Chapter 3

ANALYZING THE MARKETING ENVIRONMENT

## Marketing Starter: Chapter 3

**KELLOGG: Losing its Snap, Crackle, and Pop? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

### Synopsis

For decades, Kellogg has been the world’s largest cereal maker. Throughout its history, Kellogg has capitalized on trends and shifts, and sometimes led them. As recently as the 1980s, Kellogg almost by itself grew the entire cereal category by 50 percent in just five years by targeting baby boomers with products positioned on nutrition and convenience. But, now, people increasingly reach for granola bars or Greek yogurt. Cold cereal consumption has declined. Families no longer gather around the breakfast table; it’s more likely a grab-and-go breakfast. Additionally, consumers are more health-conscious. Kellogg’s problem is that many of its cereals are carb-heavy, processed foods made from corn, oats, wheat, and rice. Kellogg has reduced the sugar content in some of its children’s cereals, while adding healthier extensions to other brand lines. It bought Kashi, a brand known for natural and organic ingredients. At the same time, it has added numerous less-than-healthy extensions. It also now sells cookies, crackers, pizzas, and frozen entrees in addition to breakfast foods. The mix of moves that match the trends in the U.S. food culture along with actions that are out of sync with the direction of the food culture makes it difficult to determine the direction in which Kellogg is really heading. Will Kellogg adapt to where its customers are heading and resume its leadership position? Time will tell.

### Discussion Objective

A brief discussion of the Kellogg story will help to illustrate how leading companies sometimes must react to changes in the environment. While the breakfast-eating behavior has changed, along with changes in family structure and habits, Kellogg has lagged in adapting to the changes. Here, the discussion goal is to link Kellogg’s threats, opportunities, and performance to the changes occurring in the firm’s microenvironment and macroenvironment. This discussion provides a useful transition from the marketing management model provided in Chapter 2 to the concepts of analyzing the marketing environment presented in Chapter 3.

### Starting the Discussion

To kick off the Kellogg discussion, pull up the Kellogg website at [www.kelloggcompany.com](http://www.kelloggcompany.com). Ask students to select products they recognize as Kellogg products. Ask students why they think Kellogg’s product family includes some brands, such as Gardenburger, Famous Amos, and Pringle’s, along with numerous cereals. Be sure the students notice the kinds of products associated with some of the brands, such as Special K, at <https://www.specialk.com/en_US/products.html>. What do they think of this family of products? The key question is this: how has Kellogg handled changes in the marketing environment? Use the following questions to focus the discussion.

### Discussion Questions

1. What appear to be Kellogg’s unique strengths in analyzing the marketing environment? Which key principles from this chapter were available to company planners in anticipating, capitalizing on, and even helping shape the new marketing environment? (Here, you will want to focus the discussion on competitors and publics, along with the demographic, economic, and cultural environments. As people’s views of themselves and society have changed, has Kellogg impacted those changes?)
2. How have changes in the marketing environment created opportunities and threats for Kellogg? (Be sure to include the time period back to at least 2000. Focus on changes in lifestyle, customer needs, business processes, and competition. Kellogg’s approach to marketing has impacted its performance. While over the decades, it has experienced incredible success, which forces might threaten that success?)
3. How does the chapter-opening Kellogg story relate to what comes later in the chapter? (This question transitions the discussion to Chapter 3 topics such as the impact of the actors and forces in the microenvironments and macroenvironments and how companies must respond. The key point: the best companies do not merely respond to changes. They help to shape and drive those changes. And companies that don’t respond tend to struggle.)

## Chapter Overview

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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 build customer relationships. To develop effective marketing strategies, you must first understand the environment in which marketing operates.

## Chapter OBJECTIVES

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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 Outline

