading advertising
- Misrepresentation of goods, services, and company capabilities
- Lies told customers in order to get the sale
- Manipulation of data (falsifying or misusing statistics or information)
- Misleading product or service warranties
- Unfair manipulation of customers
- Exploitation of children and/or disadvantaged groups
- Invasion of customer privacy
- Sex-oriented advertising appeals
- Product or service deception
- Unsafe products or services
- Price deception
- Price discrimination
- Unfair remarks and inaccurate statements about competitors
- Smaller amounts of product in the same-size packages
- Stereotypical portrayals of women, minority groups, and senior citizens
• **Social consensus:** The greater the degree of agreement among managerial peers that an action is harmful, the more likely it is that marketers will recognize a problem as ethical.

• **Probability of a harmful outcome:** The greater the likelihood that an action will result in a harmful outcome, the more likely it is that marketers will recognize a problem as unethical.

• **Length of time between the decision and the onset of consequences:** The shorter the length of time between the action and the onset of negative consequences, the more likely it is that marketers will perceive a problem as unethical.

• **Number of people to be affected:** The greater the number of persons affected by a negative outcome, the more likely it is that marketers will recognize a problem as unethical.

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**Ethical Guidelines**

Many organizations have become more interested in ethical issues. One sign of this interest is the increase in the number of large companies that appoint ethics officers—from virtually none five years ago to almost 25 percent of large corporations now. In addition, many companies of various sizes have developed a code of ethics as a guideline to help marketing managers and other employees make better decisions. In fact, in a recent national study, it was found that 60 percent of the companies maintained a code of ethics, 33 percent offered ethics training, and 33 percent employed an ethics officer. Some of the most highly praised codes of ethics are those of Boeing, GTE, Hewlett-Packard, Johnson & Johnson, and Norton Company.

Creating ethics guidelines has several advantages:

• It helps employees identify what their firm recognizes as acceptable business practices.

• A code of ethics can be an effective internal control on behavior, which is more desirable than external controls like government regulation.

• A written code helps employees avoid confusion when determining whether their decisions are ethical.

• The process of formulating the code of ethics facilitates discussion among employees about what is right and wrong and ultimately creates better decisions.

Businesses, however, must be careful not to make their code of ethics too vague or too detailed. Codes that are too vague give little or no guidance to employees in their day-to-day activities. Codes that are too detailed encourage employees to substitute rules for judgment. For instance, if employees are involved in questionable behavior, they may use the absence of a written rule as a reason to...
Ethics Checklist

- Does the decision benefit one person or group but hurt or not benefit other individuals or groups? In other words, is my decision fair to all concerned?
- Would individuals or groups, particularly customers, be upset if they knew about my decision?
- Has important information been overlooked because my decision was made without input from other knowledgeable individuals or groups?
- Does my decision presume that my company is an exception to a common practice in this industry and that I therefore have the authority to break a rule?
- Would my decision offend or upset qualified job applicants?
- Will my decision create conflict between individuals or groups within the company?
- Will I have to pull rank or use coercion to implement my decision?
- Would I prefer to avoid the consequences of my decision?
- Did I avoid truthfully answering any of the above questions by telling myself that the risks of getting caught are low or that I could get away with the potentially unethical behavior?

Continue behaving that way, even though their conscience may be saying no. The checklist in Exhibit 2.7 is an example of a simple but helpful set of ethical guidelines. Following the checklist will not guarantee the “rightness” of a decision, but it will improve the chances of the decision’s being ethical.

Although many companies have issued policies on ethical behavior, marketing managers must still put the policies into effect. They must address the classic “matter of degree” issue. For example, marketing researchers must often resort to deception to obtain unbiased answers to their research questions. Asking for a few minutes of a respondent’s time is dishonest if the researcher knows the interview will last forty-five minutes. Should researchers conducting focus groups inform the respondents that there are observers behind a one-way mirror? When respondents know they’re being watched, they sometimes are less likely to talk and interact freely. Does a client have an ethical right to obtain questionnaires with the names and addresses of respondents from a market research firm? Many of these concerns have been addressed by the Professional Standards Committee of the American Marketing Association. The American Marketing Association’s code of ethics is included on its Web site at www.ama.org.

