THINK Marketing (Canadian) 2nd edition Tuckwell Solutions Manual

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CHAPTER 2
THE EXTERNAL MARKETING ENVIRONMENT

Learning Objectives

LO1: Identify the external forces that influence marketing.

LO2: Explain the impact of the economy and various market structures on marketing practices.

LO3: Describe the way various competitive forces influence marketing strategy development.

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.

LO6: Distinguish the role that laws, regulations, and self-regulation play in the practice of marketing in Canada.

CHAPTER HIGHLIGHTS

LO1: Identify the external forces that influence marketing.

The environment in which marketing operates is constantly changing. Therefore, new marketing strategies must evolve. To foresee and adapt to change, a company reviews and analyzes certain external forces such as social and demographic trends, the economy, the competition, technology, and laws and other regulations that must be considered when devising a marketing strategy.

LO2: Explain the impact of the economy and various market structures on marketing practices.

A. Economic Forces

The economic situation in Canada or in world markets generally impacts the nature of a firm's marketing activity. Canada's economic health is measured using variables such as **gross domestic product (GDP)**, imports and exports, retail sales, unemployment, interest rates, and the value of the Canadian dollar. Favourable situations for these variables encourage more aggressive marketing. The reverse is also true.

In 2009, Canada faced an economic downturn because of recessionary conditions that affected it and other countries like the United States. Canada's economy posted signs of

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recovery in 2010, helped by increased demand for Canadian goods and services and a highly valued Canadian dollar. After minimal gains in 2012 and 2013, Canada's GDP growth is expected to gain between 2% and 3% annually in the next few years. The U.S. economy has fared far more poorly.

Imports and exports determine Canada's trade balance, which influences its economic health. The goal is to achieve a positive trade balance. Canada experienced a negative balance, or a trade deficit, in 2009, 2010, and 2012. The economic condition of the United States, Canada's largest trading partner, has a significant influence on Canada's trade balance. Looking ahead, a healthier U.S. economy and the recent free trade agreement between Canada and Europe (CETA) should boost Canadian exports.

The value of the Canadian dollar has a direct impact on Canadian organizations. The Canadian manufacturing industry, for example, faced a high Canadian dollar compared to the U.S. dollar in 2010 and 2012. This made our goods look less attractive to American customers. Since 2013 the Canadian dollar has depreciated and settled around $0.90 U.S. by the end of that year. In 2014 and 2015 the dollar depreciated even further. This provides a boost to manufacturing and tourism.

The **employment (or unemployment)** levels of Canada tend to be linked to the demand for Canadian goods and services and job creation. By the end of 2013, Canada's unemployment rate levelled off at 7.2%, down from a high of 8.1% in 2010. A high unemployment rate reflects a weaker economy. The unemployment rate among young people aged 15 to 24 years remains high at 14% as of December 2013.

Consumer spending directly influences demand for goods and services and will subsequently affect production and manufacturing decisions. The most recent statistic from 2011 indicates 4.2% annual growth in retail sales. Canadians have reduced their spending and are searching for better valued goods and services.

Interest rates are used by the Bank of Canada to help adjust the state of the economy. **Inflation** is the general rising price level for goods and services. If the economy needs a lift, the Bank of Canada will lower rates to encourage consumers and businesses to borrow money and then spend.

It is critical for businesses to monitor changes in economic variables and adjust their business strategies accordingly. Some retail segments benefit in a weakened economy, such as stores like Dollarama, which saw profits jump 20% in the third quarter of 2013. Websites offering consumers a platform to buy and sell used goods also benefit.

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LO3: Describe the way various competitive forces influence marketing strategy development.

B. Competitive Forces

The strategies of competitors are constantly analyzed to find new and better ways for products to appeal to similar target markets. In Canada, organizations operate in any one of four different **market structures**, which affect competition in different ways:

1. Market Structures

- **Monopoly:** One firm controls the market; in Canada control is regulated by the government or a government agency (e.g., cable television, electricity, and water). Canadian Blood Services, a not-for-profit organization, manages Canada's bloody supply in all provinces except Quebec.

- **Oligopoly:** A few large firms dominate the market, all with reasonably high market shares (e.g., Microsoft, Sony, and Nintendo dominate the video game console market). Any move by the market leader is usually followed by the remaining competitors.

- **Monopolistic Competition:** Many firms, large and small, compete by offering a unique marketing mix based on price and other variables. Because of competition there is always a good substitute product available to consumers (e.g., fast-food restaurants competing with each other).

- **Pure Competition:** All firms market a single commodity, so no single buyer or seller has much effect on price. The differential advantage is not clear to consumers (e.g., milk, financial services, stocks and bonds). Channel members have significant influence on the availability of a manufacturer's product to the consumer market.

2. Competitive Strategies

Competition is either direct or indirect. **Direct competition** is competition from alternate or substitute products and services that satisfy the needs of a common target market (e.g., Sony, Kodak, Canon, Olympus, and Fuji all compete against each other in the camera market). The types of direct competitor information that are routinely monitored include market share, market segment trends, marketing activity, and innovation.