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| --- | --- | --- |
| p. 67 | **INTRODUCTION**  Kellogg, the worldwide cereal leader, has been around for 109 years. Twenty years ago, almost single-handedly, Kellogg grew the entire cereal category by 50 percent in just five years by targeting baby boomers with products positioned on nutrition and convenience.  But in the 21st century, demographic, cultural, and lifestyle changes are moving customers away from Kellogg and its product line.  Kellogg has offered healthier options, including gluten-free and GMO-free products. However, in a seeming conflict of image and appeal, it has also introduced less-healthy product extensions. | p. 67  Photo: Kellogg |
|  | * **Opening Vignette Questions**  1. How is Kellogg addressing the changing marketing environment? 2. Analyze the company’s attitude toward marketplace change. How has this attitude impacted its success? 3. Do you believe that Kellogg can regain the stronghold it has historically held in its markets? Why or why not? 4. In such a rapidly changing marketing environment, what might Kellogg be doing in five years? Ten years? |  |
| p. 68  PPT 3-3  PPT 3-4  p. 68  PPT 3-5  PPT 3-6 | More than any other group in a company, marketers must be the trend trackers and opportunity seekers.  **Describe the environmental forces that affect the company’s ability to serve its customers.**  **THE MICROENVIRONMENT AND MACROENVIRONMENT**  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. | Learning Objective 1  p. 68  Key Terms: Marketing environment,  Microenvironment, Macroenvironment |
|  | **Assignments, Resources**  Use *Additional Project 1* here  Use *Video Case* here   * **Troubleshooting Tip**   This is an intense chapter that presents a lot of information that might make some students’ heads swim. If it hasn’t happened before, this is where students really begin to get the picture that marketing managers need to be highly analytical. It helps to present the in-depth discussion of current macro trends as something that needs to be understood, not memorized. |  |
| p. 68  PPT 3-7  PPT 3-8  p. 69  PPT 3-9  PPT 3-10  p. 70  PPT 3-11  p. 70  PPT 3-12  p. 71  PPT 3-13  p. 72  PPT 3-14 | **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 must 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. The company must treat suppliers as partners to provide customer value.  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.   Today’s 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 opinion. * *Government publics*. Management must take government developments into account. * *Citizen-action publics*. Consumer organizations, environmental groups, and others may question a company’s marketing decisions. * *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  There are five types of customer markets. The company may target any or all of these.   1. *Consumer markets* are 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* are composed of government agencies that buy goods and services to produce public services. 5. *International markets* are buyers in other countries, including consumers, producers, resellers, and governments. | p. 69  Figure 3.1: Actors in the Microenvironment  p. 69  Photo: Honda  p. 70  Key Term: Marketing intermediaries  p. 70  Photo: Coca-Cola  p. 71  Key Term: Public  p. 71  Ad: The Home Depot Foundation |
|  | **Review Learning Objective 1:** Describe the environmental forces that affect the company’s ability to serve its customers. |  |
|  | * **Assignments, Resources**   Use *Discussion Questions 3-1* and *3-2* here  Use *Additional Project 2* and *3* here  Use *Outside Example 1* here |  |
| p. 72  PPT 3-15  PPT 3-16  p. 72  PPT 3-17  p. 73  PPT 3-18 | **Explain how changes in the demographic and economic environments affect marketing decisions.**  **THE MACROENVIRONMENT**  Demographic Environment  **Demography** is the study of human populations in terms of size, density, location, age, gender, race, occupation, and other statistics.  The demographic environment involves people, and people make up markets.  Demographic trends include changing age and family structures, geographic population shifts, educational characteristics, and population diversity.  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.    The Changing Age Structure of the Population  The U.S. population is currently about 323 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 26 percent of the population and control 70 percent of the nation’s disposable income, as well as half of all consumer spending.  As they reach their peak spending years, boomers will continue to constitute a lucrative market for many products and services.  It would be a mistake to think of older boomers as phasing out or slowing down. Today’s boomers think “young” no matter how old they are. | Learning Objective 2  p. 72  Figure 3.2: Major Forces in the Company’s Macroenvironment  p. 73  Key Term: Demography  p. 73  Key Term:  Baby boomers  p. 73  Photo: Walgreens |
|  | * **Assignments, Resources**   Use *Small Group Assignment 1* here |  |
| p. 73  p. 74  p. 76  PPT 3-19 | 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**.  The GenXers developed a more cautious economic outlook, and are a more skeptical bunch, though they are more likely to be receptive to irreverent ad pitches that make fun of convention and tradition.  Millennials (also called Generation Y or the “echo” boomers). Born between 1977 and 2000, these children of the baby boomers number 83 million or more. Though they are larger than the baby boomer segment, they are the most financially strapped generation. Just because of their numbers, though, they make up a huge and attractive market, now and in the future.  Generation Z, born after 2000, totals approximately 82 million, and includes several age cohorts:   * *Kids* (under age 10) * *Tweens* (age 8–12) * *Teens* (age 13–18)   They represent tomorrow’s markets and are now forming brand relationships that will affect their buying well into the future.  Generational marketing. Rather than risk turning off one generation in favor of another, marketers need to form precise age-specific segments within each group.  It may be more useful to segment people by lifestyle, life stage, or common values they seek in the products they buy. | p. 73  Key Term: Generation X  p. 74  Photo: Lowe’s  p. 74  Key Term: Millennials (Generation Y)  p. 75  Ad: Fifth Third Bank  p. 75  Key Term: Generation Z  p. 76  Photo: The North Face |
|  | * **Assignments, Resources**   Use *Discussion Questions 3-3* and *3-4* here  Use *Individual Assignment 1* here  Use *Think-Pair-Share 1* here |  |
| p. 76  PPT 3-20 | The Changing American Family  The “traditional household” consists of a husband, wife, and children (and sometimes grandparents).  In the United States:   * Married couples with children under 18 represent only 19 percent of U.S. 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. Women make up 47 percent of the workforce today. | p. 76  Photo: Modern Family |
|  | * **Assignments, Resources**   Use *Additional Project 4* here  Use *Think-Pair-Share 2* here |  |