Corporate Social Responsibility

Ethics and social responsibility are closely intertwined. Besides questioning tobacco companies’ ethics, one might ask whether they are acting in a socially responsible manner when they promote tobacco. Are companies that produce low-cost handguns socially responsible in light of the fact that these guns are used in the majority of inner-city crimes? Corporate social responsibility is business’s concern for society’s welfare. This concern is demonstrated by managers who consider both the long-range best interests of the company and the company’s relationship to the society within which it operates.

One theorist suggests that total corporate social responsibility has four components: economic, legal, ethical, and philanthropic. The pyramid of corporate social responsibility, shown in Exhibit 2.8, portrays economic performance as the foundation for the other three responsibilities. At the same time that it pursues profits (economic responsibility), however, business is expected to obey the law
(legal responsibility); to do what is right, just, and fair (ethical responsibility); and to be a good corporate citizen (philanthropic responsibility). These four components are distinct but together constitute the whole. Still, if the company doesn’t make a profit, then the other three responsibilities are moot.

Many companies are already working to make the world a better place to live. Consider these examples:

- Colby Care Nurses, Inc., a home health care service located in Los Angeles County, is offering much needed health care to predominantly black and Hispanic communities that are not often covered by other providers. The company prides itself on giving back to the community by employing its residents and providing role models for its young people.59
- Wrigley, the Chicago gum maker, is producing a $10 million commercial campaign aimed at getting African-Americans, Asian-Americans, and Hispanic-Americans to use doctors for regular health maintenance instead of as a last resort.60
- Ben & Jerry’s, the premium ice cream maker, sent seven workers to live with Cree Indians in Canada to see how they’ve been displaced by a new hydroelectric power complex.61
- Jantzen, the world’s leading swimsuit manufacturer, makes direct grants through its clean water campaign to organizations that preserve and clean up beaches and waterways.62
- Apple Computer donates almost $10 million in computer equipment and advice to U.S. schools annually.

**Pyramid of Corporate Social Responsibility**

Model that suggests corporate social responsibility is composed of economic, legal, ethical, and philanthropic responsibilities and that the firm’s economic performance supports the entire structure.

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**Exhibit 2.8**

Pyramid of Corporate Social Responsibility

- **Philanthropic responsibilities**
  - Be a good corporate citizen.
  - Contribute resources to the community; improve the quality of life.

- **Ethical responsibilities**
  - Be ethical.
  - Do what is right, just, and fair. Avoid harm.

- **Legal responsibilities**
  - Obey the law.
  - Law is society’s codification of right and wrong. Play by the rules of the game.

- **Economic responsibilities**
  - Be profitable.
  - Profit is the foundation on which all other responsibilities rest.

- G.D. Searle began a program in which its representatives regularly call hypertension (high blood pressure) patients, reminding them to take their medicine.63
- Ricoh, a Japanese office equipment maker, has developed a reverse copier that strips away the toner and allows the copy paper to be used again.64

Multinational companies also have important social responsibilities. In many cases a corporation can be a dynamic force for social change in host countries. For example, multinational corporations played a major role in breaking down apartheid (separation of the races) in South Africa, through their economic pressure on the South African government. Over three hundred apartheid laws were compiled over the years, based purely on the pigmentation of people’s skins. Among other things, these laws forced blacks to live in the most arid regions of South Africa, banned mixed marriages, and segregated the schools. To protest apartheid, many multinational corporations closed their South African operations altogether. Other companies refused to trade with South Africa. These actions seriously impeded South Africa’s economy, and by the early 1990s the government began making major social reforms. Once apartheid officially ended in the early 1990s, many of the companies that had participated in the boycott resumed their operations in South Africa.

LOOKING BACK
Looking back at the story on New Balance you should now understand that the external environment affects all firms and their marketing mixes. The opening vignette illustrated how changing demographics can present marketing opportunities. It enabled New Balance to serve a large, middle-aged target market effectively. All of the other uncontrollable variables could affect New Balance adversely. Changing cultural values could shift away from exercise and fitness for middle-aged consumers, thereby reducing demand for New Balance products. New shoe technology could render New Balance shoes obsolete. A general economic downturn might substantially decrease demand for all types of athletic goods.

Summary
1 Discuss the external environment of marketing and explain how it affects a firm. The external marketing environment consists of social, demographic, economic, technological, political and legal, and competitive variables. Marketers generally cannot control the elements of the external environment. Instead, they must understand how the external environment is changing and the impact of change on the target market. Then marketing managers can create a marketing mix to effectively meet the needs of target customers.