Indirect competition refers to competition from substitute products that offer the consumers the same benefit (e.g., Coke also competes with Gatorade and Nestea). In retailing there is much competitive overlap between chains such as Shoppers Drug Mart and Jean Coutu (drug stores) and Sears and Hudson's Bay (department stores). They all

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carry similar product lines now. The competitive landscape is constantly changing and the line between who is competing with who is getting blurred.

For additional information on the influence of social and technological trends, and competitive activities on marketing strategies, see the *Think Marketing* box **Indigo Books and Music Inc. Transforms Itself.**

***Think Marketing* box Answer:**
Students will have varying opinions on whether Indigo is making the right changes for long-term success. Their opinions should be informed by some of the preceding economic and competitive forces, combined with the upcoming sections on social and especially technological forces. Other opportunities students touch on may include elements related to product offerings, online/offline shopping connections, services, and marketing communications tactics. Students should also consider changing demographics and the publishing industry itself.

3. The Competitive Position

A firm's **market share** indicates its competitive position in the marketplace. A brand's market share is its sales volume expressed as a percentage of total product category sales volume. Business organizations generally analyze the nature of their competition and then decide how best to compete in a particular market. Competitors can be classified as follows:

- **Market Leader:** The largest firm in the industry and the leader in strategic action (e.g., price, new product innovation, and aggressive promotion activity). Subway, Tim Hortons, and McDonald's are good examples.

- **Market Challenger:** An aggressive marketer that pursues growth and development of market share. Typically, advertising and promotion are key elements of the challenger's marketing mix. Apple challenged market leader Samsung with its launch of the more affordable iPhone 5C. Pepsi-Cola is a challenger to Coca-Cola.

- **Market Follower:** A follower is generally satisfied with its market share position. It is content to follow the leaders on product, price, distribution, and other marketing actions. In the Canadian toothpaste market Colgate is the leader and Crest is a very close challenger. All other brands are followers.

- **Market Nicher:** A nicher is a competitor who concentrates all resources on one distinguishable market segment. A nicher differentiates itself on the basis of market specialization, geographic specialization, product features, expertise in service, or other areas of strength (e.g., Porter Airlines focusing exclusively on short-haul flights).

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

C. Social Forces

Market planners analyze social trends and develop appropriate marketing strategies to address these changes. Canadian lifestyles are changing, and Canadians are concerned about issues such as ethical business and the preservation and protection of the environment. Successful companies are responding by focusing on a "triple bottom line": people, planet, and profits.

1. Lifestyles

Generally we are a society that places greater emphasis on quality of life rather than work. But work is essential to sustain the desired quality of life. People are choosing to work longer to get ahead. Consumers are pressed for time, so goods and services that offer convenience are in high demand. Companies are developing products and services that save consumers time, such as drive-thrus, online banking, and prepackaged meals.

A shift in consumers' attitudes toward health and welfare are shaping contemporary marketing strategies. To meet the demand for healthier eating alternatives, companies like Kraft are developing healthier new products and reformulating many current products by reducing calorie count and putting a cap on portion size for single-serve packages. Health Canada has new nutritional labelling regulations to help consumers make better choices and to combat obesity. Apparently, people are willing to pay more for healthier alternatives.

2. Social Responsibility and the Natural Environment

Consumers indicate that a firm's record for being environmentally friendly plays a role in purchase decisions. Consequently, many organizations are adopting causes and offering financial support to them, and they are investing in communities in which they operate. An automobile manufacturer like Toyota has benefited greatly by being the first company to introduce hybrid automobiles. The public perceives them to be a leader in this area even though their competitors have followed suit. CIBC is the title sponsor of the "Run for the Cure" to raise funds and awareness for breast cancer. Rumble drinks donates a portion of all sales to charities that fight hunger. Panasonic has launched an entire strategic plan called "Green Plan 2018" aimed at reducing its environmental impact across all lines of production.

D. Demographic Forces

Marketers need to continually monitor changes in **demographics**, the characteristics of a population. Changes in characteristics such as age, family size, income, and education are

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of concern to marketers. Marketers must be able to connect with consumers who are older, more educated, and technologically knowledgeable. There is also a growing ethnic population. Consumers are more informed and rely on online information from companies, more critical sources, as well as social networking.

Some key trends taking place in Canada's demographics include the following:

1. Size and Age

Canada's population is about 35,158,300 (2013) and the growth rate has averaged just under 1% annually. Two-thirds of Canada's population growth is attributed to immigration. Canada's population is aging with baby boomers making up the largest segment. By 2020, 30% of all retail sales will be to millennials. At the same time, brand marketers face the challenge of retaining older customers while trying to attract younger customers—an option that is necessary if a brand or company is to grow. Baby boomers and seniors will compose a large percentage of the population (40% by 2021). This market will want products and services that will help them maintain a secure and healthy lifestyle.

2. Location

Geographically, more Canadians than ever before are living in census metropolitan areas (CMA)—cities are growing and rural locations are declining. Canada has six metropolitan areas—Toronto, Montreal, Vancouver, Ottawa-Gatineau, Calgary, and Edmonton—that represent 45% of the total population. According to the 2011 census data, 81% of us live in urban areas. To be successful in Canada, a national brand must succeed in these markets.