| p. 77  PPT 3-21  p. 78  PPT 3-22 | 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.  Such population shifts interest marketers because people in different regions buy differently.  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 a bachelor’s degree or better, up from 66 percent and 16 percent, respectively, in 1980.  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 62.2 percent non-Hispanic white, with around 17.4 percent Hispanic and 13.2 percent African-American. The Asian-American population now totals more than 5.4 percent of the population.  By 2060, Hispanics will grow to about 28 percent, African-Americans will be about 14 percent, and Asians will increase to 9 percent.  Diversity goes beyond ethnic heritage. Many companies explicitly target gay and lesbian consumers.  According to one estimate, the 6 to 7 percent of U.S. adults who identify themselves as lesbian, gay, bisexual, and transgender (LGBT) have buying power of more than $884 billion.  Another attractive segment is the 53 million adults with disabilities, representing from $200 to $500 billion in annual spending power. | p. 77  Ad: GoToMeeting  p. 78  Ad: Southwest |
|  | * Assignments, Resources   Use *Marketing By the Numbers* here  Use *Think-Pair-Share 3* here  Use *Outside Example 2* here |  |
| p. 79  PPT 3-23  PPT 3-24  PPT 3-25  p. 80  PPT 3-26  PPT 3-27  PPT 3-28  PPT 3-29 | Economic Environment  The **economic environment** consists of factors that affect consumer purchasing power and spending patterns.  Before the Great Recession, American consumers fell into a consumption frenzy, amassing record levels of debt.  However, consumers have now adopted a back-to-basics sensibility in their lifestyles and spending patterns.  *Value marketing* means just the right combination of product quality and service at a fair price.  **Income Distribution**  *Income distribution* in the United States is highly skewed. The rich have grown richer, the middle class has shrunk, and the poor have remained poor.  This uneven distribution of income has created a tiered market.  **Review Learning Objective 2:** Explain how changes in the demographic and economic environments affect marketing decisions.  **Identify the major trends in the firm’s natural and technological environments.**  **The 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. Growing shortages of raw materials 2. Increased pollution 3. Increased government intervention 4. Companies developing strategies and practices that support **environmental sustainability**. This means meeting present needs without compromising the ability of future generations to meet their needs. | p. 79  Key Term: Economic environment  p. 80  Photo: Target  Learning Objective 3  p. 80  Key Term: Natural environment  p. 81  Ad: Walmart  p. 81  Key Term: Environmental sustainability |
|  | * **Assignments, Resources**   Use *Real Marketing 3.1* here  Use *Individual Assignment 2* here  Use *Think-Pair-Share 4* here |  |
| p. 82  PPT 3-30  p. 84 | Technological Environment  The **technological environment** is perhaps the most dramatic force now shaping our destiny.  Technology has released such wonders as antibiotics, robotic surgery, miniaturized electronics, smartphones, and the Internet. Our attitude toward technology depends on whether we are more impressed with its wonders or its blunders.  New technologies can offer exciting opportunities for marketers.  In the United States, government agencies investigate and regulate products. These regulations can impact new technologies and new product development.  **Review Learning Objective 3:** Identify the major trends in the firm’s natural and technological environments. | p. 82  Key Term: Technological environment  p. 82  Photo: Disney |
|  | * **Assignments, Resources**   Use *Online, Mobile, and Social Media Marketing* here  Use *Small Group Assignment 2* here |  |
| p. 84  PPT 3-31  p. 84  PPT 3-32  p. 85  PPT 3-33  p. 85  p. 87 | Explain the key changes in the political and cultural environments.    The Political and Social Environment  Marketing decisions are strongly affected by developments in the **political environment**. This consists of laws, government agencies, and various 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 Internet marketing has created a new set of social and ethical issues. Critics worry most about online privacy issues.  *Cause-Related Marketing.* To exercise their social responsibility and build more positive images, many companies are now linking themselves to worthwhile causes. | Learning Objective 4  p. 84  Key Term: Political environment  p. 86  Table 3.1: Major U.S. Legislation Affecting Marketing    p. 87  Ad: AT&T |
|  | * **Assignments, Resources**   Use *Critical Thinking Exercise 3-6* here  Use *Marketing Ethics* here   * **Troubleshooting Tip**   Examples of companies who successfully adapt to changing forces and factors will help students internalize the messages in this chapter. |  |
| p. 87  PPT 3-34  p. 88  PPT 3-35  p. 90 | The Cultural Environment  The **cultural environment** consists of institutions and other forces that affect a society’s basic values, perceptions, preferences, and behaviors.  The 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’s Views of Others.* In past decades, observers have noted several shifts in people’s attitudes toward others. Trend trackers see a new wave of “cocooning.”  *People’s Views of Organizations.* By and large, there has been a decline of loyalty toward companies.  *People’s Views of Society.* People vary in their attitudes toward society, which influences their consumption patterns and marketplace attitudes.  *People’s Views of Nature.* Recently, people have recognized that nature is finite and fragile, and that it can be destroyed by human activities.  This renewed love of things natural has created a 41-million-person “lifestyles of health and sustainability” market.  The U.S. organic-food market generated nearly $81 billion in sales last year, more than doubling over the past five years.  *People’s Views of the Universe*.In general, religious conviction and practice have been dropping off gradually through the years.  **Review Learning Objective 4:** Explain the key changes in the political and cultural environments. | p. 87  Key Term: Cultural environment  p. 89  Photo: Mass mingling  p. 90  Ad: Annie’s Homegrown |
|  | * **Assignments, Resources**   Use *Discussion Question 3-5* here  Use *Critical Thinking Exercise 3-7* here |  |
| p. 90  PPT 3-36  PPT 3-37 | **Discuss how companies can react to the marketing environment.**  **RESPONDING TO THE MARKETING ENVIRONMENT**  Many companies think the marketing environment is an uncontrollable element to which they must react and adapt.  Other companies take a *proactive* stance toward the marketing environment. Rather than assuming that strategic options are bounded by the current environment, these firms develop strategies to change the environment.  By taking action, companies can often overcome seemingly uncontrollable environmental events.  **Review Learning Objective 5:** Discuss how companies can react to the marketing environment. | Learning Objective 5 |
|  | * **Assignments, Resources**   Use *Real Marketing 3.2* here  Use *Critical Thinking Exercise 3-8 here*  Use *Company Case* here |  |

