chapter 4

Evaluating Opportunities in the Changing Marketing Environment

When You Finish This Chapter, You Should

1. Know the variables that shape the environment of marketing strategy planning.
2. Understand why company objectives are important in guiding marketing strategy planning.
3. See how the resources of a firm affect the search for opportunities.
4. Know how the different kinds of competitive situations affect strategy planning.
5. Understand how the economic and technological environment can affect strategy planning.
6. Know why you might be sent to prison if you ignore the political and legal environment.
7. Understand how to screen and evaluate marketing strategy opportunities.
8. Understand the important new terms (shown in red).

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Marketing managers do not plan strategies in a vacuum. When choosing target markets and developing the four Ps, they must work with many variables in the broader marketing environment. Marketing planning at Rubbermaid shows why this is important.

Over the years, Rubbermaid's marketing managers built a respected brand name in plastic housewares. Their focus was on developing new products that "make everyday life easier and more enjoyable." For example, marketing research revealed that consumers were annoyed by trash cans that cracked in winter weather. So a Rubbermaid team created a product that wouldn't crack even if it were dropped when frozen. Rubbermaid was also innovative in other marketing efforts. For example, the firm quickly created an Internet web site called Everything Rubbermaid Online (www.rubbermaid.com) where a consumer could buy any of Rubbermaid's 5,000 products.

In spite of such successes, marketing managers knew that just working harder at housewares would not be enough to ensure growth. The domestic target market for traditional kitchenware was stagnant and competition was intense. Profits were further eroded because of an unusual economic environment. The cost of plastic resin—a key raw material—had doubled. However, prices for most consumer products were holding steady. Thus, powerful retailers like Wal-Mart resisted the price increases that Rubbermaid wanted. Ultimately, Rubbermaid had to settle for lower prices and thinner profit margins.

To address such threats, Wolfgang Schmidt, the top executive at Rubbermaid, saw that it was essential both to enter new product-markets and expand overseas. To steer marketing managers that way, he told them that by the year 2000 he wanted 30 percent of sales to come from abroad—and he still wanted one-third of revenues to come from new products. At the same time, he made it clear that resources to achieve these objectives were limited. He wanted to cut annual costs by over $300 million.

Rubbermaid's marketing managers did identify many new product-markets—and turned them into strategies. Examples of new products they introduced ranged from the Icy Rider two-person sled to the PlayCenter, a $3,000 playground set targeted at day care centers. The colorful plastic PlayCenter is safe, durable, and easy to install. Day care centers see it as a better value than steel units that cost three times as much.

e.com/fourps

Rubbermaid marketing managers also pursued growth overseas. This included a big push into the European Union. However, the Rubbermaid name was not well known there. Even in England, many consumers were confused and thought the firm made rubber dolls! Many European consumers preferred items made of metal or wood and viewed plastic as a bit cheap. And there were initial mistakes. Managers in the U.S. didn't tailor products to the new markets, despite the many cultural differences. Americans like housewares in neutral blues or almond colors, for instance, but Southern Europeans prefer red containers; customers in Holland want white. And while Rubbermaid sells millions of open-top waste baskets in the U.S., Europeans want snap-on lids that keep garbage in its place.

Overseas competition also turned out to be tough. European producers had already established relationships with the best retailers. Tupperware, a competitor in the U.S, also had the upper hand. It had made the global push earlier and 85 percent of its sales came from overseas. Moreover, Tupperware already had hard-to-get approval from the government of India to set up a subsidiary there. In some Asian countries, where trademark laws weren't enforced, other firms blatantly sold knock-offs of Rubbermaid products.[1]

The Marketing Environment

You saw in the last chapter that using segmenting and positioning to narrow down to a specific marketing strategy takes a real understanding of what makes customers tick. You also saw that developing a competitive advantage and a strategy that offers customers superior value takes an understanding of the capabilities of your own company and of competitors. This chapter takes this thinking further. As the Rubbermaid case shows, a marketing manager must analyze customer needs and choose marketing strategy variables within the framework of the marketing environment and how it is changing.

A large number of forces shape the marketing environment. To help organize your thinking, it's useful to classify the various forces as falling into either the (1) direct market environment or (2) the external market environment. The direct environment of any generic market or product-market includes customers, the company, and competitors. The external market environment is broader. The variables of the external market environment fall into four major areas:

1. Economic environment.
2. Technological environment.
3. Political and legal environment.
4. Cultural and social environment.

In the short run, the marketing manager doesn't control the variables of the marketing environment. That's why it's sometimes useful to think of them as uncontrollable variables. On the other hand, the marketing manager can and should carefully consider the environmental variables when making decisions that can be controlled. For example, a manager may not be able to do anything to offset the strengths of a specific competitor, but the manager can select strategies that lead the firm into product-markets where that firm does not compete, or where compe-

tition in general is not as strong. In this chapter, we'll look at these marketing environment variables in more detail. We'll see how they shape opportunities—limiting some possibilities and making others more attractive.

Objectives Should Set Firm's Course

A company must decide where it's going, or it may fall into the trap expressed so well by the quotation: "Having lost sight of our objective, we redoubled our efforts." Company objectives should shape the direction and operation of the whole business.

It is difficult to set objectives that really guide the present and future development of a company. The process forces top management to look at the whole business, relate its present objectives and resources to the external environment, and then decide what the firm wants to accomplish in the future.

The marketing manager should be heard when the company is setting objectives. But setting whole-company objectives—within resource limits—is ultimately the responsibility of top management. In this sense, whole-company objectives are usually outside the marketing manager's "control."

It would be convenient if a company could set one objective—such as making a profit—and let that serve as the guide. Actually, however, setting objectives is much more complicated, which helps explain why it's often done poorly—or not done at all.