3. Family Formation and Household Size

The nature of the family has changed. People are postponing marriage to pursue careers, so couples are starting families later and they are much smaller. Common-law unions are increasing, and so are lone-parent families (the latter the result of divorce). Blended families are a form of cohabitation that bring together children of previous marriages. What has emerged is the so-called **sandwich generation** in which people are simultaneously trying to assume responsibility for dependent children and take care of aging relatives. Another emerging trend is the same-sex household (gay marriage). It is estimated that 10% of the population is gay or lesbian, so this trend presents opportunities and challenges for marketers. Responsible for over $800 billion in spending in 2014, this segment includes a large proportion of affluent, hip trendsetters.

Canadian households continue to shrink; the average family size has shrunk to 2.5 from 2.9 in 1981.

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4. Spending Power and Wealth

Canadians' disposable (after-tax) income is growing at a lower rate than the cost of basic household necessities. The wealth and spending power of the middle- and lower-income groups has dropped. In lay terms “the rich are getting richer and the poor are getting poorer.” The top one-fifth of Canadian families had an average after-tax income of $135,500 in 2010, while the lowest one-fifth of Canadian families earned $14,600, a sizable gap.

Given the uncertain economy, consumers are generally more cautious about how they spend their money, or they are incurring high levels of personal debt. However, high-income groups continue to spend. Some companies, such as Walmart, are successfully using a marketing strategy of stressing value to their targets of lower- and middle-income groups.

5. Education

Education and training are key issues if Canada is to compete globally. The Canadian population is now better educated than ever, but more needs to be done if we are to remain competitive globally. The rising level of education among Canadians is producing a more informed shopper. About 51% of the working population in Canada has a postsecondary certificate, college diploma, or university degree. With higher education, we are adapting to technology (e.g., the Internet and wireless forms of communication) very quickly. The use of online information when searching for goods and services is increasing. Also, marketers need to use digital media to reach tech-savvy Generation Y and Z consumers.

6. Multiculturalism

The composition of Canada's population will continue to diversify. Aboriginal populations alone have grown by 20% over the last five years. Existing within Canadian culture are many diverse **subcultures** that have distinctive lifestyles based on religious, racial, and geographic differences. Various subcultures are evident in suburban areas of cities where neighbourhoods are occupied with large ethnic populations. In Toronto, for example, 42% of the population is described as ethnic. Currently, one in five Canadians is foreign born. Asian immigration has been increasing and represents 58% of all immigrants. Companies must learn about these markets to effectively target their marketing strategies. For example, Walmart ensures its merchandising and corresponding advertising reflects the cultural make-up of surrounding communities.

For more information on ethnically based marketing practices, see the ***Think Marketing*** box **Ethnic Diversity Presents New Marketing Opportunities.**

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***Think Marketing* box Answer:**
Students may have varying answers to the question of what ways Clorox could further enhance its relationship with Chinese and South Asian Canadians, including but not limited to additional research into product needs, media consumption, and messaging; inclusion of multicultural families in ads; enhanced labelling and media messaging in various languages; and participation online and at events targeted to multicultural communities.

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

E. Technological Forces

Technological advancements will be the greatest single influence on marketing practice in the next few decades. As technological development accelerates, the length of time a product is in the market will become shorter. New products, new packaging, and the emergence of electronic commerce and communications are all the result of an ever-changing technological environment. The Internet has had an overwhelming impact on marketing and commerce. Mobile devices have changed the way nearly all Canadian consumers live their lives. Consider a 2013 study that revealed 25% of Grade 4 students have cell phones!

1. Managing Customers

As indicated in Chapter 1, database marketing technology allows an organization to devise effective customer relationship management programs that are designed to retain and maximize the value of customers. Companies use toll-free telephone numbers, telemarketing, personal selling, and online communications to directly target individual customers. Social media networks are used to obtain customer feedback, engage customers, and deliver unique offers.

2. Technology and Marketing Communications

In terms of marketing communications, marketers are now merging traditional methods with new technology-based forms of communication. Communications via the Internet, laptops, tablets, and smart phones are now common. Instead of opting for traditional mass-reach campaigns, organizations are now implementing selective reach through highly targeted campaigns—a key benefit offered by digital media. Canadian media usage has seen a shift away from TV (down 10% between 2001 and 2013, from 46% of time to 36%). All media have seen a decline except for the Internet, which has increased from 9% to 37% over the same 12-year span. Social media networks such as Facebook and Twitter are also in the communications picture. Organizations have to find a way to capitalize on the reach potential of these networks while integrating their use with the traditional mass media environment.

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3. Internet and E-Commerce

The daily use of tablets and smart phones has made it easier for consumers to engage in online research and purchasing. Marketers can engage customers and build relationships with informative and entertaining websites combined with e-commerce capabilities and a social networking presence. Many traditional storefront retailers such as Sport Chek and Home Depot have enhanced their online presence to cater to customers wanting to research or purchase online. Some companies, such as Element Bars, are providing **mass customization** to their customers, where they can select online not only the ingredients in their own customized nutrition bar or cereal, they can even make up their own brand name! Marketers must address the fact that Canadians are among the most connected consumers in the world, with 86% having Internet access from anywhere and 80% having Internet access at home.

