THINK Marketing (Canadian) 3rd 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: 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

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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:

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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

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 Loblaw 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)

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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*)

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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.

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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.

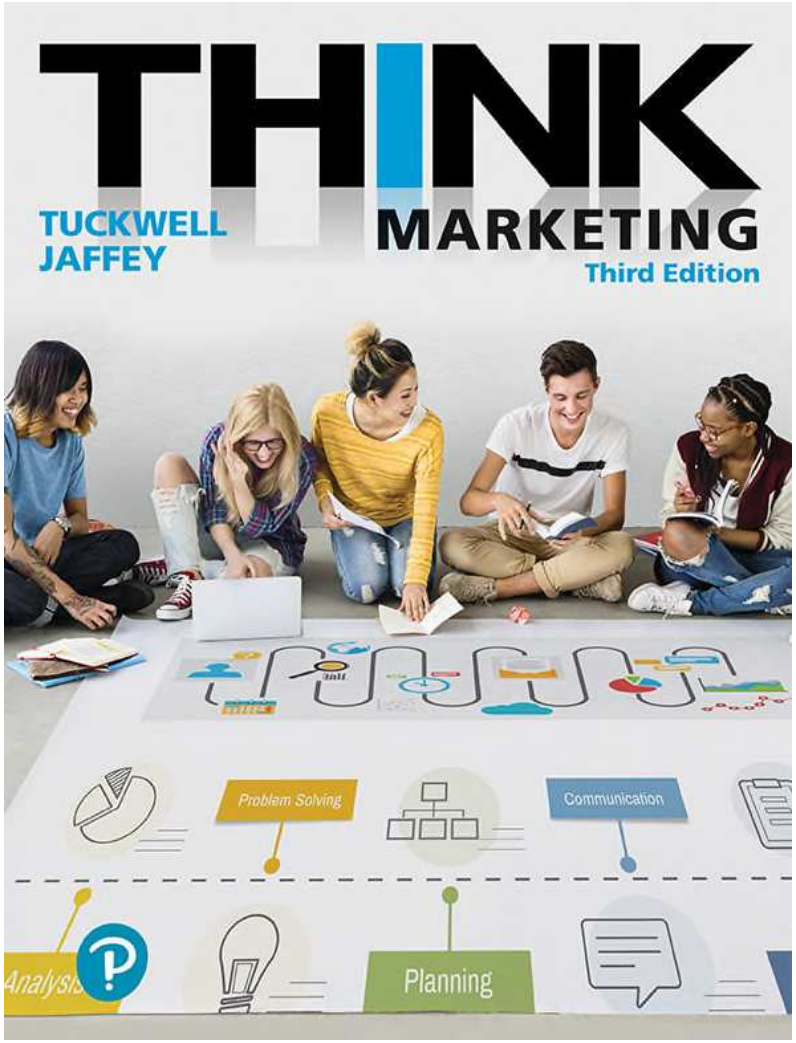
5. Assign a specific social and demographic trend to small groups of students (the trends are clearly identified in the textbook). Also assign each group a product or company. Have the students conduct a brainstorming session where they determine the effect of the trend on their business. Students would then make a brief presentation to the class near the end of the session.

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Think Marketing

Third Edition



Chapter 2

The External Marketing Environment

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Learning Objectives (1 of 2)

1. Identify the external forces that influence marketing.

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

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

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Learning Objectives (2 of 2)

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

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

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

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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 online retailers such as Amazon gain traction and big U.S. chain stores continue to enter the Canadian marketplace. • Mergers and acquisitions are occurring to create scale and improve competitiveness.
Regulatory	• The impact of Brexit and U.S. President Trump's protectionist policies create uncertainty and may hamper global trade. • Regulators are introducing new legislation related to consumer privacy, intellectual property protection, and copyright.
Economic	• Most of Canada's job growth is coming from the services sector. • There is continued concern about the high levels of personal and household debt. • Housing markets remain overheated in key urban centres such as Toronto and Vancouver. • The sharing economy continues to expand.
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. • Canada's population is more ethnically diverse than ever before.
Technological	• Technological innovations, including artificial intelligence (AI), are impacting all aspects of society—from the way we purchase products to the way people and organizations communicate. • There has been a dramatic growth in e-commerce, especially among millennials. • The Internet of Things is connecting all aspects of our lives.