Three basic objectives provide guidelines

The following three objectives provide a useful starting point for setting a firm's objectives. They should be sought *together* because—in the long run—a failure in even one of the three areas can lead to total failure of the business. A business should:

1. Engage in specific activities that will perform a socially and economically useful function.
2. Develop an organization to carry on the business and implement its strategies.
3. Earn enough profit to survive.[2]

Should be socially useful

The first objective says that the company should do something useful for society. This isn't just a "do-gooder" objective. Businesses can't exist without the approval of consumers. If a firm's activities appear to be contrary to the consumer "good,"

One specific British Airways objective is to increase its share of air travel between London and New York. The promotion objective of this particular billboard, which appears at only one much-viewed site between New York City's major airports, is to remind business travelers that the airline's Concorde is the fastest bridge between the two countries.

the firm can be wiped out almost overnight by political or legal action—or consumers' own negative responses.

A firm should define its objectives broadly—setting need-satisfying objectives rather than production-oriented objectives. Because customer needs change, too narrow a view may lead the company into a product-market in which the product itself will soon be obsolete.[3]

Should organize to innovate

In a macro-marketing sense, consumers in market-directed economies have granted businesses the right to operate—and to make a profit if they can. With this right comes the responsibility for businesses to be dynamic agents of change, adjusting their offerings to meet new needs. Competition is supposed to encourage innovation and efficiency. A business firm should develop an organization that ensures these consumer-assigned tasks are carried out effectively—and that the firm itself continues to prosper.

Should earn some profit

In the long run, a firm must make a profit to survive. But just saying that a firm should try to make a profit isn't enough. Management must specify the time period involved, since many plans that maximize profit in the long run lose money during the first few years. On the other hand, seeking only short-term profits may steer the firm from opportunities that would offer larger long-run profits.

Further, trying to maximize profit won't necessarily lead to big profits. Competition in a particular industry may be so fierce as to almost guarantee failure. For example, Greyhound Corp. struggled to maximize profits selling long-distance bus travel, but low airfares attracted much of the business. Even the maximum possible profit was disappointing. In a situation like this, it might be better to set a *target* rate of profit that will lead the firm into areas with more promising possibilities.

A mission statement helps set the course

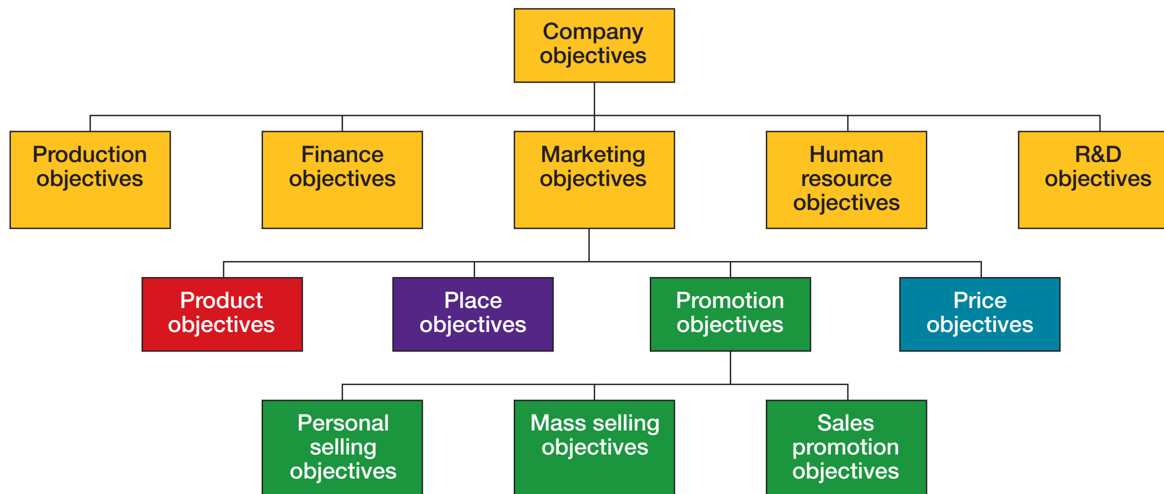
Our three general objectives provide guidelines, but a firm should develop its own objectives. This is important, but top executives often don't state their objectives clearly. Too often, they say what their objectives were after the fact! If objectives aren't clear from the start, different managers may hold unspoken and conflicting objectives—a common problem in large companies and in nonprofit organizations.

Many firms try to avoid this problem by developing a **mission statement**, which sets out the organization's basic purpose for being. For example, the mission of the Fort Smith Public Library (www.fspl.lib.ar.us) is "to serve the minds of the citizens in our community by providing easy access to resources that meet their informational and recreational needs." As illustrated by this example, a good mission statement should focus on a few key goals rather than embracing everything. It should also supply guidelines when managers face difficult decisions. For example, if an employee of the library is trying to decide whether or not to write a proposal for the funding of new computers that provide Internet access, it should be clear that this is a service that is within the scope of the library's stated mission. On the other hand, if another possible opportunity was to use extra space in the library for exercise equipment, it would appear to be beyond the stated mission. Of course, a mission statement may need to be revised as new market needs arise or as the marketing environment changes, but this would be a fundamental change and not one that is made casually.[4]

The whole firm must work toward the same objectives

A mission statement is important, but it is not a substitute for more specific objectives that provide guidance in screening possible opportunities. For example, top management might set objectives such as "earn 25 percent annual return on investment," "become the market share leader in each of our product-markets," and "introduce at least three innovative and successful products in the next two years."

