

CHAPTER 3 ANALYZING THE MARKETING ENVIRONMENT

PREVIEWING THE CONCEPTS – CHAPTER OBJECTIVES

1. Describe the environmental forces that affect the company's ability to serve its customers.
2. Explain how changes in the demographic and economic environments affect marketing decisions.
3. Identify the major trends in the firm's natural and technological environments.
4. Explain the key changes in the political and cultural environments.
5. Discuss how companies can react to the marketing environment.

CHAPTER OVERVIEW

This chapter shows that marketing does not operate in a vacuum but rather in a complex and changing environment.

Other actors in this environment—suppliers, intermediaries, customers, competitors, publics, and others—may work with or against the company.

Major environmental forces—demographic, economic, natural, technological, political, and cultural—shape marketing opportunities, pose threats, and affect the company's ability to serve customers and develop lasting relationships with them.

To understand marketing, and to develop effective marketing strategies, you must first understand the environment in which marketing operates.

A company's *marketing environment* consists of the actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers.

The *microenvironment* consists of the actors close to the company that affect its ability to service its customers.

The *macroenvironment* consists of larger societal forces that affect the microenvironment.

THE MICROENVIRONMENT

Marketing management's job is to build relationships with customers by creating customer value and satisfaction.

The Company

All the interrelated groups form the internal environment.

All groups should work in harmony to provide superior customer value and relationships.

Suppliers

Suppliers provide the resources needed by the company to produce its goods and services.

Marketing managers must watch supply availability—supply shortages or delays, labor strikes, and other events can cost sales in the short run and damage customer satisfaction in the long run.

Marketing managers monitor the price trends of their key inputs.

Marketing Intermediaries

Marketing intermediaries help the company to promote, sell, and distribute its products to final buyers.

- **Resellers** are distribution channel firms that help the company find customers or make sales to them. These include wholesalers and retailers.
- **Physical distribution firms** help the company to stock and move goods from their points of origin to their destinations.
- **Marketing services agencies** are the marketing research firms, advertising agencies, media firms, and marketing consulting firms that help the company target and promote its products to the right markets.
- **Financial intermediaries** include banks, credit companies, insurance companies, and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods.

Marketers recognize the importance of working with their intermediaries as partners

rather than simply as channels through which they sell their products.

Competitors

Marketers must gain strategic advantage by positioning their offerings strongly against competitors' offerings in the minds of consumers.

No single competitive marketing strategy is best for all companies.

Publics

A **public** is any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives.

- *Financial publics* influence the company's ability to obtain funds.
- *Media publics* carry news, features, and editorial opinions.
- *Government publics*. Management must take government developments into account.
- *Citizen-action publics*. A company's marketing decisions may be questioned by consumer organizations, environmental groups, etc.
- *Local publics* include neighborhood residents and community organizations.
- *General public*. The general public's image of the company affects its buying.
- *Internal publics* include workers, managers, volunteers, and the board of directors.

Customers

Five types of customer markets:

1. *Consumer markets*: individuals and households that buy goods and services for personal consumption.
2. *Business markets* buy goods and services for further processing or for use in their production process.
3. *Reseller markets* buy goods and services to resell at a profit.
4. *Government markets* consist of government agencies that buy goods and services to produce public services.
5. *International markets*: buyers in other countries, including consumers, producers, resellers, and governments.

THE MACROENVIRONMENT

Demographic Environment

Demography is the study of human populations in terms of size, density, location, age, gender, race, occupation, and other statistics.

Changes in the world demographic environment have major implications for business.

Thus, marketers keep close track of demographic trends and developments in their markets, both at home and abroad.

Changing Age Structure of the Population

The U.S. population stands at nearly 321 million and may reach almost 364 million by the year 2030.

The single most important demographic trend in the United States is the changing age structure of the population.

Baby Boomers

The post-World War II baby boom produced 78 million **baby boomers**, born between 1946 and 1964.

Baby boomers account for nearly 35 percent of the population, account for almost 50 percent of total consumer spending, and hold 70 percent of the nation's disposable income.

Generation X

The baby boom was followed by a "birth dearth," creating another generation of 49 million people born between 1965 and 1976.

Author Douglas Coupland calls them **Generation X**.

Increasing parental divorce rates and higher employment for their mothers made them the first generation of latchkey kids.

They developed a more cautious economic outlook.

The GenXers are a more skeptical bunch.

Millennials (also called Generation Y or the echo boomers)

Born between 1977 and 2000, these children of the baby boomers number 83 million.

They don't just embrace technology; it's a way of life.

For them, technology is not something separate; it's just something they do.

They engage with brands in an entirely new way, such as with mobile or social media. More than sales pitches from marketers, Millennials seek authenticity and opportunities to shape their own brand experiences and share them with others.

Generation Z

Born after the year 2000.

In the U.S., Gen Zers consist of 72 million girls and boys (kids, tweens and teens) who spend an estimated \$344 billion annually of their own money and influence another \$200 billion of their parents' spending.

They have an utter fluency and comfort with digital technologies – even more so than Millennials.

More than half of all Generation Z tweens and teens do product research before buying a product or having their parents buy it for them.

Generational Marketing

Defining people by their birth date may be less effective than segmenting them by their lifestyle, life stage, or the common values they seek in the products they buy.

The Changing American Family

The “traditional household” consists of a husband, wife, and children (and sometimes grandparents).