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Economic Forces

Gross domestic product (GDP)

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

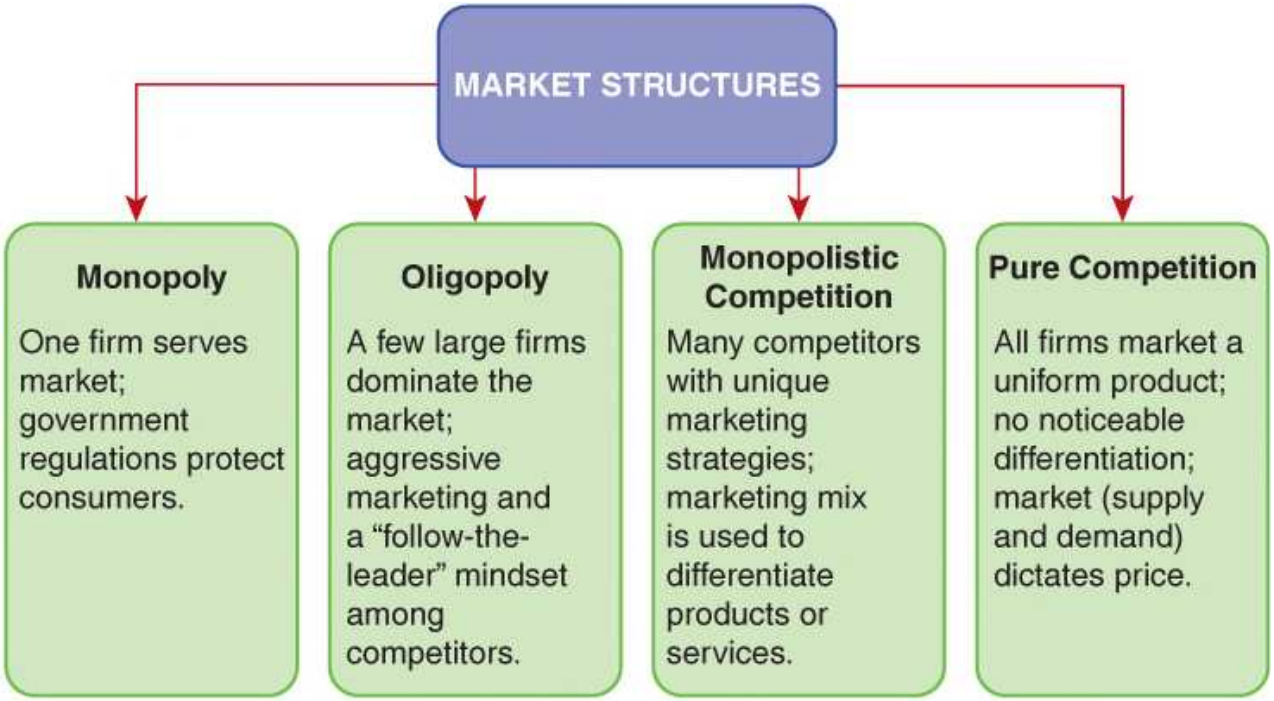
Inflation

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

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Competitive Forces

Figure 2.2
Market Structures in Canada



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Competetive 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.**

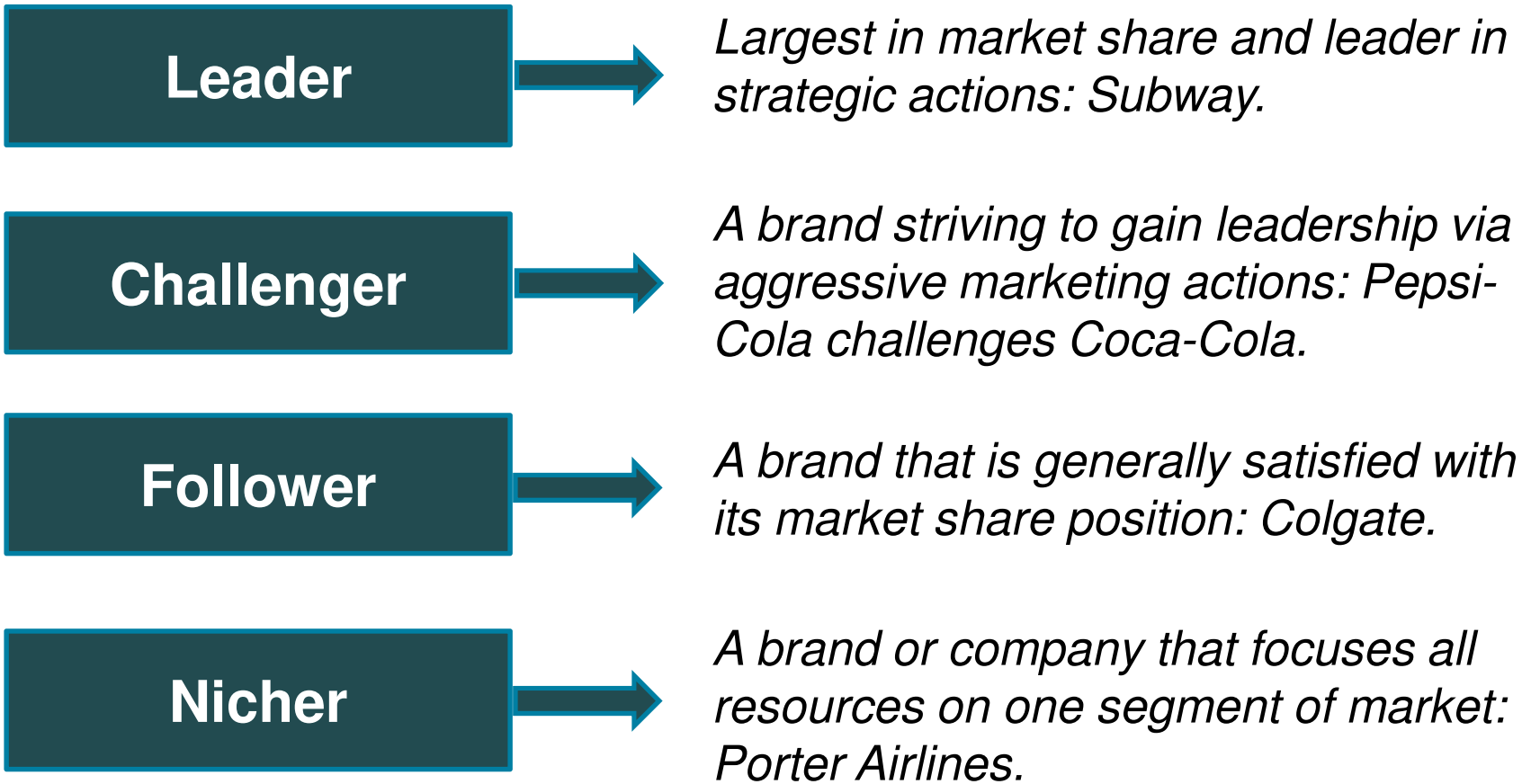
Calculated by the sales volume of one competing product or company expressed as a percentage of total market sales volume.