2 Describe the social factors that affect marketing. Within the external environment, social factors are perhaps the most difficult for marketers to anticipate. Several major social trends are currently shaping marketing strategies. First, people of all ages have a broader range of interests, defying traditional consumer profiles. Second, changing gender roles are bringing more women into the workforce and increasing the number of men who shop. Third, a greater number of dual-career families has led to a poverty of time, creating a demand for timesaving goods and services.
3 Explain the importance to marketing managers of current demographic trends. Today, several basic demographic patterns are influencing marketing mixes. Because the U.S. population is growing at a slower rate, marketers can no longer rely on profits from generally expanding markets. Marketers are also faced with increasingly experienced consumers among the younger generations, many of whom are “turned off” by traditional marketing mixes. And because the population is also growing older, marketers are offering more products that appeal to middle-aged and elderly markets.

4 Explain the importance to marketing managers of multiculturalism and growing ethnic markets. Multiculturalism occurs when all major ethnic groups in an area are roughly equally represented. Growing multiculturalism makes the marketer’s task more challenging. Niches within ethnic markets may require micro-marketing strategies. An alternative to a niche strategy is maintaining a core brand identity while straddling different languages, cultures, ages, and incomes with different promotional campaigns. A third strategy is to seek common interests, motivations, or needs across ethnic groups.

5 Identify consumer and marketer reactions to the state of the economy. Marketers are currently targeting the increasing number of consumers with higher discretionary income by offering high-quality, higher-priced goods and services. During a time of inflation, marketers generally attempt to maintain level pricing in order to avoid losing customer brand loyalty. During times of recession, many marketers maintain or reduce prices to counter the effects of decreased demand; they also concentrate on increasing production efficiency and improving customer service.

6 Identify the impact of technology on a firm. Monitoring new technology is essential to keeping up with competitors in today’s marketing environment. For example, in the technologically advanced United States, many companies are losing business to Japanese competitors, who are prospering by concentrating their efforts on developing marketable applications for the latest technological innovations. In the United States, many R&D expenditures go into developing refinements of existing products. U.S. companies must learn to foster and encourage innovation. Without innovation, U.S. companies can’t compete in global markets.

7 Discuss the political and legal environment of marketing. All marketing activities are subject to state and federal laws and the rulings of regulatory agencies. Marketers are responsible for remaining aware of and abiding by such regulations. Some key federal laws that affect marketing are the Sherman Act, Clayton Act, Federal Trade Commission Act, Robinson-Patman Act, Wheeler-Lea Amendments to the FTC Act, Lanham Act, Celler-Kefauver Antimerger Act, and Hart-Scott-Rodino Act. The Consumer Product Safety Commission, the Federal Trade Commission, and the Food and Drug Administration are the three federal agencies most involved in regulating marketing activities.

8 Explain the basics of foreign and domestic competition. The competitive environment encompasses the number of competitors a firm must face, the relative size of the competitors, and the degree of interdependence within the industry. Declining population growth, rising costs, and shortages of resources have heightened domestic competition. Yet with an effective marketing mix, small firms continue to be able to compete with the giants. Meanwhile, dwindling international barriers are bringing in more foreign competitors and offering expanding opportunities for U.S. companies abroad.

9 Describe the role of ethics and ethical decisions in business. Business ethics may be viewed as a subset of the values of society as a whole. The ethical conduct of business—people is shaped by societal elements, including family, education, religion, and social movements. As members of society, businesspeople are morally obligated to consider the ethical implications of their decisions.
Ethical decision making is approached in three basic ways. The first approach examines the consequences of decisions. The second approach relies on rules and laws to guide decision making. The third approach is based on a theory of moral development that places individuals or groups in one of three developmental stages: preconventional morality, conventional morality, or postconventional morality.

Many companies develop a code of ethics to help their employees make ethical decisions. A code of ethics can help employees identify acceptable business practices, can be an effective internal control on behavior, can help employees avoid confusion when determining the ethicality of decisions, and can facilitate discussion about what is right and wrong.

Discuss corporate social responsibility. Responsibility in business refers to a firm’s concern for the way its decisions affect society. There are several arguments in support of social responsibility. First, many consumers feel business should take responsibility for the social costs of economic growth. A second argument contends that firms act in their own best interest when they help improve the environment within which they operate. Third, firms can avoid restrictive government regulation by responding willingly to societal concerns. Finally, some people argue that because firms have the resources to solve social problems, they are morally obligated to do so.