Exhibit 4–1 A Hierarchy of Objectives



Of course, when there are a number of specific objectives stated by top management, it is critical that they be compatible. If they're not, frustration and even failure may result. For example, a top-management objective of 25 percent annual return on investment may seem reasonable taken by itself. And the objective of introducing new products is reasonable. However, if the costs of developing and introducing the new products cannot be recouped within one year, the return on investment objective is incompatible and impossible to achieve.[5]

Top-management myopia may straitjacket marketing

We are assuming that it is the marketing manager's job to work within the framework of objectives provided by top management. But some of these objectives may limit marketing strategies—and perhaps damage the whole business. This is another reason why it is desirable for the marketing manager to help shape the company's objectives.

Some top managements want a large sales volume or a large market share because they feel this ensures greater profitability. But many large firms with big market shares, like Eastern Airlines, have gone bankrupt. These firms sought large market shares—but earned little profit. Increasingly, companies are shifting their objectives toward *profitable* sales growth rather than just larger market share—as they realize that the two don't necessarily go together.[6]

Company objectives should lead to marketing objectives

You can see why the marketing manager should be involved in setting company objectives. Company objectives guide managers as they search for and evaluate opportunities—and later plan marketing strategies. Particular *marketing* objectives should be set within the framework of larger company objectives. As shown in Exhibit 4–1, firms need a hierarchy of objectives—moving from company objectives to marketing department objectives. For each marketing strategy, firms also need objectives for each of the four Ps—as well as more detailed objectives. For example, in the Promotion area, we need objectives for advertising, sales promotion, *and* personal selling.

Xerox provides a good example. One of its company objectives is to achieve high customer satisfaction in every market in which it competes. So, the R&D people design equipment to meet specific reliability objectives. Similarly, the production people work to cut manufacturing defects. The marketing department, in turn, sets specific customer satisfaction objectives for every product. That leads to specific promotion objectives to ensure that the sales and advertising people don't promise more

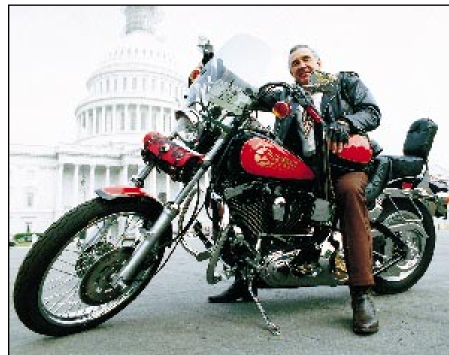
than the company can deliver. Service people, in turn, work to respond to almost all service calls within four hours.

Both company objectives and marketing objectives should be realistic and achievable. Overly ambitious objectives are useless if the firm lacks the resources to achieve them.

Company Resources May Limit Search for Opportunities

Every firm has some resources—hopefully some unique ones—that set it apart from other firms. Breakthrough opportunities—or at least some competitive advantage—come from making use of these strengths while avoiding direct competition with firms having similar strengths.

To find its strengths, a firm must evaluate its functional areas (production, research and engineering, marketing, general management, and finance) as well as its present products and markets. By analyzing successes or failures in relation to the firm's resources, management can discover why the firm was successful—or why it failed—in the past.



Harley-Davidson's motorcycle business was on the ropes, and it was losing customers to Japanese competitors. Studying the Japanese firms helped Harley identify ways to produce higher quality motorcycles at lower cost. With these resource-use problems resolved, new opportunities opened up—and Harley was again on the road to achieving its objectives. The pressure of competition focused Harley's attention on manufacturing resources. Other resources that should be considered—as part of an evaluation of strengths and weaknesses—are discussed in the following sections.[7]

Financial strength

Some opportunities require large amounts of capital just to get started. Money may be required for R&D, production facilities, marketing research, or advertising—before a firm makes its first sale. And even a really good opportunity may not be profitable for years. So lack of financial strength is often a barrier to entry into an otherwise attractive market.

Producing capability and flexibility

In many businesses, the cost of producing each unit decreases as the quantity produced increases. Therefore, smaller producers can be at a great cost disadvantage if they try to win business from larger competitors.

On the other hand, new—or smaller—firms sometimes have the advantage of flexibility. They are not handicapped with large, special-purpose facilities that are obsolete or poorly located. U.S. Steel (USX), Bethlehem, and other large steel producers once enjoyed economies of scale. But today they have trouble competing with producers using smaller, more flexible plants. Similarly, poorly located or obsolete retail or wholesale facilities can severely limit marketing strategy planning.

Firms that own or have assured sources of supply have an important advantage—especially in times of short supply. Big firms often control their own sources of supply. Companies that don't have guaranteed supply sources may have difficulty meeting demand—or even staying in business.

A familiar brand name—and other marketing strengths—can be an advantage in seeking new opportunities.

On the other hand, some firms are finding that they have the greatest flexibility by not having any "in house" manufacturing at all. Sara Lee, the company that markets brands like Hanes and L'Eggs, is a good example. Sara Lee is selling its manufacturing facilities for many of these textile-related markets. Sara Lee says it doesn't have a competitive advantage in manufacturing. Further, if its needs change in various markets around the world it will buy products from whatever suppliers are best able to meet its specifications. Of course, this could be risky if some other firm can develop a competitive advantage—because it can provide retailers with faster or more reliable response when they place orders.