LO6: Distinguish the role that laws, regulations, and self-regulation play in the practice of marketing in Canada.

F. Legal and Regulatory Forces

Marketing organizations must conduct their business practice within the existing laws and regulations. Numerous laws and regulations have been put into place to protect consumer rights and ensure that organizations conduct business in a positive manner**.**

The legal environment is regulated through **Industry Canada**. Laws governing business are delineated in the Competition Act. The purpose of the **Competition Act** is three-fold:

- To maintain and encourage competition in Canada.
- To ensure that small and medium-sized businesses have an equitable opportunity to participate in the Canadian economy.
- To provide consumers with product choice and competitive prices.

Canadian consumers are protected by various privacy laws, the Privacy Act, and the Personal Information Protection and Electronics Document Act (PIPEDA). There are limits on the collection, use, and disclosure of personal information. As of January 2004, the law requires organizations to obtain your consent when they collect, use, or disclose personal information.

Within Industry Canada there are offices that influence business and marketing activity: the Competition Bureau and the Office of Consumer Affairs.

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1. Competition Bureau

The Competition Bureau enforces the laws that govern and promote a competitive Canadian marketplace through the Competition Act. The bureau investigates anti-competitive activities such as price fixing, bid-rigging, false or misleading representations, abuse of dominant position, exclusive dealing practices, mergers, and deceptive marketing practices.

2. Office of Consumer Affairs (OCA)

OCA establishes regulations and programs that protect the interests of consumers. Legislation under the jurisdiction of the federal OCA includes the Consumer Packaging and Labelling Act, the Textile Labelling Act, and the Weight and Measures Act. In 2012, in addition to earlier regulations regarding labelling of ingredients to allow consumers to make healthier choices, laws changed to address consumers' concerns about food allergies.

3. Self-Regulation

Self-regulation is an alternative to government regulation. Industry organizations establish codes of conduct for their member companies to follow (e.g., the Canadian Marketing Association and the Canadian Bankers Association). The CMA's *Code of Ethics and Standards of Practice* is the foundation of the marketing community's self-regulation. The code covers such issues as ethical principles, protection of personal privacy, special considerations for marketing to children and teenagers, and media-specific standards of practice.

ADDITIONAL ILLUSTRATIONS OF KEY CONCEPTS

1. Loblaw Launches Click and Collect Service

Retailers are adapting to the trend of consumers shopping online, researching online then shopping in-store, and researching in-store then purchasing online. The grocery segment is no different.

In late 2014, Loblaw launched in select Toronto-area stores a "Click and Collect" service whereby consumers could order their groceries completely online and have a grocery store employee pick the items and bag them for pickup by the consumer.

Consumer research to date shows a reluctance to purchase products without handling them, but this method of grocery shopping is widely available in France and Britain, and Loblaw is convinced that time-starved shoppers will get used to this new model for buying groceries.

The increased labour cost is expected to be offset by fees set at $3 to $5 per order.

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Adapted from Francine Kopun,"Loblaw Launches Click and Collect Service," *Toronto Star*, October 24, 2014, http://www.thestar.com.

2. Sour Economy a Boon for Discount Retailers

With the economy going south (2008) due to rising gasoline prices, many industries are suffering, including the retail industry. But discounters like Walmart and Costco are enjoying much success. Year-over-year sales at Walmart are up 4% and 9% at Costco.

High gasoline prices and rising prices are causing consumers to curtail purchases of non-essential items and to search for better value on everyday goods, including food and personal care products.

Walmart was anticipating a sales increase in the 2% range, so reaching 4% is a real bonus. While Walmart does very well in a good economy, it is doing even better in a poor economy—a true marketing success no matter how you look at it.

Adapted from Lauren Coleman, "Discount Stores Cash in on Soaring Gas and Food Prices," *Financial Post*, June 5, 2008, www.financialpost.com.

3. Population Tidbits: 2011 Census

- The number of seniors aged 65 and over increased 14.1% between 2006 and 2011 to nearly 5 million. This rate of growth was higher than that of children aged 14 and under (0.5%) and people aged 15 to 64 (5.7%).
- In 2011, the proportion of seniors in Canada was among the lowest of the G8 countries.
- The population of children aged 4 and under increased 11.0% between 2006 and 2011. This was the highest growth rate for this age group since the 1956 to 1961 period during the baby boom.
- Among the working-age population, 42.4% were in the age group 45 to 64, a record high proportion. Almost all people aged 45 to 64 in 2011 were baby boomers.
- In 2011, the proportion of seniors was the highest in the Atlantic provinces, Quebec, and British Columbia.
- In 2011, 5 of the 10 census agglomerations that registered the highest proportions of people aged 15 to 64 were in Alberta.
- Seven of the 10 municipalities with the highest proportion of seniors were in British Columbia.