In contrast, there are critics who argue against corporate social responsibility. According to one argument, the free enterprise system has no way to decide which social programs should have priority. A second argument contends that firms involved in social programs do not generate the profits needed to support the business’s activities and earn a fair return for stockholders.

In spite of the arguments against corporate social responsibility, most businesspeople believe they should do more than pursue only profits. Although a company must consider its economic needs first, it must also operate within the law, do what is ethical and fair, and be a good corporate citizen.

Discussion and Writing Questions

1. What is the purpose of environmental scanning? Give an example.

2. Every country has a set of core values and beliefs. These values may vary somewhat from region to region of the nation. Identify five core values for your area of the country. Clip magazine advertisements that reflect these values and bring them to class.

3. Baby boomers in America are aging. Describe how this might affect the marketing mix for the following:
   a. Bally’s Health Clubs
   b. McDonald’s
   c. Whirlpool Corporation
   d. the State of Florida
   e. JCPenney

4. You have been asked to address a local chamber of commerce on the subject of the growing singles market. Prepare an outline for your talk.

5. Periods of inflation require firms to alter their marketing mix. A recent economic forecast expects inflation to be almost 10 percent during the next 18 months. Your company manufactures hand tools for the home gardener. Write a memo to the company president explaining how the firm may have to alter its marketing mix.

6. Give three examples in which technology has benefited marketers. Also, give several examples in which firms have been hurt by not keeping up with technological change.
7. Form six teams. Each team is responsible for one of the uncontrollable elements in the marketing environment. Your boss, the company president, has asked each team to provide a one-year and a five-year forecast of what major trends the firm will face. The firm is in the telecommunications equipment industry. It has no plans to become a telecommunications service provider, for example, like MCI and AT&T. Each team should use the library, the Internet, and other data sources to make its forecasts. Each team member should examine a minimum of one data source. The team should then pool its data and prepare its recommendation. A spokesperson for each team should present the findings to the class.

8. Write a paragraph discussing the ethical dilemma in the following situation and identifying possible solutions: An insurance agent forgets to get the required signature from one of her clients who is buying an automobile insurance policy. The client acknowledges the purchase by giving the agent a signed personal check for the full amount. To avoid embarrassment and inconvenience, the agent forges the client’s signature on the insurance application and sends it to the insurance company for processing.

9. What’s the latest news at the following Web site? How can marketers benefit from such information?

http://www.ipo.org/

10. What social responsibility concerns could be raised about the following Web site? For which issues does the Web site seem to exhibit social responsibility?

http://www.netcasino.com/

Application for Small Business

Eight years ago Betty Beal earned a bachelor’s degree in business administration with a major in marketing. She has been very successful as a sales representative for a major pharmaceutical firm. Three months later Betty decided to give something back to the community by volunteering at the Judy Freemont Shelter for Battered Women. Judy founded the shelter two years ago. It has served as a safe haven for almost sixty women and numerous children. Other than a small grant from the city, the only other significant source of funds is donated clothes, which are then resold in the shelter’s second-hand clothing shop.

Betty noticed very quickly that there was no organized way to obtain donated clothing. She quickly put her marketing skills to work and set up a phone bank to solicit clothes and a collection route to pick them up. Clothing donations quadrupled in two months.

Betty observed two things that disturbed her greatly. First, Judy would sort through all the donated items as they came in from the route truck and take anything that she wanted. Betty had seen Judy take two dresses, several sweaters, and a number of blouses. Second, as revenue grew from the second-hand shop sales, Betty couldn’t see that additional monies were being spent on food, clients, or the shelter itself, yet Judy kept insisting that the operation was just breaking even.