Marketing strengths

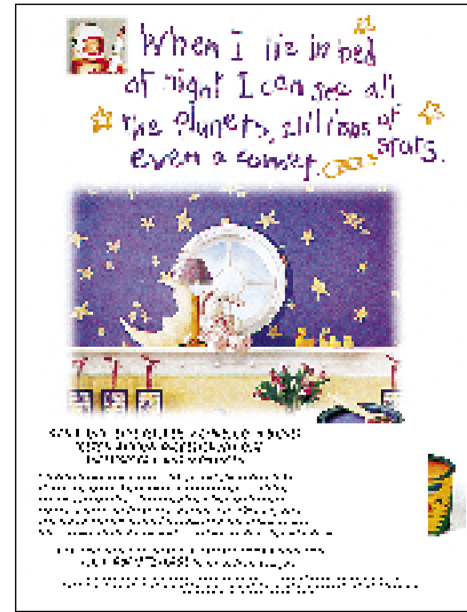
Our marketing strategy planning framework (Exhibit 3–1) helps in analyzing current marketing resources. In the product area, for example, a familiar brand can be a big strength. Starbucks is famous for its coffee beverages. Starbucks Coffee Ice Cream was also a leader within a year of its introduction. People tried it because they knew what Starbucks flavor meant. A new idea or process may be protected by a *patent*. A patent owner has a 20-year monopoly to develop and use its new product, process, or material. If one firm has a strong patent, competitors may be limited to second-rate offerings—and their efforts may be doomed to failure.[8]

Good relations with established middlemen—or control of good locations—can be important resources in reaching some target markets. When marketing managers decided to introduce the Crest Precision toothbrush, Crest toothpaste had already proved profitable to drugstores, grocery stores, and other retailers who could reach the target market. So these retailers were willing to give the toothbrush shelf space. Similarly, effective computer systems that speed delivery of orders, control inventory, and share information in the channel can be a big advantage.

Promotion and price resources must be considered too. Fidelity Investments already has a skilled sales force. Marketing managers know these sales reps can handle new products and customers. And expertise to create a low-cost Internet web site may enable a firm to undercut competitors' prices.

Finally, thorough understanding of a target market can give a company an edge. Many companies fail in new product-markets because they don't really understand the needs of the new customers—or the new competitive environment.

Benjamin Moore would like to avoid head-on competition from other paint producers, but that is difficult if potential customers view competing paints as very similar.



Analyzing Competitors and the Competitive Environment

Choose opportunities that avoid head-on competition

The **competitive environment** affects the number and types of competitors the marketing manager must face—and how they may behave. Although marketing managers usually can't control these factors, they can choose strategies that avoid head-on competition. And, where competition is inevitable, they can plan for it.

Economists describe four basic kinds of market (competitive) situations: pure competition, oligopoly, monopolistic competition, and monopoly. Understanding the differences among these market situations is helpful in analyzing the competitive environment, and our discussion assumes some familiarity with these concepts. (For a review, see Exhibit A–11 and the related discussion in Appendix A, which follows Chapter 22).

Most product-markets head toward pure competition—or oligopoly—over the long-run. In these situations, competitors offer very similar products. Because customers see the different available products (marketing mixes) as close substitutes, managers just compete with lower and lower prices, and profit margins shrink. Sometimes managers do this much too quickly, without really thinking through the question of how they might add more value to the marketing mix. It's crucial to remember that the marketing mix that offers customers the best value is not necessarily the one with the lowest price.

Avoiding pure competition is sensible—and certainly fits with our emphasis on target marketing. That is why it's important to find a competitive advantage on which to differentiate the firm's marketing mix. This is why effective target marketing is fundamentally different than effective decision making in other areas of business. Accounting, production, and financial managers for competing firms can learn about and use the same standardized approaches—and they will work well in each case. By contrast, marketing managers can't just learn about and adopt the same "good" marketing strategy being used by other firms. That just leads to head-on competition—and a downward spiral in prices and profits. So target marketers try to offer a marketing mix better suited to customers' needs than competitors' offerings.

Competitor-free environments are rare

Most marketing managers would like to have such a strong marketing mix that customers see it as uniquely able to meet their needs. This competitor-free ideal guides the search for breakthrough opportunities. Yet monopoly situations, in which

one firm completely controls a broad product-market, are rare in market-directed economies. Further, governments commonly regulate monopolies. For example, in many parts of the world prices set by utility companies must be approved by a government agency. Although most marketing managers can't expect to operate with complete control in an unregulated monopoly, they can move away from head-on competition.

Monopolistic competition is typical–and a challenge

In monopolistic competition, a number of different firms offer marketing mixes that at least some customers see as different. Each competitor tries to get control (a monopoly) in its "own" target market. But competition still exists because some customers see the various alternatives as substitutes. Most marketing managers in developed economies face monopolistic competition.

In monopolistic competition, marketing managers sometimes try to differentiate very similar products by relying on other elements of the marketing mix. For example, Clorox Bleach uses the same basic chemicals as other bleaches. But marketing managers for Clorox may help to set it apart from other bleaches by offering an improved pouring spout, by producing ads that demonstrate its stain-killing power, or by getting it better shelf positions in supermarkets. Yet such approaches may not work, especially if competitors can easily imitate the new ideas. Efforts to promote real—but subtle—differences may not do any good either. If potential customers view the different offerings as essentially similar, the market will become more and more competitive—and firms will have to rely on lower costs to obtain a competitive advantage.

Analyze competitors to find a competitive advantage

The best way for a marketing manager to avoid head-on competition is to find new or better ways to satisfy customers' needs and provide value. The search for a breakthrough opportunity—or some sort of competitive advantage—requires an understanding not only of customers but also of competitors. That's why marketing managers turn to **competitor analysis**—an organized approach for evaluating the strengths and weaknesses of current or potential competitors' marketing strategies. A complete discussion of the possible approaches for competitor analysis is beyond the scope of the first marketing course. But we will briefly cover an approach that works well in many different market situations.