**END OF CHAPTER MATERIAL**

**Discussion Questions**

3-1 Name and describe the types of publics in a company’s marketing environment. (AASCB: Communication)

*Answer:*

The company’s marketing environment includes various 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. We can identify seven types of publics:

* *Financial publics.* This group influences the company’s ability to obtain funds. Banks, investment analysts, and stockholders are the major financial publics.
* *Media publics*. This group carries news, features, editorial opinions, and other content. It includes television stations, newspapers, magazines, and blogs and other social media.
* *Government publics*. Management must take government developments into account. Marketers must often consult the company’s lawyers on issues of product safety, truth in advertising, and other matters.
* *Citizen-action publics*. Consumer organizations, environmental groups, minority groups, and others may question a company’s marketing decisions. Its public relations department can help it stay in touch with consumer and citizen groups.
* *Internal publics*. This group includes workers, managers, volunteers, and the board of directors. Large companies use newsletters and other means to inform and motivate their internal publics. When employees feel good about the companies they work for, this positive attitude spills over to the external publics.
* *General public*. A company needs to be concerned about the general public’s attitude toward its products and activities. The public’s image of the company affects its buying behavior.
* *Local publics*. This group includes local community residents and organizations. Large companies usually work to become responsible members of the local communities in which they operate.

3-2 What are marketing intermediaries, and are they important for marketers? (AACSB: Communication; Reflective Thinking)

*Answer:*

**Marketing intermediaries** help the company promote, sell, and distribute its products to final buyers. They include resellers, physical distribution firms, marketing services agencies, and financial intermediaries. Like suppliers, marketing intermediaries form an important component of the company’s overall value delivery network. Thus, today’s marketers recognize the importance of working with their intermediaries as partners rather than simply as channels through which they sell their products.

**✪** 3-3 Describe Generation Z. What differentiates GenZers from other demographic groups, such as baby boomers, Generation X, and millennials? (AACSB: Communication; Reflective Thinking)

*Answer:* Student answers will vary based on their personal response. Refer to the MyLab for an opportunity to assign this question, and all starred MyLab questions, to a student discussion board.

3-4 Discuss the impact of the changing age structure of the population on consumer spending and buying behavior. Why is this trend important to marketers? (AACSB: Communication; Reflective Thinking)

*Answer:*

Changes in demographics mean changes in markets, so they are very important to marketers.

The U.S. population contains several generational groups. Here are the four largest groups—the baby boomers, Generation X, the millennials, and Generation Z—and their impact on today’s marketing strategies. The baby boomers are the wealthiest generation in U.S. history, what one analyst calls “a marketer’s dream.” Today’s baby boomers account for about 26 percent of the U.S. population but control an estimated 70 percent of the nation’s disposable income and half of all consumer spending. They are the fastest-growing shopper demographic online, outspending younger generations two to one.

The Gen Xers are a more skeptical bunch. They are sensible shoppers who research products heavily before they consider a purchase, prefer quality to quantity, and tend to be less receptive to overt marketing pitches. They are more receptive to irreverent ad pitches that make fun of convention and tradition. They are the most educated generation to date, and they possess hefty annual purchasing power. Although Gen Xers make up less than a quarter of all U.S. adults, they pull in 29 percent of the nation’s total income.

Born between 1977 and 2000, millennials number 83 million or more, dwarfing the Gen Xers and becoming larger even than the baby boomer segment. In the post-recession era, the millennials are the most financially strapped generation. Facing higher unemployment and saddled with more debt, many of these young consumers have near-empty piggy banks. Still, because of their numbers, the millennials make up a huge and attractive market, both now and in the future.

The approximately 82 million Gen Zers make up the important kids, tweens, and teens markets. They spend an estimated $44 billion annually of their own money and influence up to $600 billion of family spending. These young consumers also represent tomorrow’s markets—they are now forming brand relationships that will affect their buying well into the future.

***Generational Marketing.*** Some experts warn that marketers need to be careful about turning off one generation each time they craft a product or message that appeals effectively to another. Others caution that each generation spans decades of time and many socioeconomic levels. For example, marketers often split the baby boomers into three smaller groups—leading-edge boomers, core boomers, and trailing-edge boomers—each with its own beliefs and behaviors. Similarly, they split Generation Z into kids, tweens, and teens. Thus, marketers need to form more precise age-specific segments within each group. More important, defining people by their birth date may be less effective than segmenting them by lifestyle, life stage, or the common values they seek in the products they buy.

**✪** 3-5 Why should marketers pay close attention to the cultural environment? (AACSB: Communication)

*Answer:* Student answers will vary based on their personal response. Refer to the MyLab for an opportunity to assign this question, and all starred MyLab questions, to a student discussion board.

**Critical Thinking Exercises**

**✪** <CORE>3-6</CORE><ALT1>7.</ALT1> In 1965, more than 40 percent of American adults were smokers. That percentage has now fallen to less than 18 percent. Tobacco companies have dealt with this threat by developing new markets overseas and also developing alternative nicotine products such as electronic cigarettes (e-cigarettes). Research this product and the regulatory environment regarding this product, then write a report advising tobacco companies on the opportunities and threats posed by this technology. (AACSB: Communication; Reflective Thinking)

*Answer:*

Student answers will vary. As this is a fluid area in terms of regulation, sources of information are changing. One recommended source is the FDA website, which includes regulations issued in August 2016: <http://www.fda.gov/TobaccoProducts/Labeling/RulesRegulationsGuidance/ucm394909>.