Questions

1. Should Betty report Judy to the police, confront Judy, say nothing but continue to work at the shelter, or simply quit?
2. There is no doubt that the shelter is providing a useful service to many needy women. If word gets out to the general public about the alleged irregularities, the shelter may be forced to close. Should this influence Betty’s course of action?
3. What would you do?
Review Quiz

1. Which of the following is not one of the uncontrollable factors for marketing managers?
   a. Social change
   b. Economic conditions
   c. The marketing mix
   d. Political and legal factors

2. The fact that many consumers are choosing products that meet diverse needs and interests rather than conforming to traditional stereotypes means they are likely piecing together
   a. The management of their environment
   b. Component lifestyles
   c. Changing roles
   d. The poverty of time

3. A viewpoint in American culture that places high value on personal success and technological rationality is known as
   a. Cultural creativity
   b. Traditionalism
   c. Heartlanderism
   d. Modernism

4. This group of consumers is often known as “America’s mass market” and yet today has the earning power to prefer many customized products and services.
   a. The baby boomers
   b. The seniors
   c. Generation X
   d. Generation Y

5. Which of the following represents a common stereotype of older consumers that is not an accurate reflection of that market?
   a. Older consumers are generally in good health
   b. Older consumers are typically sedentary in their lifestyle
   c. Older consumers are more price sensitive than other consumers
   d. Older consumers read and retain copy in advertisements as well or better than other consumers

6. ______ occur(s) when all major ethnic groups in an area, such as a city, are roughly equally represented.
   a. Poverty of time
   b. Modernist values
   c. Multiculturalism
   d. Stitching niches

7. Which of the following pieces of federal legislation was designed to control false advertising?
   a. The Sherman Act
   b. The Lanham Act
   c. The Wheeler-Lea Amendments to the FTC Act
   d. The Robinson-Patman Act

8. A power of the Federal Trade Commission (FTC) to have a business stop a questionable practice without admitting illegal behavior is called
   a. A consent decree
   b. A cease-and-desist order
c. Affirmative disclosure
d. Restitution

9. Marketers that have attained a ______ level of morality might ask, “Even though it is legal, is it right to do this in the long run?”
   a. Unconventional
   b. Preconventional
   c. Conventional
   d. Postconventional

10. According to the pyramid of corporate social responsibility, the foundation of such social responsibility comes from
   a. Philanthropic responsibilities
   b. Ethical responsibilities
   c. Legal responsibilities
   d. Economic responsibilities

11. Corporations that are multinational rarely have important social responsibilities.
   a. True
   b. False

12. Identify the six basic factors of the external environment facing marketers today.

Check the Answer Key, which follows the Video Case, to see how well you understood the material.

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**VIDEO CASE**

**Ben & Jerry’s: “We Do Good by Doing Good.”**

Ben & Jerry’s tries to make the world a sweeter place. The Vermont manufacturer makes premium ice cream with catchy names like Cherry Garcia—after the Grateful Dead icon—and uses only top quality ingredients. We’re all in this together, say the company founders, so let’s find innovative ways to show concern for people—locally, nationally, and around the world. This philosophy is called “caring capitalism.” How does it work?

The concept of linked prosperity goes beyond writing a check for charity. Ben & Jerry’s actually links itself to others who also wish to improve the quality of life for themselves and others. There are many ways to forge alliances. One way is the Partnershop, a Ben & Jerry franchise owned and operated by a nonprofit organization. A Partnershop called Youth Scoops in Ithaca, New York, provides employment and training for youths at risk.

Another way to tie business to values is to buy products from “socially aligned” suppliers, those in agreement with Ben & Jerry’s social outlook. The brownies in the Chocolate Fudge Brownie Frozen Yogurt are made by Greyston Bakery in Yonkers, New York, a nonprofit social service network which trains and employs homeless and low-income people for self-sufficiency. Coffee extract is made with beans from Aztec Harvests, a farming company owned by Mexican cooperatives. As part of the minority supplier program, Ben & Jerry’s encourages its pecan processor to use the Federation of Southern Co-operatives, a co-op dedicated to supporting African-American family farms. About one third of 1997 purchases reflects this social mission.

Caring for our planet is still another part of the Ben & Jerry’s business philosophy. The company is serious about using and producing environment-friendly products even if it means paying top dollar. The only milk and cream that go into the ice cream come from St. Alban’s, a co-op of Vermont family farmers. These dairies do not use rBGH, a growth hormone believed to be bad for cows and bad for the future of small-scale dairy farms. In fact, Ben & Jerry’s has started a food
fight. The company is challenging laws against national rBGH labeling so consumers can make informed choices when buying dairy products. In 1997, the company won a court case against the state of Illinois, which had taken the position that no rBGH labeling was allowed.

