

CHAPTER 2

THE EXTERNAL MARKETING ENVIRONMENT

Learning Objectives

LO1: Identify the external forces that influence marketing.

LO2: Describe the way various competitive forces influence marketing strategy development.

LO3: Distinguish the role that regulations, laws, and self-regulation play in the practice of marketing in Canada.

LO4: Explain the impact of the economy and various market structures on marketing practices.

LO4: Discuss how social, environmental, and demographic forces shape marketing strategies now and in the future.

LO5: Identify and explain the effect technological trends and developments have on current and future marketing practices.

CHAPTER SUMMARY

LO1 Identify the external forces that influence marketing.

Decisions about the marketing mix are influenced by conditions that exist beyond the company's control. Essentially, there are five key external influences (C.R.E.S.T.): competition; regulations and laws; the economy; social, environmental, and demographic forces; and technology.

LO2 Describe the way various competitive forces influence marketing strategy development.

An organization's position or relative strength in a market (leader, challenger, follower, or nicher) also has an impact on marketing strategy. Leaders and challengers are typically aggressive with their marketing strategies. Followers and nichers tend to have fewer financial resources and spend only what is appropriate to maintain their market position.

LO3 Distinguish the role that regulations, laws, and self-regulation play in the practice of marketing in Canada.

All marketers must be aware of and follow provincial and federal laws and the rulings of regulatory agencies. Marketers know that being socially responsible not only makes

sense, it is good for business. Many companies are embracing a triple bottom line philosophy: people, planet, profit.

LO4 Explain the impact of the economy and various market structures on marketing practices.

The general state of the economy will influence how aggressive or how conservative an organization's marketing strategy may be. The marketer will adjust marketing strategies based on fluctuations in the economy (e.g., recession versus recovery). If the economy is in a recession the marketer will be more cautious and perhaps spend less on marketing. In recovery the manager may be more aggressive and spend more on marketing.

LO5 Discuss how social, environmental, and demographic forces shape marketing strategies now and in the future.

Healthier lifestyles and a societal desire for environmental conservation impact marketing strategies. Products that promote healthier living will be successful. Organizations that demonstrate social responsibility will also succeed. Consumers and the public at large are more accepting of organizations that support worthwhile causes and implement programs that show a genuine concern for the environment. Smart marketing organizations tell people what they are doing in these areas.

Demographic trends must be monitored closely. An organization must be aware that Canada's population is aging, household formations are changing, the level of education is increasing, wealth and spending are concentrated among higher-income groups, the ethnicity of the population is increasingly diverse, and there is a trend toward living in urban areas. These trends present both opportunities and challenges for marketers and will guide the direction of future marketing strategy.

LO6 Identify and explain the effect technological trends and developments have on current and future marketing practices.

Technology will have a strong and direct impact on marketing. More organizations will adopt database management techniques and implement customer relationship management programs. Artificial intelligence will play a greater role in marketing and business. Marketing communications will continue to shift in the direction of digital communications and away from the mass media. The growth of e-commerce strongly suggests that web-based marketing strategies be integrated into an organization's marketing strategy.

CLASSROOM MANAGEMENT STRATEGIES

Here are some ideas to generate class discussion and participation:

1. Have the students read the *Globe and Mail* for a few days (mandatory exercise). Get them to clip an article that portrays how the economy influences business and marketing strategy. Ask a few students for a quick verbal presentation of their findings. Alternatively, ask them how rising gasoline prices have affected the economy and how it has changed consumer buying behaviour.
2. Identify some markets where there is a clear leader and a prominent challenger. Ask the students to compare and contrast the marketing activities of each brand based on what they can recall of each. Do they take a different or similar approach to marketing? Why is the leader the leader and the challenger the challenger? Some good categories for this discussion include soft drinks, fast-food outlets, and snack foods—the things students consume most. Students will also have interesting examples of “copycat” strategies.
3. If the population is aging, how do products and services respond? Do they implement strategies that evolve with an aging consumer or do they remain true to their roots and image and try to attract younger people? Is it possible to do both? Think about a brand like Red Bull that has a loyal following with the 18- to 34-year-old demographic. Should Red Bull appeal to aging loyal customers? Or should they continue to market to a new generation of youth? Discussion should focus on the merits and costs of attracting customers versus retaining customers.
4. Identify any of the key demographic trends and ask students for a direct marketing implication of that trend.
5. Have students place themselves in the correct age category (e.g., millennials) and determine the age category of their parents (likely Gen X or boomers). Older students in the class can provide a unique perspective. Have students brainstorm a list of all the ways that they make purchase decisions (research *and* shop) in ways that are different from their parents.
6. Get the students take on how technology is affecting behaviour and marketing practice. Since they are the computer/cell phone generation, do they see these tools as being useful for marketing purposes? Are students actively purchasing goods online, and do they willingly divulge sensitive information? Have they thought about how marketers use this information?

ANSWERS TO EXPERIENCE MARKETING

Lush

In addition to ethnic population trends, students need to learn about the buying behaviour of predominant ethnic groups in these major centres (Toronto, Vancouver, and Montreal) to determine if they would be receptive to buying and using Lush beauty and skin-care products.

ANSWERS TO END-OF-CHAPTER QUESTIONS

Review Questions

1. What are the external environmental factors that impact marketing? (*LO1*)

The external environmental factors that impact marketing are competition, regulations and laws, economy, social/demographic, and technology.