In the U.S.:

- Married couples with children under 18 make up 19 percent of the households;
- Married couples without children make up 23 percent;
- Single parents comprise 14 percent.
- Nonfamily households make up 34 percent.

Both husband and wife work in 60 percent of all married-couple families.

Geographic Shifts in Population

About 12 percent of all U.S. residents move each year.

The U.S. population has shifted toward the Sunbelt states.

Americans have been moving from rural to metropolitan areas.

A Better-Educated, More White-Collar, More Professional Population

The U.S. population is becoming better educated.

In 2012, 88 percent of the U.S. population over age 25 had completed high school and 32 percent had completed college.

Between 2010 and 2020, of 30 detailed occupations projected to have the fastest employment growth, 17 require some type of postsecondary education.

Increasing Diversity

The United States has become more of a “salad bowl” in which various groups have mixed together but have maintained their diversity by retaining important ethnic and cultural differences.

The U.S. population is about 62 percent white, 17 percent Hispanic, and 13 percent African American.

The Asian American population now totals about 5 percent of the population.

By 2060, Hispanics will comprise an estimated 28 percent of the U.S. population.

Many companies have begun to target gay and lesbian consumers.

Another attractive segment is the nearly 57 million adults with disabilities.

The Economic Environment

The **economic environment** consists of factors that affect consumer purchasing power and spending patterns.

Changes in Consumer Spending

In recent years, American consumers spent freely, fueled by income growth, a boom in

the stock market, and rapid increases in housing values.

However, the global economic crisis has dashed this free-spending attitude. As a result, consumers who overindulged in the past have now adopted a 'back-to-basics' frugality.

Value marketing—just the right combination of product quality and service at a fair price.

Income Distribution

Income distribution in the United States is very skewed.

The top 5 percent of Americans earn 22 percent of the country's adjusted gross income, and the top 20 percent of earners capture 51 percent of all income.

In contrast, the bottom 40 percent of American earners receive just 11.5 percent of the total income.

Natural Environment

The **natural environment** involves the natural resources that are needed as inputs by marketers or that are affected by marketing activities.

Trends in the natural environment:

1. *Shortages of raw materials.*
2. *Increased pollution.*
3. *Increased government intervention.*

Companies are developing *environmentally sustainable* strategies.

The Technological Environment

The **technological environment** is the most dramatic force now shaping our destiny.

Technology has released such wonders as antibiotics, robotic surgery, miniaturized electronics, laptop computers, and the Internet.

New technologies create new markets and opportunities; however, every new technology replaces an old technology.

Political and Social Environment

The political environment consists of laws, government agencies, and pressure groups that influence or limit various organizations and individuals in a given society.

Legislation Regulating Business

Governments develop **public policy** to guide commerce.

Legislation affecting business around the world has increased steadily over the years.

Business legislation has been enacted for a number of reasons.

1. To *protect companies* from each other.
2. To *protect consumers* from unfair business practices.
3. To *protect the interests of society* against unrestrained business behavior.

Because government agencies have discretion in enforcing laws, they can have an impact on a company's marketing performance.

Increased Emphasis on Ethics and Socially Responsible Actions

Socially Responsible Behavior. Enlightened companies encourage their managers to “do the right thing.”

The boom in online, mobile, and social media marketing has created a new set of social and ethical issues.

Cause-Related Marketing. Many companies are now linking themselves to worthwhile causes.

Cause-related marketing has stirred some controversy.

Cultural Environment

The **cultural environment** is made up of institutions and other forces that affect a society's basic values, perceptions, preferences, and behaviors.

Persistence of Cultural Values

Core beliefs and values are passed on from parents to children and are reinforced by schools, churches, businesses, and government.

Secondary beliefs and values are more open to change.

Shifts in Secondary Cultural Values

Marketers want to predict cultural shifts in order to spot new opportunities or threats.

People's Views of Themselves

People vary in their emphasis on serving themselves versus serving others.

People use products, brands, and services as a means of self-expression.

People's Views of Others

Shifts in people's attitudes toward and interactions with others have been noted.

Trend trackers see "mass mingling"—people are using online social media and mobile communications to connect more than ever.

People's Views of Organizations

People are willing to work for major organizations and expect them to carry out society's work.

Many people see work as a required chore to earn money to enjoy their non-work hours.

People's Views of Society

People vary in their attitudes toward their society.

People's Views of Nature

Recently, people have recognized that nature is finite and fragile, that it can be destroyed by human activities.

The U.S. organic-food market generated \$53.5 billion in sales last year, more than doubling over the last five years.

People's Views of the Universe

Religious conviction and practice have been dropping off gradually through the years.

33 percent of Americans (between 18 and 29 years of age) say they are not affiliated with any particular faith.

RESPONDING TO THE MARKETING ENVIRONMENT

Many companies think the marketing environment is an uncontrollable element to which they have to adapt.

Other companies take a *proactive* rather than *reactive* approach to the marketing environment.

Self-Check Questions

- 3-1. Name and describe the types of publics in a company's marketing environment.
- 3-2. Who are the Millennials, and why are they of so much interest to marketers?
- 3-3. Describe Generation Z. What differentiates it from other demographic groups, such as baby boomers, Generation X, and Millennials?
- 3-4. Compare and contrast core beliefs/values and secondary beliefs/values. Provide an example of each and discuss the potential impact marketers have on each.