Another bold step was the elimination of bleach in packaging. The pint container, the industry standard, was tested and found to be environmentally poor, so the company invested hundreds of staff hours to analyze chlorine-free packaging sources. Most of the technical problems are now solved, and new packaging material is on the way. One dimension of Ben & Jerry’s social mission is to create models for change. The company hopes that its use of unbleached paper will stimulate similar demand by others.

Still, everything at Ben & Jerry’s is not peachy. The decision to discontinue purchases of organic fruit and cancel the organic ice cream line caused quite a stir in-house. The high prices paid to dairy farmers were also paid to organic fruit farmers. Once again, the idea was not to create a fully organic line, but to support organic farming and create a model to stimulate demand for organic products. These initiatives would hopefully develop into fully organic products down the line. But organic ingredients proved to be too expensive, and the demand for them too weak. Market research showed that organic ingredient costs exceeded consumer price expectations. And suppliers could only produce 29 percent of Ben & Jerry’s total fruit needs. So the project was shelved, but not without some soul searching. Were social mission values being sacrificed for short-term economic considerations? Was Ben & Jerry’s selling out?

Maybe yes, maybe no. After all, growing competition and consumer concerns about eating too much fat have caused financial struggles in recent years. Returns to shareholders improved in 1998, with a 16 percent sales hike, yet share prices are still lower than in 1992. The company stakes its identity on the belief that the social mission enhances the economic mission. Yet, some feel that’s a bit idealistic. Perhaps, Ben & Jerry’s should ask, “Are we really doing good by doing good?”

Questions

1. What does values-led mean in tough, competitive times? How can Ben & Jerry’s lead with its social mission if there is always an economic argument that can be made to act otherwise?
2. Do you think it’s in the shareholders’ best interest to select minority and disadvantaged suppliers?
3. Given Ben & Jerry’s stance on environmental issues, do you feel that the company has an ethical responsibility (i.e., to do what is right, just, and fair and avoid harm) to use organic fruit and produce an organic ice cream despite the high cost? See Exhibit 2.8.
4. What do you think Ben & Jerry’s should do to remain competitive?

Bibliography


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**Answer Key**

1. **Answer:** c, p. 29  
   **Rationale:** The marketing mix represents the group of factors in marketing planning that is under the control of the firm and its managers.

2. **Answer:** b, p. 30  
   **Rationale:** In the past, lifestyles were often associated only with one’s profession. Today, many consumers have component lifestyles—that is, they have many different lifestyles based on personal preferences. Thus they require many goods and services to meet their widely diverse lifestyles.

3. **Answer:** d, p. 30  
   **Rationale:** Modernism is a value set, held by 47 percent of Americans, that places high value on consumerism and materialism.

4. **Answer:** a, pp. 3435  
   **Rationale:** At approximately seventy-eight million strong, this generation represents the largest subcultural group in the United States and has a sense
of individualism that has led to preferences for customized products. The term personalized economy has been used to describe how products succeed by offering customization, immediacy, and value.

5. Answer: b, p. 36
   Rationale: There are many misconceptions about older adults in the marketplace. Seniors are not commonly sedentary. In fact, over 80 percent of consumer travel dollars are spent by consumers over fifty years old.

6. Answer: c, p. 38
   Rationale: Equal representation of ethnic groups defines multiculturalism. Growing multiculturalism is creating new challenges and opportunities for marketers. Diversity of the U.S. population is not expected to stabilize until around 2023.

7. Answer: c, p. 44
   Rationale: The Wheeler-Lea Act, passed in 1938, was created to broaden the power of the FTC to outlaw false and deceptive advertising practices.

8. Answer: a, pp. 45–46
   Rationale: Because FTC cease-and-desist orders, which demanded a firm stop a practice deemed illegal, were often challenged in the courts, the FTC has offered an alternative remedy called the consent decree. With this decree the firm agrees to stop a questionable business practice and settle with the FTC without admitting to behavior that is illegal and subject to further prosecution.

9. Answer: d, pp. 49–50
   Rationale: At the level of postconventional morality, marketing managers are less concerned about how some others might see them and are more concerned about how they judge themselves over the long run.

10. Answer: d, pp. 52–53
    Rationale: Unless the firm can make a profit and maintain good economic performance, the other three responsibilities are moot.

11. Answer: b, p. 54
    Rationale: In many cases, a corporation can have economic impacts on the host country that give it the opportunity to be a dynamic force for social change.

12. Answer: Demographics, social change, economic conditions, political and legal factors, technology, and competition. (p. 29)