Additional information: The United States Food and Drug Administration had recently extended its regulatory authority to cover e-cigarettes and other Electronic Nicotine Delivery Systems (ENDS). For information on FDA regulations of e-cigarettes, see www.fda.gov/NewsEvents/PublicHealthFocus/ucm172906.htm.

The European Union approved tough rules on electronic cigarettes that are similar to the ones for ordinary cigarettes, such as bans on advertising and a limit on the amount of nicotine they dispense (see David Jolly, “European Parliament Approves Tough Rules on Electronic Cigarettes,” *The New York Times*, February 26, 2014, www.nytimes.com/2014/02/27/business/european-union-approves-tough-rules-on-electronic-cigarettes.html?\_r=0). For a comprehensive list of regulations in the U.S. and other countries, see http://en.wikipedia.org/wiki/Legal\_status\_of\_electronic\_cigarettes.

3-7 Form a small group and discuss cultural trends in the United States. Research one of them in depth and create a presentation on the trend’s impact on marketing. (AACSB: Communication; Reflective Thinking)

*Answer:*

The major cultural values of a society are expressed in people’s views of themselves and others as well as in their views of organizations, society, nature, and the universe. Trends within each of these should be the group focus in their research and presentation. One significant cultural change in the United States has been the growing acceptance and legalization of gay marriage in several states. This has caused controversy among some businesses that claim it is against their religious beliefs to provide their products or services to gay couples. For example, Masterpiece Cakeshop refused to bake a wedding cake for a gay marriage and a court ruled that the owner illegally discriminated against the gay couple (see aclu-co.org/court-rules-bakery-illegally-discriminated-against-gay-couple/).

3-8 Visit [www.causemarketingforum.com](http://www.causemarketingforum.com) to learn about companies that have won Halo Awards for outstanding cause-related marketing programs. Present an award-winning case study to your class. (AACSB: Communication; Use of IT)

*Answer:*

Students’ responses will vary. Students can click on the “Events/Awards” tab at the top of this Web site to learn about past winners of this award. Past recipients are highlighted with short explanations of their campaigns.

**APPLICATIONS AND CASES**

**Online, Mobile, and Social Media Marketing: Sharing Economy**

Changes in the technological environment have created amazing opportunities for new business models while at the same time threatening traditional ones. For example, Airbnb has shaken up the hospitality industry by allowing people to rent out spare rooms or their entire homes to strangers. The Uber and Lyft ride-sharing businesses allow consumers to find a ride from people looking to earn extra money with their vehicles. And with Uber you don’t have to worry about having enough cash or giving your credit card to the driver—payments and tips are all done through the Uber app. Traditional hotel and cab companies are crying foul, claiming that these businesses are not playing by the same regulatory rules to which they are subject. Others are concerned about safety amid reports of riders allegedly being attacked, kidnappings, and driver accidents, questioning the thoroughness of background checks on the 160,000-plus Uber drivers around the world. Some countries, states, and cities in the United States have banned Uber because of these issues.

3-9 Describe how Uber’s business model works and the role technology has played in its success. What are the arguments for banning these types of businesses? What are the arguments for defending them? (AACSB: Communication; Use of IT; Reflective Thinking)

*Answer:*

Uber is not in the taxi business; instead it matches drivers in cars to potential passengers and takes a piece of the fare for providing the match. The company provides convenience, comfort, and cost savings compared to traditional taxis.

According to the Web site www.uberatc.com/about, founded in 2015, the Uber Advanced Technologies Center is the Pittsburgh division of the elite Uber Engineering Team; a high-performance culture marked by fearlessness and hyper-productivity. “We focus on the development of key long-term technologies that advance Uber’s mission of bringing safe, reliable transportation to everyone, everywhere. Our research is primarily in the areas of mapping, safety, and autonomy. Our team is comprised of world-renowned researchers with decades of experience in fields ranging from mechanical engineering and robotics to software and electrical engineering.”

A graphic of Uber’s business model is found at www.forbes.com/sites/aswathdamodaran/2014/06/10/a-disruptive-cab-ride-to-riches-the-uber-payoff/#53fa7db664b8. Additional information can be found on the Uber Web site: www.uber.com.

Several issues have surfaced since this non-regulated service began. Taxi services have been negatively impacted by Uber. Although taxi companies are bound by laws and regulations in the cities where they operate, Uber is not held to the same standard. Students can find information on the controversy surrounding Uber by searching “Uber controversy” online. Some results are given in the following:

Dara Kerr, “Uber’s Year of Prosperity and Controversy,” *cnet,* December 26, 2014, www.cnet.com/news/ubers-year-of-prosperity-and-controversy/.

Hannah Jane Parkinson, “Uber Offices Raided in Paris by French Police in ‘Car-pooling’ Controversy,” *The Guardian*, March 18, 2015, www.theguardian.com/technology/2015/mar/18/uber-offices-raided-in-paris.

“Are Car Ride Apps Legal? Controversy Over Lyft, Uber, Sidecar and More Grows,” *Today,* June 12, 2014, www.today.com/money/are-car-ride-apps-legal-controversy-over-lyft-uber-sidecar-2D79795300.

3-10 Describe examples of two other businesses based on the sharing economy model and create a new business idea based on this concept. (AACSB: Communication; Reflective Thinking)

*Answer:*

Students can find examples by searching terms such as “sharing economy,” “collaborative consumption,” or “peer economy.”