Adapted from "The Canadian Population in 2011: Age and Sex," Statistics Canada, January 1, 2014.

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4. Generation Y Forcing Change

What's cool and what's not? Brands like Mudd, Paris Blues, In Vitro, and Cement are in and brands like Nike, Converse, and Levi's are out. Some of the biggest brands on the market are meeting a shrug of indifference from Generation Y. Brands that became cultural icons with the baby boom generation simply aren't kindling the same excitement with today's kids. Nike's sneaker sales are tumbling and the brand is sinking in teen popularity polls. Both Levi's and Pepsi-Cola are battling market share erosion.

Such a shift has a big implication for marketers. Generation Y rivals the baby boom generation in terms of size and, ultimately, buying power as they age. What they do now will help form the next batch of icon brands.

Marketers haven't seen such an opportunity since the baby boom hit. But for a lot of entrenched brands Generation Y poses much risk. This is a generation big enough to do some serious damage to boomer brands if they give them the cold shoulder. New brands have the potential to upset the status quo.

The implications are clear. Marketers who don't bother to learn the interests and obsessions of Generation Y are apt to hit a brick wall of distrust and cynicism. Marketers have a lot to learn, and they must do it quickly.

Adapted from "Today's Teens: The Biggest Bulge since the Boomers May Force Marketers to Toss Their Old Tricks," *Businessweek*, www.businessweek.com.

5. Direct and Indirect Competition: Overlap Hurting Pharmacy Chains

At one time pharmacies filled all prescriptions. Now 25% of all prescriptions are filled elsewhere. The drug market is growing so all sellers are enjoying growth, but the pharmacies' share of Canada's $20 billion market for drugs, vitamins, and other health supplements is eroding as more supermarkets, warehouse clubs, and discount department stores add pharmacy services.

By the numbers here is the situation:

Outlet	1998	2006
Pharmacies	84.0%	76.9%
Food and Beverage Stores	10.3%	14.1%
General Merchandise Stores	5.5%	9.0%
Other Stores	0.2%	0.1%

Considering the growth being experienced by Walmart and Costco it is expected that pharmacy chains will continue to lose market share.

Adapted from Dana Flavelle, "Pharmacies Are Feeling Pain from New Rivals," *Toronto Star*, September 19, 2006, p. D1.

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6. Laws and Regulation: Adidas versus Walmart

Adidas AG settled a trademark infringement lawsuit in which it accused Walmart of copying its three-stripe design on sneakers. Adidas sought Walmart's profit from the shoes, as well as punitive damages. Adidas claimed that Walmart made a revenue of $58 million selling the shoes. At the centre of the court battle is the number of stripes Walmart has on the side of its private label shoes. Adidas accuses Walmart of trademark infringement, claiming the discounter's use of two- and four-striped shoes dilutes the Adidas brand, which uses a three-stripe design.

Adidas has previously won a US$304.6 million decision against Payless Shoe Source. Adidas's three-stripe mark has long been emblematic of Adidas's products. By using identical elements and a similar market for similar products, Walmart has eroded the commercial appeal of Adidas's longstanding and most vital mark.

Adapted from Erik Larson, "Adidas Settles Three-Stripe Lawsuit against Walmart (Update 2)," Bloomberg, September 2, 2008, www.bloomberg.com.

7. Survey Shows Canadians Could Welcome RFID Checkout Technology

An online survey found that Canadians would be interested in using radio frequency identification (RFID) to reduce time spent in supermarket checkout lines. RFID uses microchip transmitters that would scan an entire cart of grocery items simultaneously. According to the survey, three-quarters of respondents stated that they would be willing to try the system. However, respondents expressed concern about the systems cost, privacy, and reliability of RFID technology.

Connect this story with the first article about Loblaw's new online click-and-collect service, plus grocer loyalty programs, to explore all the ways in which grocery stores are attempting to adapt to and benefit from technology in building relationships with consumers.

Adapted from Matt Semansky, "Survey Shows Canadians Could Welcome RFID Checkout Technology," *Marketing Magazine*, April 26, 2008, www.marketingmag.ca.

8. Jumping on the Seniors' Bandwagon

Many "consumer" services are catering to one demographic—the aging population. These include stair lifts, scooters, in-home health care, cleaning services, home repairs, and therapeutic massages. There is some evidence that targeting the senior market is one of the fastest-growing areas in franchising.

Other service-based franchise businesses, such as educational and business training franchises, are also growing quickly. Another trend is small, quick service restaurants serving healthier options than traditional fast food; restaurants specializing in international foods are also doing well.

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Adapted from Derek Sankey Shullman, "Jumping on the Seniors' Bandwagon," *Financial Post*, August 30, 2011, http://business.financialpost.com.

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?

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ANSWERS TO EXPERIENCE MARKETING

In addition to ethnic population trends, students need to learn about the buying behaviour of predominant ethnic groups in these major centres to determine if they would be receptive to buying and using an iced tea.

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. 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? (*LO2*)

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.

3. What are the basic components of the following markets: monopoly, oligopoly, monopolistic competition, and pure competition? Identify a new example of each. (*LO3*)

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.