2. What are the basic components of the following markets: monopoly, oligopoly, monopolistic competition, and pure competition? Identify a new example of each. (*LO2*)

A monopoly is a market where one firm serves the entire market and therefore controls the marketing mix elements. In Canada, monopolies are subject to regulation by the government or a government agency (e.g., BC Hydro). In an oligopoly only a few firms dominate the market (e.g., beer). In a market characterized by monopolistic competition, there are many firms, large and small, each offering a unique marketing mix. Products are distinguished by brand name and the benefits offered. In pure competition, many firms offer products that are perceived as being similar by consumers (e.g., wheat). Low price usually determines purchase.

3. What is the difference between direct competition and indirect competition? Provide a new example to demonstrate the difference between the two forms of competition. (*LO2*)

Direct competition is competition between like products or services (e.g., Shoppers Drug Mart and Pharmasave). Indirect competition involves similar products or services that provide the same basic benefit (e.g., add Walmart and Loblaws to the example just cited). The lines of competition are becoming blurred in today's marketplace.

4. How do the marketing strategies differ between a market leader and a market challenger? (*LO2*)

A market leader (Coca-Cola) is usually aggressive with its marketing because it has to protect as well as build its position in the market. Typically, the leader is the first to take action and then other competitors decide their course of action. A challenger (Pepsi-Cola)

is also aggressive with its marketing initiatives. Their goal is to become the leader, so they tend to spend heavily to keep their name in the forefront of customers' minds.

5. What role does self-regulation play in the practice of marketing? (LO3)

An alternative to government regulation, some industries have voluntarily set up associations and codes of ethics to govern their practitioners. An example is the Canadian Bankers Association.

6. What are some important laws governing marketing in Canada? What regulatory bodies oversee these laws? (LO3)

The Competition Bureau enforces the rules that govern and promote the efficiency of a competitive marketplace. The instrument for carrying out these functions is the Competition Act. Key issues the bureau addresses are the effects of mergers and acquisitions, that no price fixing or other pricing infractions occur, and that advertising does not misrepresent a product or mislead a consumer. The Office of Consumer Affairs promotes a safe, orderly, and fair marketplace for consumers and businesses. The bureau ensures that dangerous products are identified and certain products that cause injury are removed from the market.

7. In what way do the following economic variables influence an organization's outlook and marketing activities: trends in gross domestic product, interest rates, and the value of the Canadian dollar? (LO4)

The purpose of this question is to get students thinking about economic trends and the dynamic relationships between certain variables. They should be able to determine if the economy is in good shape or bad shape and make comments about marketing activity accordingly. Their answers depend on the latest information available. Instruct them to consult newspapers such as the *Globe and Mail* and the *National Post* for insight.

8. What are the important social and demographic trends affecting marketing? What demographic trends will become more important in the future? (LO5)

Social trends including lifestyles (hectic lives, need for healthy choices) and expectation of social responsibility (companies supporting causes and the environment) influence marketing activity. Marketers must constantly monitor and evaluate changes in demographic and psychographic characteristics and adapt their strategies to these changes. The consumer marketplace is a dynamic one that requires flexibility and adaptability in product and service offerings if the marketing organization is to be successful. The aging population and the changing ethnic mix are the most important demographic trends that will influence marketing strategy in the next 20 years. Attracting the loyalties of Generation Y (children of the baby boomers) is also a challenge for marketers.

9. How are environmental factors influencing marketing strategy? (LO5)

Consumers expect companies to consider their environmental impact in all areas of business, from packaging and shipping to manufacturing processes that use recycled materials and alternative energies.

10. How are marketers using technology to build relationships and engage with their customers? Give specific examples. (LO6)

Moving from dynamic websites to mobile solutions that allow customers to research and buy online, marketers are building technology solutions into all areas of business, including communicating on the social media platforms that consumers use daily.

Discussion and Application Questions

1. Provide some examples of companies that have a positive corporate image. What marketing activities have helped these companies achieve their image?

Answers to this question will vary according to the examples provided by students. The objective of this question is to have students evaluate a firm's public image based on the marketing activities that the firm conducts. Students could also look at some firms whose image isn't that good. Some big firms in the bad news category recently include Coca-Cola in Europe (contaminated beverages) and Nike (labour practices in Asian countries).

3. Conduct some Internet-based secondary research to compile recent statistics on ethnic population trends and urban living trends. Discuss how the impact of these trends will influence the direction of future marketing activity.

One good source of ethnic population trends is Statistics Canada. Students could examine the impact on a company's market strategy such as the identification of different target markets and the subsequent development of the market mix.

3. With reference to the Think Marketing box **Artificial Intelligence Presents New Marketing Opportunities**, what social and technological trends have Bear Naked and The North Face capitalized on? Do some additional research to assess how consumers are responding to Bear Naked's and/or The North Face's marketing strategies.

Students will identify changes in demographic, competitive, technological, and industry forces. These companies are adapting to both industry-specific and broader changes while considering the competitive environment and social trends.

ADDITIONAL ASSIGNMENTS

1. Have students do some research to determine (as best they can) the present state of the Canadian economy. Is it growing and by how much? How should marketers react based on the present economic situation? Sources include Statistics Canada, the *Globe and Mail*, *Report on Business*, and websites from economic think-tanks like The Fraser Institute.
2. Have students compare and contrast the marketing mixes of a
 - a) market leader and a market challenger.
 - b) market leader and a market follower.
3. Have students assess the marketing strategies of a true "market nicher." If the student was responsible for managing this business (company, product, or service), what opportunities and threats do they see for the business? How will this analysis affect marketing strategy?
4. Have students select an industry and then conduct some secondary research to determine what effect free trade has had on that industry. Consider the impending impact of the European free trade act.
5. Assign a specific social and demographic trend to small groups of students (the trends are clearly identified in the textbook). Also assign each group a product or company. Have the students conduct a brainstorming session where they determine the effect of the trend on their business. Students would then make a brief presentation to the class near the end of the session.