The basic approach to competitor analysis is simple. You compare the strengths and weaknesses of your current (or planned) target market and marketing mix with what competitors are currently doing or are likely to do in response to your strategy.

The initial step in competitor analysis is to identify potential competitors. It's useful to start broadly—and from the viewpoint of target customers. Companies may offer quite different products to meet the same needs, but they are competitors if customers see them as offering close substitutes. For example, disposable diapers, cloth diapers, and diaper rental services all compete in the same generic market concerned with baby care. Identifying a broad set of potential competitors helps marketing managers understand the different ways customers are currently meeting needs—and sometimes points to new opportunities. For example, even parents who usually prefer the economy of cloth diapers may be interested in the convenience of disposables when they travel.

Usually, however, marketing managers quickly narrow the focus of their analysis to the set of **competitive rivals**—firms that will be the closest competitors. Rivals offering similar products are usually easy to identify. However, with a really new and different product concept, there may not be a current competitor with a similar product. In that case, the closest competitor may be a firm that is currently serving similar needs with a different product. Although such firms may not appear to be close competitors, they are likely to fight back—perhaps with a directly competitive product—if another firm starts to take away customers.

Anticipate competition that will come

Marketing managers must consider how long it might take for competitors to appear. It's easy to make the mistake of assuming that there won't be competitors—or of discounting how aggressive competition may become. But a successful strategy attracts copycats who jump in for a share of the profit. Sometimes a creative imitator figures out a way to provide customers with superior value. Then, sales may disappear before the pioneer even knows what's happened.

Finding a sustainable competitive advantage requires special attention to competitor strengths and weaknesses. For example, it is very difficult to dislodge a firm that is already a market leader simply by attacking with a similar strategy. The leader can usually defend its position by quickly copying the best parts of what a new competitor is trying to do. On the other hand, an established competitor may not be able to defend quickly if it is attacked where it is weak. For example, Right Guard deodorant built its strong position with an aerosol spray dispenser. But many consumers don't like the messy aerosol cloud; that weakness provided Old Spice with an opportunity for a deodorant in a pump dispenser. Right Guard did not quickly fight back with its own pump because that could hurt sales of its established product.[9]

Watch for competitive barriers

In a competitor analysis, you also consider **competitive barriers**—the conditions that may make it difficult, or even impossible, for a firm to compete in a market. Such barriers may limit your own plans or, alternatively, block competitors' responses to an innovative strategy.

For example, Exhibit 4–2 summarizes a competitor analysis in the Japanese market for disposable diapers. P&G was about to replace its original Pampers, which were selling poorly, with a new version that offered improved fit and better absorbency. Kao and Uni-Charm, the two leading Japanese producers, both had better distribution networks. Kao also had a better computer system to handle reorders. This was crucial because most Japanese grocery stores and drugstores are very small—about 150 square feet. So, shelf space is limited and frequent restocking by wholesalers is critical. So, getting cooperation in the channel was a potential competitive barrier for P&G. Uni-Charm further reduced P&G's access to customers when it took advantage of its relationship with retailers to introduce a second, lower-priced brand. To help overcome resistance in the channel, P&G improved the product, changed the packaging to take up less space, and offered wholesalers and retailers better markups.[10]

Seek information about competitors

A marketing manager should actively seek information about current or potential competitors. Although most firms try to keep the specifics of their plans secret, much public information may be available. For example, many firms routinely monitor competitors' local newspapers. In one such case, an article discussed a change in the competitor's sales organization. An alert marketing manager realized that the change was made to strengthen the competitor's ability to take business from one of her firm's key target markets. This early warning provided time to make adjustments.

Other sources of competitor information include trade publications, alert sales reps, middlemen, and other industry experts. In business markets, customers may be quick to explain what competing suppliers are offering.

The Internet is fast becoming a powerful way to get information about competitors. A firm that puts all of its marketing information on a web site for customers also makes it readily available to competitors. Similarly, computer programs make it easy to search through thousands of on-line publications and databases for any mention of a competitor. It's also increasingly common to specify what you want and instruct a software "robot" to send you a copy as soon as it's available. This is an incredibly powerful source of information that didn't even exist a few years ago.

Exhibit 4–2 Competitor Analysis (summary): Disposable Diaper Competition in Japan

	P&G's Current and Planned Strategy	Kao's Strengths (+) and Weaknesses (−)	Uni-Charm's Strengths (+) and Weaknesses (−)
Target Market(s)	Upscale, modern parents who can afford disposable diapers	Same as for P&G	Same as for P&G, but also budget-conscious segment that includes cloth diaper users (+)
Product	Improved fit and absorbency (+); brand name imagery weak in Japan (−)	Brand familiarity (+), but no longer the best performance (−)	Two brands—for different market segments—and more convenient package with handles (+)
Place	Distribution through independent wholesalers to both food and drugstores (+), but handled by fewer retailers (−)	Close relations with and control over wholesalers who carry only Kao products (+); computerized inventory reorder system (+)	Distribution through 80% of food stores in best locations (+); shelf space for two brands (+)
Promotion	Heaviest spending on daytime TV, heavy sales promotion, including free samples (+); small sales force (−)	Large efficient sales force (+); lowest advertising spending (−) and out-of-date ad claims (−)	Advertising spending high (+); effective ads that appeal to Japanese mothers (+)
Price	High retail price (−), but lower unit price for larger quantities (+)	Highest retail price (−), but also best margins for wholesalers and retailers (+)	Lowest available retail price (+); price of premium brand comparable to P&G (−)
(Potential) Competitive Barriers	Patent protection (+), limits in access to retail shelf space (−)	Inferior product (−), excellent logistics support system (+)	Economies of scale and lower costs (+); loyal customers (+)
Likely Response(s)	Improve wholesaler and retailer margins; faster deliveries in channel; change package to require less shelf space	Press retailers to increase in-store promotion; change advertising and/or improve product	Increase short-term sales promotions; but if P&G takes customers, cut price on premium brand

For more information about this type of Internet news service, go to the PointCast web site, www.pointcast.com.