Examples include Airbnb (lodging), DogVacay (dog boarding), RelayRides and Getaround (car borrowing), TaskRabbit and Zaarly (people to do tasks for you), Liquid (bike sharing), Lending Club (peer-to-peer loans), Fon (home wi-fi sharing), Lyft and Sidecar (ride-sharing), and Poshmark and NeighborGoods (clothing). Other lists with links to Web sites can be found at www.moneycrashers.com/sharing-economy/. Additional information can be found at www.forbes.com/pictures/eeji45emgkh/airbnb-snapgoods-and-12-more-pioneers-of-the-share-economy/.

**Marketing Ethics: How Young Is Too Young?**

Walmart rolled out a cosmetics line aimed at girls as young as nine years old. According to *The* *Wall Street Journal*, Walmart introduced this line called geoGirl to meet the demands of “tween” girls. The geoGirl line was developed free of chemicals (phthalates and parabens), synthetic colors, and fragrances, allowing marketers to promote the “environmentally friendly” product offering to parents. Capitalizing on this demand trend, Target launched the Hello Kitty line. Tween boys are not to be left out: Axe markets a line of chocolate-scented body spray, and Old Spice developed Swagger body wash. Recently, focus has been placed on girls’ self-images as they near the teen years. Some child development experts say makeup for young girls places too much emphasis on appearance while others say a little lipstick shouldn’t cause much concern.

<CORE>3-11</CORE><ALT1>12.</ALT1> Is it an appropriate business strategy to use a popular movement such as environmentalism to market an unrelated product?

*Answer:*

Students should research this topic in order to support their opinions.

The challenge faced by all marketers is to create a balance between the publics. On the one hand, creating profit satisfies the financial publics (banks and stockholders) and the internal publics (employees and board of directors). On the other hand, this may clash with what is best for the general publics and citizen action publics (consumer organizations and environmental groups).

<CORE>3-12 </CORE><ALT1>13.</ALT1> Apart from the question of placing undue emphasis on a child’s appearance, what factors should marketers consider in developing campaigns for these types of products?

*Answer:*

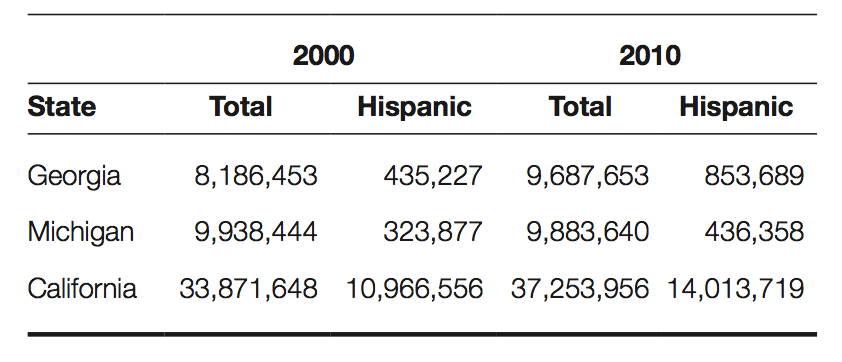
Markets must balance the demands of a new market with the surrounding controversy to create a campaign that generates revenue for the company. Balancing these areas of social responsibility – profitability for the company and responsibility to the consumer – is challenging. One might argue that monitoring a child’s purchases is up to the parents, whereas others might argue that companies should protect all vulnerable groups.

Marketers must always approach controversy with great care to avoid alienating potential customers. The focus of these campaigns should be less about a child’s appearance and more about a young girl’s self-esteem and about learning to use cosmetics.

Students’ opinions will vary depending on their experience and perspective.

**Marketing by the Numbers: Demographic Trends**

Marketers are interested in demographic trends related to variables such as age, ethnicity, and population. The U.S. Census Bureau provides considerable demographic information that is useful for marketers. For example, the following table provides a sample of such population data (see www.censusscope. org/2010Census/PDFs/RaceEth-States.pdf):



<CORE>3-13 </CORE><ALT1>14.</ALT1> What percentage change in the total and Hispanic populations occurred in each state between 2000 and 2010? What conclusions can be drawn from this analysis? (AACSB: Communication; Analytical Reasoning; Reflective Thinking)

*Answer:*

Students often have difficulty with percentage change calculations and often make the mistake of dividing by the final figure instead of the initial figure.

final − initial

% change = —————— x 100

initial

For 2000-2010 percentage change in total population by state:

9,687,653 - 8,186,453

% changeGA = —————————————— x 100 = 18.3%

8,186,453

9,883,640 - 9,938,444

% changeMI = —————————————— x 100 = - 0.55%

9,938,444

37,253,956 - 33,871,648

% changeCA = —————————————— x 100 = 9.9%

33,871,648

For 2000-2010 percentage change in the Hispanic population by state:

853,689 - 435,227

% changeGA = ——————————— x 100 = 96.1%

435,227

436,358 - 323,877

% changeMI = ——————————— x 100 = 34.7%

323,877

14,013,719 - 10,966,556

% changeCA = —————————————— x 100 = 27.8%

10,966,556

Conclusions: Georgia and California had modest growth in overall population, and Michigan experienced a decline. However, all three states experienced considerable increases in the Hispanic population. Marketers need to be aware of these demographic changes to realize where traditional markets may be declining and where growth in subcultures is occurring. Georgia saw its Hispanic population almost double in this time period.

<CORE>3-14 </CORE><ALT1>15.</ALT1> Research another demographic trend and create a presentation to marketers regarding the significance of the trend you analyzed. (AACSB: Communication; Reflective Thinking)

*Answer:*

Students’ responses will vary. Instructors may want to assign specific demographic variables for students to analyze so that students can learn about a variety of trends.