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

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

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Competitive Position



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Battle for Market Share



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Figure 2.4 Subway dominates the fresh sandwich market in Canada.

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Regulatory and Legal Forces (1 of 2)

- **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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Regulatory and Legal Forces (2 of 2)

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

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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



Figure 2.8 Companies like Grove Nutrition, makers of Rumble, are focusing on a triple bottom line: people, planet, and profit.

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Demographic Forces (1 of 6)

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 (2 of 6)

Size and Age

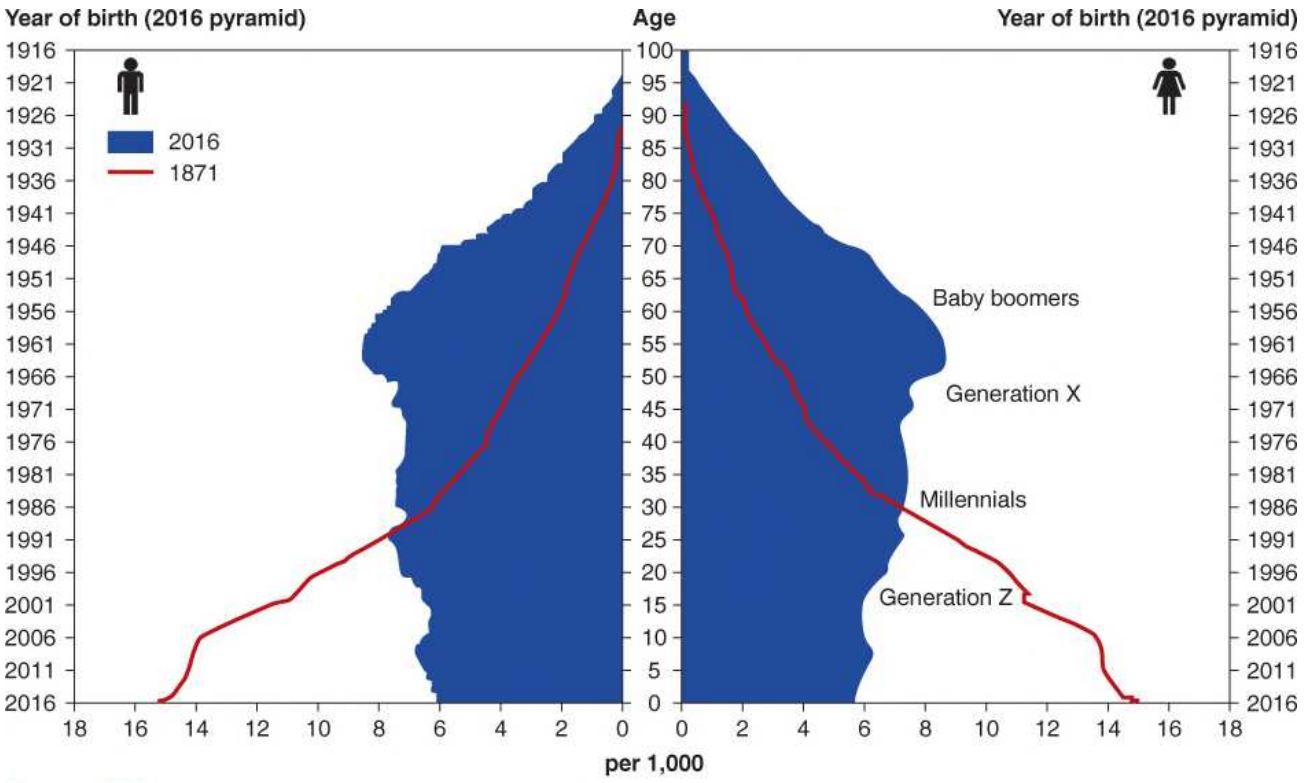


Figure 2.9 Canada's Population by Age and Gender

Source: www.statcan.gc.ca/daily-quotidien/170503/g-a001-eng.htm

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Demographic Forces (3 of 6)

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 (4 of 6)

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 (5 of 6)

Spending Power and Wealth



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Figure 2.12 Luxury brand manufacturers appeal directly to millennials.

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Demographic Forces (6 of 6)