Internet

Internet Exercise If you were a new marketing manager at Rubbermaid, you might be interested in finding out more about Tupperware, an important competitor in some markets. What type of relevant information could you get by going to the Tupperware web site (www.tupperware.com)?

ethics

Ethical issues may arise

The search for information about competitors sometimes raises ethical issues. For example, it's not unusual for people to change jobs and move to a competing firm in the same industry. Such people may have a great deal of information about the competitor, but is it ethical for them to use it? Similarly, some firms have been criticized for going too far—like waiting at a landfill for competitors' trash to find copies of confidential company reports. And the high-tech version of that occurs when computer "hackers" use the Internet to break into a competitor's computer network. In minutes, hackers can steal information that has taken years to collect.

Beyond the moral issues, spying on competitors to obtain trade secrets is illegal, and damage awards can be huge. For example, the courts ordered competing firms to pay Procter & Gamble about $125 million in damages for stealing secrets about its Duncan Hines soft cookies. For example, a Frito-Lay employee posed as a potential customer to attend a confidential sales presentation.[11]

Competition may vary from country to country

A firm that faces very stiff competition may find that the competitive environment—and the opportunities—are much better in another region or country. For instance, eight years of slow growth and deregulation made the Japanese market extremely competitive. So, the Iris Ohyama Company, a maker of plastic flower pots and storage containers, started exporting to North America. Within three years, its sales to U.S. retailers like Staples were $60 million—10 percent of total revenue.[12]

Direct competition cannot always be avoided

Despite the desire to avoid highly competitive situations, a firm may find that it can't. Some firms are already in an industry before it becomes intensely competitive. Then as competitors fail, new firms enter the market, possibly because they don't see more attractive alternatives. In less-developed economies, this is a common pattern with small retailers and wholesalers. New entrants may not even know how competitive the market is—but they stick it out until they run out of money.

The Economic Environment

The **economic and technological environment** affects the way firms—and the whole economy—use resources. We will treat the economic and technological environments separately to emphasize that the technological environment provides a *base* for the economic environment. Technical skills and equipment affect the way companies convert an economy's resources into output. The economic environment, on the other hand, is affected by the way all of the parts of a macro-economic system interact. This then affects such things as national income, economic growth, and inflation. The economic environment may vary from one country to another, but economies around the world are linked.

Economic conditions change rapidly

The economic environment can—and does—change quite rapidly. The effects can be far-reaching—and require changes in marketing strategy.

Even a well-planned marketing strategy may fail if a country or region goes through a rapid business decline. As consumers' incomes drop, they must shift their spending patterns. They may simply have to do without some products. In recent times this happened across many of the countries of Asia. In this period of "Asian flu," many businesses collapsed. Those that did not had big losses. You can see how quickly this happens by considering Thailand. In a few months, the buying power of Thai money (the bhat) was cut by half. Imagine how *your* life would change if you suddenly had half as much money. If this happened to you and most of the people you know, what would its effect be on businesses where you buy?

Of course, changes are not always this dramatic. Even so, a weak economy undermines consumer confidence, even among families whose income is not affected. When consumer confidence is low, people delay purchasing—especially big ticket items. Similarly, firms cut back on their own purchases. Many companies aren't strong enough to survive such bad times.

Interest rates and inflation affect buying

Changes in the economy are often accompanied by changes in the interest rate—the charge for borrowing money. Interest rates directly affect the total price borrowers must pay for products. So the interest rate affects when—and if—they will buy. This is an especially important factor in some business markets. But it also affects consumer purchases of homes, cars, furniture, computers, and other items usually bought on credit.

Interest rates usually increase during periods of inflation, and inflation is a fact of life in many economies. In some Latin American countries, inflation has exceeded 400 percent a year in recent years. In contrast, recent U.S. levels—3 to 20 percent—seem "low." Still, inflation must be considered in strategy planning. When costs are rising rapidly and there are no more cost-cutting measures to take, a mar-

keting manager may have to increase prices. But the decisions of individual marketing managers to raise prices add to macro-level inflation. That can lead to government policies that reduce income, employment, *and* consumer spending.

The global economy is connected

In the past, marketing managers often focused their attention on the economy of their home country. It's no longer that simple. The economies of the world are connected—and at an increasing pace changes in one economy affect others. One reason for this is that the amount of international trade is increasing—and it is affected by changes in and between economies. For example, International Harvester (IH) was very successful selling its earth-moving equipment in Asia when construction was booming. However, when the "Asian flu" hit, many customers could no longer make payments. IH faced big losses—and the cost of retrieving equipment that was 13,000 miles away!

Changes in the *exchange rate*—how much one country's money is worth in another country's money—have an important effect on international trade. When the dollar is strong, it's worth more in foreign countries. This sounds good—but it makes U.S. products more expensive overseas and foreign products cheaper in the United States. Then, firms like Ford lose foreign customers to producers from other countries.

A marketing manager isn't safe from the forces of changing exchange rates just because his or her firm is not involved in foreign trade. New competition arises in domestic markets as foreign products gain a competitive edge with lower prices. Many companies find themselves helpless during such economic change. In fact, a country's whole economic system can change as the balance of imports and exports shifts—affecting jobs, consumer income, and national productivity.