There are several sources on demographic trends in the United States. See the Congressional report on the changing demographic profile of the United States at www.fas.org/sgp/crs/misc/RL32701.pdf; “Six Disruptive Demographic Trends” at www.kenan-flagler.unc.edu/~/media/files/kenaninstitute/UNC\_KenanInstitute\_2010Census; and an excellent source of information on social and demographic trends at www.pewsocialtrends.org/.

There are several excellent resources on global demographic trends and their impact. For example, the following illustrates how population shifts will reshape the global workforce: http://longevity3.stanford.edu/wp-content/uploads/2012/10/Pop-Age-Shifts\_Work-Force\_April-2010\_v2\_FINALWEB\_0.pdf.

Other excellent sources on the impact of global demographic trends include www.rand.org/labor/popmatters/topics/trends.html and www.cgdev.org/page/global-demographic-trends. Students can find many others by searching “global demographic trends.”

**Company Case Notes**

**Fitbit: Riding the Fitness Wave to Glory**

**Synopsis**

This case chronicles how Fitbit went from a tiny startup with little more than a balsa wood box and a circuit board to the pioneer of one of the hottest tech categories—wearable tech. In just a handful of years, Fitbit’s product line has expanded, and its revenues have doubled year-over-year. The company is certainly doing some things right. But it’s also a case of having the right product at the right time. Based on trends in the marketing environment, Fitbit has successfully ridden the fitness wave to become a thriving tech company that appears to have a very promising future.

**Teaching Objectives**

The teaching objectives for this case are to:

1. Identify how microenvironmental factors can affect a strong, established business.
2. Identify how macronenvironmental factors can affect a strong, established business.
3. Identify strategic issues in responding to environmental factors.
4. Formulate recommendations for a company in crisis.

**Discussion Questions**

1. What microenvironmental factors have affected Fitbit since it opened for business?

*As you discuss both the micro and macro environments, consider a quote from the case: “To hear Park tell it, ‘It was the right product at the right time at the right price point.’” There is a certain amount of luck in any business venture. However, it can hardly be said that Fitbit just fell into success. What can be said is that these two clever founders had the right idea at the right time. From there, they successfully evaluated the trends and conditions of the marketing environment to put the pieces together in a way that has worked.*

* *The Company – New startup company. Hardly a marketing company to begin with, the marketing function most likely was a responsibility of everyone in the early days. As the company has expanded, it has had to navigate the intricacies of an evolving corporate culture.*
* *Competitors – In a class by itself at first, this both played in its favor and against it. Any pioneer, while not faced with direct competition, faces the battle of educating consumers as to what its product is and why they need it. With no established category and no competitors, positioning becomes a tremendous challenge. On the other hand, while the young company is dealing with everything else, at least it doesn’t have to worry about direct competition.*
* *Suppliers – For a new company, this is challenging, but not an insurmountable task. There are no shortage of companies that specialize in manufacturing high-tech gadgets for the high-tech brands and companies that are known to the public. While it would be an oversimplification to say that Fitbit just needed to find the right company and give the “go” order, this was and is a very operational task. Partnering and working with such a company becomes key to success.*
* *Marketing intermediaries – This is more challenging than issues with suppliers. As a new company with an innovative product and an unknown brand, convincing retailers to carry and promote the goods is very difficult, no matter how good the product is. First-round success becomes imperative as retailers are watching to see how such a new product does.*
* *Customers – Fitbit clearly has paid attention to customer needs by listening to their feedback and integrating such needs into successive products.*

1. What macroenvironmental factors have affected Fitbit?

* *Economic – While not discussed, Fitbit launched just after The Great Recession had become a harsh reality for the world. In such an environment, getting consumers to part with $100 or so of their fixed budgets that could be spent on other gadgets or non-gadget necessities is truly challenging.*
* *Natural – Not discussed in the case, the nature of Fitbit’s devices required testing for all climates and environmental conditions.*
* *Technological – This is huge. Clearly, Fitbit was a tech company. But as the case points out, being a pioneer of a new high-tech hardware gadget is an almost impossible task. Getting the hardware right is only half the battle. A new gadget like this had to be compatible with various computer operating systems, adopt Wi-Fi, interact with social media and other Web applications, etc. There is virtually no end to the impact of trends and condition of the tech sector on a developing product or potentially of the developing product on the tech sector.*
* *Political – The biggest issue mentioned in the case is compliance with HIPAA. The depth of this hurdle cannot be overestimated.*
* *Cultural – The U.S. and world cultures were fast adopting the use of social media. Health trends also were ripe for the picking. Corporations taking an active role in wellness, and an absence of anything more high tech than a pedometer, created the perfect opportunity for Fitbit’s launch.*

1. How should Fitbit overcome the threats and obstacles it faces?  
   *To a great extent, as it has been in the past—by paying attention to customers, markets, and trends. While it launched without competition, the competition it now faces is extreme. But by constantly attempting to open new doors and innovate with new products, Fitbit has the right philosophy—that a product or product line is never settled. In fact, Fitbit may end up looking like a very different company than it started out as.*
2. What factors in the marketing environment not mentioned in this case could affect Fitbit?  
   *Student responses will vary. This should be an opportunity to pull collective knowledge and ideas from the group.*

**Teaching Suggestions**

Give students a few minutes to respond privately or in small groups to the following questions:

* Do you exercise?
* How much importance do you place on wellness?
* Do you use a wearable fitness device?
* What are the biggest reasons why you use one? Or, why have you not adopted one?
* For those who own one: What things do you like/not like about your fitness device?
* For those who do not own one: What would it take for you to adopt the use of a wearable fitness device?