Multiculturalism

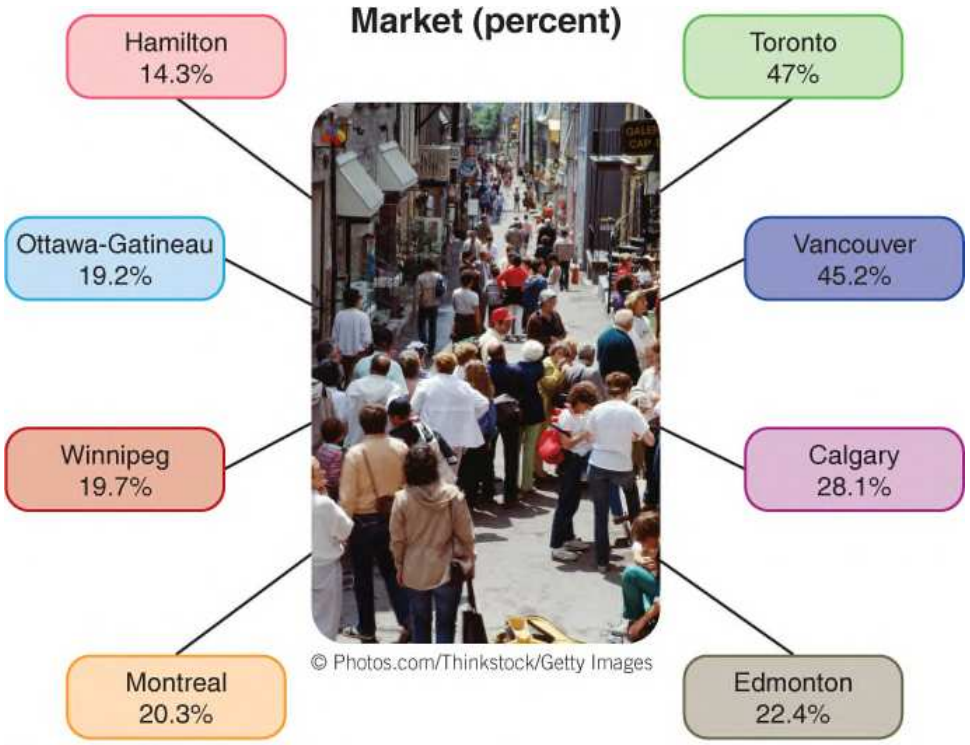


Figure 2.13 Canada's Ethnic Population as a Percentage of Each Market's Overall Population

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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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The Internet and E-Commerce (1 of 2)

Figure 2.14 Key Insights into Online Shopping

Here is a summary of key insights into online shopping in Canada:

- 10% of all Canadian retail spending will be conducted online by 2019.
- 40% of millennials buy online monthly.
- 50% of 18 to 24 year old Canadian consumers use their smartphone/mobile device to access store coupons or promotional codes.
- 40% of consumers under the age of 34 say that interactions with their favourite brands through social media have driven them to respect and value those brands.
- 51% of millennials say that reading reviews, comments, and feedback on social media influences their online shopping habits.
- The majority of shoppers like the experience of shopping in an actual store, so savvy retailers are investing in a buy-online-and-pickup-in-store strategy.
- More and more, retailers are using big data, including a shopper's online purchase history and demographic information such as race, household income, and postal code to personalize the price the consumer pays for products and services.

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The Internet and E-Commerce (2 of 2)

Mass Customization:

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

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