You can see that the marketing manager must watch the economic environment carefully. In contrast to the cultural and social environment, economic conditions change continuously. And they can move rapidly—up or down—requiring immediate strategy changes.[13]

The Technological Environment

Technology affects opportunities

Technology is the application of science to convert an economy's resources to output. Technology affects marketing in two basic ways: with new products and with new processes (ways of doing things). For example, we are moving from an industrial society to an information society. Advances in electronic communications make it possible for people in different parts of the world to communicate face-to-face with satellite video-conferencing and to transmit complex design drawings—by fax or over the Internet. Computers allow more sophisticated planning and control. These process changes are accompanied by an exciting explosion of high-tech products—from robots in factories to skin patches that dispense medicines to genetically engineered tomatoes that taste great year-round.

Technology transfer is rapid

New technologies have created important industries that didn't even exist a few years ago. Twenty years ago Microsoft didn't exist. Now it's one of the most profitable companies in the world. With such big opportunities at stake, you can also see why there is such rapid transfer of technology from one part of the world to another. But technology transfer is not automatic. Someone—perhaps you—has to see the opportunity.

Internet technologies are reshaping marketing

Many of the big advances in business have come from early recognition of new ways to do things. There is perhaps no better example of this than the World Wide Web and the Internet. The **Internet** is a system for linking computers around the world. The idea of linking computers in a network is not new. It's been around for

Technological innovations may result in new market opportunities but only if a marketing manager sees the possibilities.

years. Further, when we say that the Internet is a system it might be more accurate to just think of it as a collection of consistent hardware and software standards. Even so, the Internet expands the network concept to include any computer anywhere. Further, the World Wide Web makes the exchange of information on the Internet easy. As a result, this new technology is radically changing just about every aspect of marketing. We'll be discussing these changes in more detail throughout the text, so for now we'll just illustrate the impact.

Consider the arena of promotion. The invention of TV changed marketing because it suddenly made it possible for a sponsor to broadcast a vivid message to millions of people at the same time. Now, the Internet makes it possible for that sponsor to select any of millions of messages and to simultaneously narrowcast any of them to millions of different individuals. It is just as easy for customers to request the information in the first place, or to respond electronically once they have it. Thus, the Internet's capability radically changes our ideas about how firms communicate with customers, and vice versa. Similarly, the Internet is creating totally different approaches to pricing. Airlines are now running on-line auctions of seats that might otherwise go unsold. If you sell every seat to "the highest bidder," you are really pricing precisely to match supply and demand. To check out an on-line auction, go to www.onsale.com on the Internet.

In hindsight, new approaches such as these seem obvious—given that the technology is available. But, they are not obvious up front—unless you're really looking for them. Marketers should help their firms see such opportunities by trying to understand the "why" of present markets—and what is keeping their firms from being more successful. Then, as new technological developments come along, the marketers will be alert to possible uses of those technologies—and see how opportunities can be turned into profits.[14]

Technology also poses challenges

The rapid pace of technological change opens up new opportunities, but it also poses challenges for marketers. For many firms, success hinges on how quickly new ideas can be brought to market. It's easy for a firm to slip into a production orientation in the flush of excitement that follows a new discovery in a research and

development lab. That makes it more important than ever for marketing thinking to guide the production process—starting at the beginning with decisions about where basic R&D effort will be focused.

ethics

Technology and ethical issues

Marketers must also help their firms decide what technical developments are ethically acceptable. For example, many firms have now installed a system to identify the telephone number of an incoming telephone call. When linked with a computer, this makes it possible for a firm to know what customer is calling even before the customer says the first word. It also makes instantly available detailed information about what a customer has purchased in the past. This is a very powerful technology, but many people feel that this sort of automatic number identification system is an invasion of privacy. Similarly, firms that operate on the Internet can track information about who "hits" a particular web page. Then, the firm can send that person promotional e-mail or use the information for some similar purpose. However, receiving uninvited e-mail is just another form of invasion of privacy.

With the growing concern about environmental pollution and the quality of life, some attractive technological developments may be rejected because of their long-run effects on the environment. Aseptic drink boxes, for example, are very convenient but difficult to recycle. In a case like this, what's good for the firm and some customers may not be good for the cultural and social environment—or acceptable in the political and legal environment. Being close to the market should give marketers a better feel for current trends—and help firms avoid serious mistakes.[15]

The Political Environment

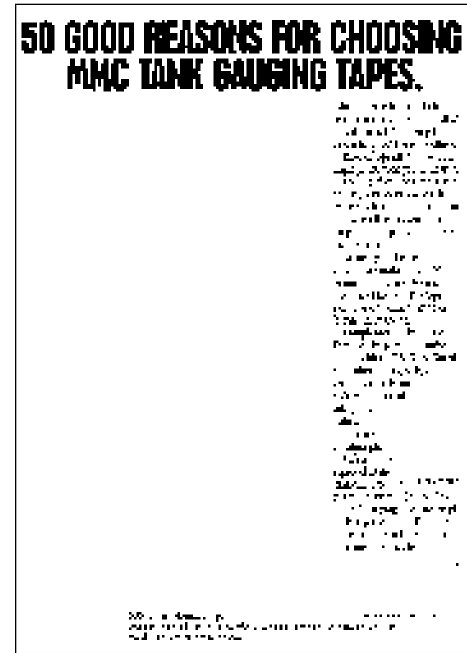
The attitudes and reactions of people, social critics, and governments all affect the political environment. Consumers in the same country usually share a common political environment, but the political environment can also have a dramatic effect on opportunities at a local or international level. Some business managers have become very successful by studying the political environment and developing strategies that take advantage of opportunities related to changing political dimensions.