Lead a discussion on these questions. Then, transition into a discussion on the Fitbit case.

This case also works well with the consumer behavior chapter (Chapter 5), the new products chapter (Chapter 9), and the competitive advantage chapter (Chapter 18).

Go to mymktlab.com for the answers to the following Assisted-graded writing questions:

3-21 What is environmental sustainability and why has it grown in importance for marketers?

3-22 Discuss a recent change in the technological environment that impacts marketing. How has it affected buyer behavior and how has it changed marketing?

**ADDITIONAL PROJECTS, ASSIGNMENTS, AND EXAMPLES**

**Projects**

1. Define the marketing environment for Starbucks ([www.starbucks.com](http://www.starbucks.com)). Keep in mind that a company’s marketing environmentconsists of the actors and forces outside marketing that affect marketing management’s ability to build and maintain successful relationships with target customers. (Objective 1)
2. What are the fundamental differences between consumer markets, business markets, and reseller markets? (Objective 1)
3. Consider your college/university. What are the publics to which it must pay attention? (Objective 1)
4. Over 14 percent of the U.S. population moves every year. How is this good for marketers? (Objective 2)

**Small Group Assignments**

1. Form students into groups of three to five. Each group should read Real Marketing 3.2: “In the Social Media Age: When the Dialog Gets Nasty.” Each group should answer the following questions and share their findings with the class (Objective 3)

1. How has Internet technology, especially social media, shifted the power differential away from large organizations and toward individual consumers?
2. How has this change enhanced the marketplace for consumers? How might it also damage the marketplace?
3. As an officer of a major bank or corporation, what would be your philosophical approach to dealing with highly visible, noisy consumer complaints online? Would you give in to the angry consumers’ demands every time? Explain.

2. Form students into groups of three to five. Each group should read the opening vignette to the chapter on Kellogg. Each group should answer the following questions and share their findings with the class. (Objective 3)

1. How is Kellogg addressing the changing marketing environment?
2. Analyze the company’s attitude toward marketplace change. How has this attitude impacted its success?
3. Do you believe that Kellogg can regain the stronghold it historically has held in its markets? Why or why not?
4. In such a rapidly changing marketing environment, what might Kellogg be doing in five years? Ten years?

**Individual Assignments**

1. Go online and compare the marketing strategies of McDonald’s ([www.mcdonalds.com](http://www.mcdonalds.com)), Wendy’s ([www.wendys.com](http://www.wendys.com)), and Burger King ([www.burgerking.com](http://www.burgerking.com)). What age group is each targeting? Do you agree with their strategy?

(Objective 2)

1. Take a look at Apple’s Web site ([www.apple.com](http://www.apple.com)). What, if anything, do you see them doing to try and remain successful when the economy softens and consumers become more hesitant to make purchases? (Objective 2)

**Think-Pair-Share**

Consider the following questions, formulate and answer, pair with the student on your right, share your thoughts with one another, and respond to questions from the instructor.

1. What are the fundamental differences between Generation X and Generation Y?

(Objective 2)

1. How has the typical family changed just in your lifetime? (Objective 2)
2. Overall, the U.S. population is becoming better educated. What implications does this create for marketers? (Objective 2)
3. What is the one most significant trend in the natural environment, in your opinion, and how is it impacting marketing activities? (Objective 3)

**Outside Examples**

1. Take a look at Wendy’s ([www.wendys.com](http://www.wendys.com)). How is this company attempting to set itself apart from its primary competitors of McDonald’s ([www.mcdonalds.com](http://www.mcdonalds.com)) and Burger King ([www.burgerking.com](http://www.burgerking.com))? What publics does it appear to be concentrating on? Why do you believe this is the case? (Objective 1)

**Possible solution.** Wendy’s positions itself as the homespun, homemade fast-food hamburger. From a review of its Web site, it becomes evident that Wendy’s is trying to connect with the everyday American. It portrays a folksier, easygoing personality than does its primary competitors. Wendy’s concentrates primarily on local publics and the general public.

2. Most students taking this class and reading the text have probably never watched Spanish language programming. But as the Hispanic population in the United States has grown at a feverish pace, one conglomerate has gone about its business quietly. In the process, Univision Communications, Inc. has the lion’s share of the media market for this burgeoning demographic group.

Univision’s portfolio includes the television networks Univision, Telefutura, and Galavision. But the empire also covers other media outlets with Univision Radio, Univision Music Group, and Univision Online. (Objective 2)

1. Has Univision’s growth and expansion reflected the Hispanic population growth or facilitated it?
2. What kind of companies should be marketing their products and services on Univision outlets? Do you think the nature of Spanish language advertising has changed over time?

*Possible Solution:*

1. Univision’s growth has both reflected and facilitated the Hispanic population growth in the United States. It has facilitated Hispanic growth by providing a communication vehicle for those entering (or contemplating entering) the country. It has reflected Hispanic growth by continually expanding its reach within the United States and providing more content to its viewers.
2. Any company interested in reaching this growing market should consider advertising through this outlet. In the U.S., Spanish language advertising has become much more mainstream and accepted over time. Today, it is not at all uncommon to see and/or hear messages directed specifically to Hispanics through “traditional” English-language media.