4. What is the difference between direct competition and indirect competition? Provide a new example to demonstrate the difference between the two forms of competition. (*LO3*)

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 Loblaw to the example just cited). The lines of competition are becoming blurred in today's marketplace.

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5. How do the marketing strategies differ between a market leader and a market challenger? (*LO3*)

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.

6. What are the important social and demographic trends affecting marketing? What demographic trends will become more important in the future? (*LO4*)

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.

7. How are environmental factors influencing marketing strategy? (*LO4*)

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.

8. How are marketers using technology to build relationships and engage with their customers? Give specific examples. (*LO5*)

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.

9. What role does self-regulation play in the practise of marketing? (*LO6*)

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.

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10. What are some important laws governing marketing in Canada? What regulatory bodies oversee these laws? (*LO6*)

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.

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).

2. With reference to the *Think Marketing* box, ***Indigo Books and Music Inc. Transforms Itself***, what trends has Indigo capitalized on and how have these trends influenced its marketing strategies? Do some additional research to update yourself on more recent Indigo activities and happenings before presenting your opinion.

Students will identify changes in demographic, competitive, technological, and industry forces. Indigo has adapted to changes in the publishing/book industry and launched a lifestyle section while considering the competitive environment vis-a-vis online shopping.

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.

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*

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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.

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learning | catalytics

A pedagogy, not just a technology.

Learning Catalytics is a "bring your own device" student engagement assessment that allows instructors and students to work together to generate classroom discussion, guide your lecture, and promote peer-to-peer learning with real-time analytics.

Accessing Learning Catalytics is easy. Students bring their devices to class, and then input the login code provided by the instructor. Instructors release questions, and students answer in real time. The results are aggregated and help direct class discussion or assessment. They can also be saved for a more detailed analysis after class.

Below you will find a selection of Learning Catalytics questions that have been correlated to this chapter. You can access the interactive questions by connecting to the Learning Catalytics site through the MyMarketingLab home page.

SAMPLE QUESTIONS

Course Title: Canadian Marketing

Question Number: 1.5
Question Type: Long Answer
Prompt: What are the five major trends and forces that are changing the marketing landscape and challenging marketing strategy?
Answer/Explanation: The uncertain, changing economic environment; the digital age; the growth of not-for-profit marketing; rapid globalization; the call for more ethics and social responsibility.
Notes: Each of these five major developments can be discussed separately or can make for an excellent breakout discussion where five groups of students are each tasked with analyzing one of the categories.

Question Number: 3.1
Question Type: Word Cloud
Prompt: Name a company well known for sustainable marketing (socially and/or environmentally responsible actions):
Answer/Explanation:
Notes: Once a word cloud has formed, encourage students to debate which of the companies meet the criteria or not, and why. Does Toyota fit the bill because of its innovations, despite still building gas guzzlers?

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Chapter 2
The External Marketing Environment



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Chapter 2
Learning Objectives

1. Identify the external forces that influence marketing.

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

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

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Chapter 2
Learning Objectives (con't)

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

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

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

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External Forces Impacting Marketing

Figure 2.1 Trends in the Canadian Marketplace

Environmental Force (C.R.E.S.T.)	Trends Revealed by an Environmental Scan
Competitive	• Price competition is intense as big U.S. retailers continue to enter the Canadian marketplace. • Mergers and acquisitions are occurring to create scale and improve competitiveness.
Regulatory	• There's an increased emphasis on free trade. • Regulators are introducing new legislation related to consumer privacy, intellectual property protection, and copyright.
Economic	• Canada's rate of economic growth is much lower than before the 2009 global recession. • Electronic commerce continues to grow. • There is concern about the high levels of personal and household debt.
Social, Environmental & Demographic	• Canadian society is more demanding of Canadian business practices and tends to reward those organizations that act in a socially responsible manner. • The population of Canada is more ethnically diverse than it used to be.
Technological	• Technological innovations are changing the way we communicate with each other and the way companies communicate with customers. • There has been a dramatic growth in open source or free software. • The "Internet of Everything" is connecting all aspects of our lives.

Individually or collectively, these trends (or forces) could have an impact on a company. Google's business situation in early 2014 was described in the opening of this chapter. Google gives careful consideration to all of these trends when devising its corporate and marketing strategies.

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Economic Forces (con't)

Gross domestic product (GDP)

- The total value of goods and services produced in a country on an annual basis

Inflation

- The rising price level for goods and services that results in reduced purchasing power.

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Competitive Forces

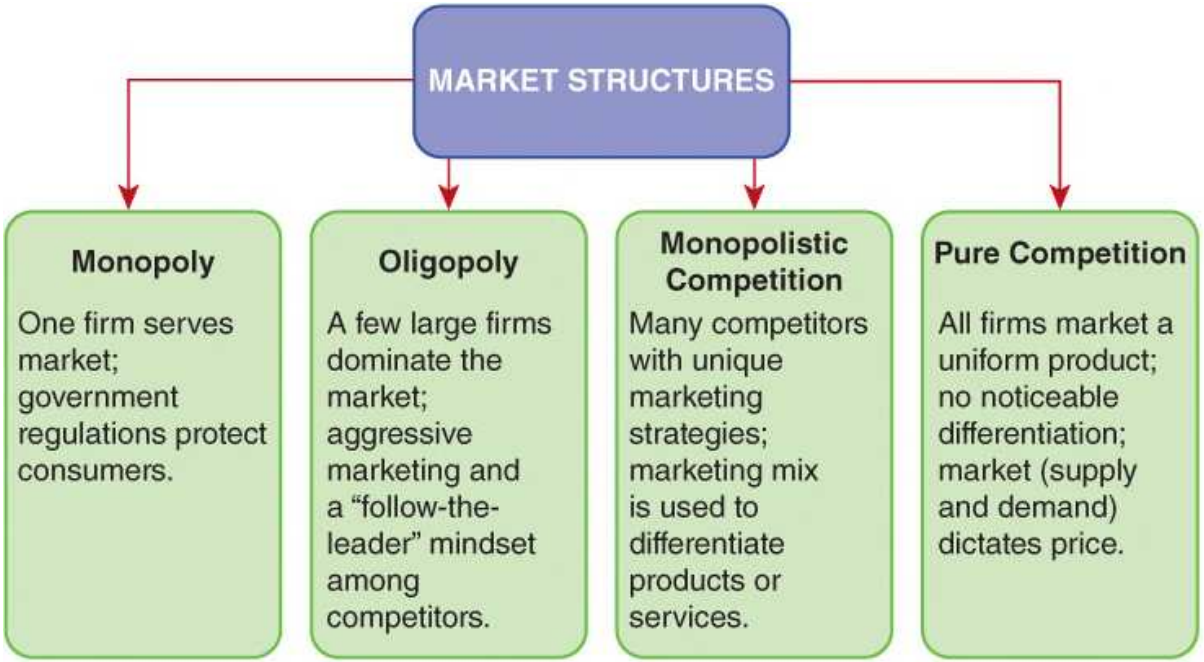


Figure 2.3 Market Structures in Canada

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Competitor Strategies

Marketers must consider the strategies of **direct** and **indirect competitors**.

Direct Competition → *Competition from alternative products or services*

Indirect Competition → *Competition from substitute products that offer customers the same benefit.*

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Market Share

The strength of a brand or company relative to its competitors is determined by **market share.**

Calculated by the sales volume of one competing product or company expressed as a percentage of total market sales volume.

Market Share = Brand Dollar Sales / Market Dollar Sales x 100

Example: = $1,000,000 / $10,000,000 x 100
= 10%

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Competitive Position



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Battle for Market Share



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Figure 2.5 Subway dominates the fresh sandwich market in Canada.

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Social, Environmental and Demographic Forces

- **Lifestyles**
- **Social Responsibility and Natural Environment**
- **Demographics**

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Social

Lifestyles

Generally speaking, we are now a society that places a greater emphasis on quality of life rather than work.

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Social Responsibility and the Natural Environment



Rumble

Figure 2.7 Companies like Groove Nutrition, makers of Rumble, are focusing on a triple bottom line: people, planet and profit.

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Demographic Forces

Demographics: the study of the characteristics of the population.

- *Size and Age*
- *Location*
- *Family Formation and Household Size*
- *Spending Power and Wealth*
- *Education*
- *Multiculturalism*

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Demographic Forces

Size and Age

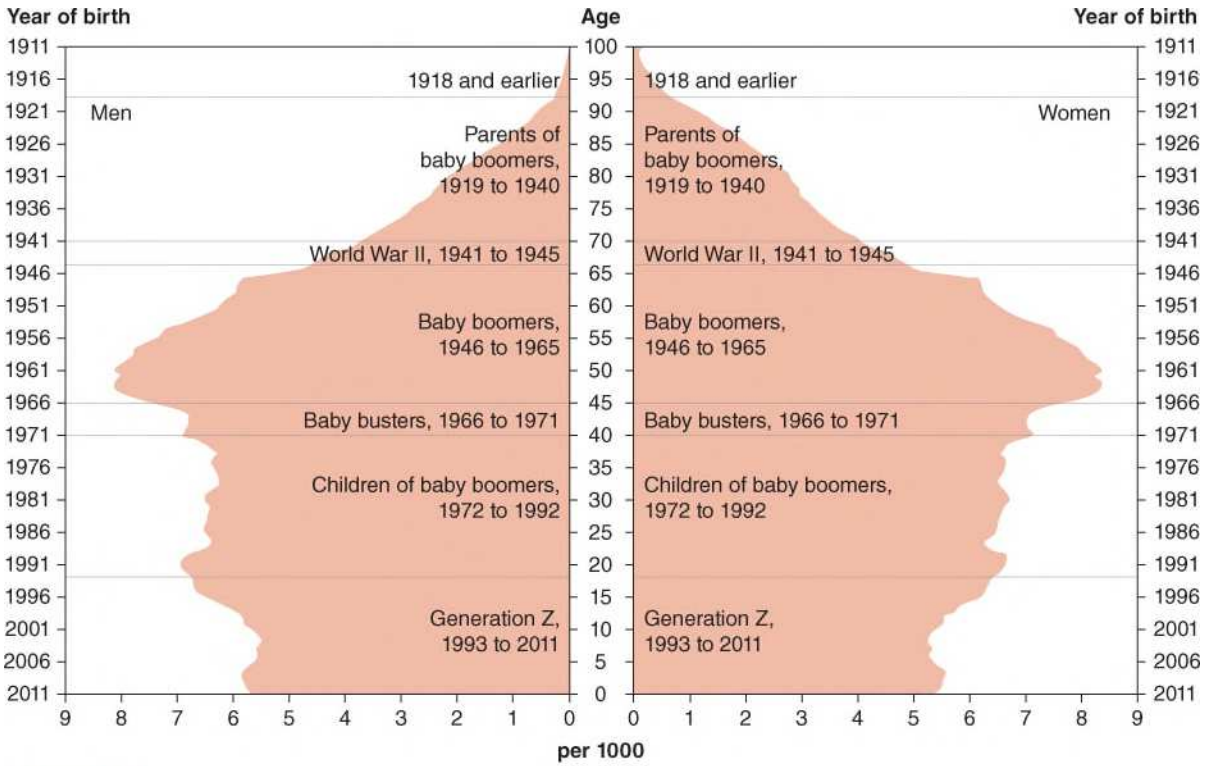


Figure 2.8 Canada's Population by Age

Source: Statistics Canada. (2011). Census of Population. Retrieved from http://www12.statcan.gc.ca/census-recensement/2011/as-sa/98-311-x/2011003/fig/fig3_2-2-eng.cfm

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Demographic Forces

Location

Census metropolitan area (CMA) An area that encompasses all rural and urban areas that are linked to a city's urban core, either socially or economically.

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Demographic Forces

Family Formation and Household Size

Blended family: A family structure created by separation or divorce; two separate families merge into a single household as spouses remarry.

Sandwich generation: A generation of parents who are simultaneously caring for children and aging relatives

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Demographic Forces

Spending Power and Wealth

Figure 2.11
The entry-luxury CLA model Mercedes Benz appeals directly to affluent younger buyers.



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Demographic Forces

Multiculturalism



Figure 2.12 Canada's Ethnic Population as a Percentage of Each Market's Overall Population

Source: Statistics Canada. (2011). National Household Survey.

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Technological Forces

The technological environment consists of the discoveries, inventions, and innovations that provide for marketing opportunities.

- *Managing Customers*
- *Technology and Marketing Communications*
- *Internet and E-Commerce*

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Managing Customers

An effective customer relationship management (CRM) program continually

- collects information about customers
- analyzes the information
- develops a marketing strategy precisely designed to meet the needs of the customer

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Technology and Marketing Communications

Figure 2.13
Canadian Media Usage

Canadians are spending more time with the media. TV, radio, newspapers and magazines have all been hurt by the Internet. Share of weekly minutes per capita, adults 18+

Medium	2001 Minutes	2001 Share	2013 Minutes	2013 Share
TV	1531	46%	1728	36%
Radio	1282	38%	1065	22%
Internet (total for all devices)	311	9%	1735	37%
Newspaper	161	5%	189	4%
Magazine	77	2%	34	1%
Total	3362	100%	4751	100%

Source: The 2013 CMUST Report: Commissioned by IAB Canada.

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The Internet and E-Commerce

Figure 2.14
Canadian E-Commerce Facts and Figures

Canada is one of the most "connected" countries in the world. As of 2012, 86 percent of Canadians had Internet access from anywhere, and 80 percent had Internet access at home. Such high figures present ample opportunity for marketers to pursue e-commerce opportunities. Here are some facts and figures about the Canadian market in 2012.

- Canadian consumers placed orders for $18.9 billion worth of goods and services, up 24% from 2010.
- 56% of Internet users ordered goods or services online, up from 51% in 2010.
- 77% of Internet users did research on goods or services or window shopped.
- Young adults aged 25 to 34 were most likely to make a purchase online, with 69% purchasing online in 2012.
- Of those Canadians who ordered online, the average online shopper made about 13 separate orders and spent approximately $1450.
- 58% of online shoppers purchased travel, such as airline tickets or hotel reservations and 52% purchased event tickets online.
- Online shopping is still a small part of the retail economy, making up just four percent of total retail sales of $470 billion.

Source: Statistics Canada. (2013, October 28). The Daily. Retrieved from http://www.statcan.gc.ca/daily-quotidien/131028/dq131028a-eng.htm and CBC News. (2013, October 28). Average online shopper spent $1,450 last year. Retrieved from http://www.cbc.ca

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The Internet and E-Commerce

Mass Customization:

The creation of systems that can produce products and personalize messages to a target audience of one.

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Legal and Regulatory Forces

- **Industry Canada** Regulates the legal environment for marketing and other business practices in Canada.

- **Competition Act** brings together a number of related laws to help consumers and businesses function in Canada

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Legal and Regulatory Forces

- **Competition Bureau**
- **Office of Consumer Affairs (OCA)**
- **Self-Regulation**

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