Nationalism can be limiting in international markets

Strong sentiments of **nationalism**—an emphasis on a country's interests before everything else—affect how macro-marketing systems work. They can affect how marketing managers work as well. Nationalistic feelings can reduce sales—or even block all marketing activity—in some international markets. For many years, Japan has made it difficult for outside firms to do business there—in spite of the fact that Japanese producers of cars, color TVs, VCRs, and other products have established profitable markets in the United States, Europe, and other parts of the world. Japan is under pressure to change, but the changes are coming slowly.

The "Buy American" policy in many government contracts and business purchases reflects this same attitude in the U.S., as does support for protecting U.S. producers from foreign competition—especially producers of footwear, textiles, production machinery, and cars.[16]

Nationalistic feelings can determine whether a firm can enter markets because businesses often must get permission to operate. In some political environments, this is only a routine formality. In others, a lot of red tape and personal influence are involved, and bribes are sometimes expected. This raises ethical issues for marketing managers—and legal issues too—since it's illegal for U.S. firms to offer such bribes. Clearly, that can make it difficult for a U.S. firm to compete with a company from a country that doesn't have similar laws.



Both Spinks Inks and MMC International emphasize that their high-quality products are "Made in America."

Regional groupings are becoming more important

Important dimensions of the political environment are likely to be similar among nations that have banded together to have common regional economic boundaries. The move toward economic unification of Europe and free trade among the nations of North America are outstanding examples of this sort of regional grouping.

The unification of European markets

In the past, each of the countries of the European Union (EU) had its own trade rules and regulations. These differences made it difficult and expensive to move products from one country to the others. Now, these countries are abandoning old nationalistic squabbles in favor of cooperative efforts to reduce taxes and other barriers commonly applied at boundaries. This unification has eliminated over 300 separate barriers to inter-European trade. Trucks loaded with products spill across the European continent and Britain. The increased efficiency is reducing costs and the prices European consumers pay—and creating millions of new jobs. These changes make Europe the largest unified market in the world. By the year 2002, key member countries of the EU plan to move to the Euro, a new unified money system.

These changes have dramatically altered opportunities available to marketing managers both in Europe and in other parts of the world. The influence of such changes isn't always centered on big multinational corporations. Artais Weather Check, Inc., is a small U.S. company that produces automated weather-observing systems for small airports. To get more sales, Artais targeted airports in other countries, including Romania. But, Artais lost that contract. A German producer got the contract, perhaps because the Romanian government—in its bid to join the European Union—saw the contract as one more way to win favor with Germany.[17]

NAFTA is building trade cooperation

The international competition fostered by the unification of Europe has also provided impetus for the U.S., Mexico, and Canada to develop more cooperative trade agreements. **The North American Free Trade Agreement (NAFTA)** lays out a plan to reshape the rules of trade among the U.S., Canada, and Mexico. NAFTA enlarges the free-trade pact that had already knocked down most barriers to U.S.–Canada trade, and over a 15-year period will eliminate most such barriers with Mexico. It also establishes a forum for resolving future trade disputes.

NAFTA is a long-term proposition, and its overall economic impact is yet to be seen. However, tariffs that have already dropped are having a significant impact on

specific businesses. For example, Raychem Corp., a small producer of telecommunications equipment, no longer faces a 25 percent tariff on exports to Mexico. That is leveling its competitive playing field and creating new opportunities. More generally, NAFTA is creating a free-trade region that encompasses 410 million people and three economies that produce almost $8 trillion worth of goods and services annually. You can learn more about the association and participating companies at the NAFTA web site (www.nafta.org). The changes that result from NAFTA may ultimately be as significant as those involved in the unification of Europe.

Of course, removal of some economic and political barriers—whether across North America or Europe—will not eliminate the need to adjust strategies to reach submarkets of consumers. Centuries of cultural differences will not disappear overnight—they may never disappear.[18]

Some dramatic changes in the political environment—like the fall of communism in Eastern Europe—happen fast and are hard to predict. Yet, many important political changes—both within and across nations—evolve more gradually. The development of consumerism is a good example.

Consumerism is here–and basic

Consumerism is a social movement that seeks to increase the rights and powers of consumers. In the last 30 years, consumerism has emerged as a major political force. Although the consumer movement has spread to many different countries, it was born in America.

The basic goals of modern consumerism haven't changed much since 1962, when President Kennedy's "Consumer Bill of Rights" affirmed consumers' rights to safety, to be informed, to choose, and to be heard.

Twenty-five years ago, U.S. consumerism was much more visible. Consumers staged frequent boycotts and protest marches and attracted much media attention. Today, consumer groups provide information and work on special projects like product safety standards. Publications like *Consumer Reports* provide product comparisons and information on other consumer concerns.

Clearly, top management—and marketing managers—must continue to pay attention to consumer concerns. The old, production-oriented ways of doing things are no longer acceptable.[19]

The Legal Environment

Changes in the political environment often lead to changes in the legal environment—and in the way existing laws are enforced. The legal environment sets the basic rules for how a business can operate in society. The legal environment may severely limit some choices, but changes in laws and how they are interpreted also create new opportunities. To illustrate the effects of the legal environment, we will discuss how it has evolved in the United States. However, keep in mind that laws often vary from one geographic market to another—especially when different countries are involved.

Trying to encourage competition

American economic and legislative thinking is based on the idea that competition among many small firms helps the economy. Therefore, attempts by business to limit competition are considered contrary to the public interest.

As industries grew larger after the Civil War, some became monopolies controlled by wealthy businessmen—the robber barons. Smaller producers had trouble surviving. A movement grew—especially among Midwestern farmers—to control monopolists.

Starting in 1890, Congress passed a series of antimonopoly laws. Exhibit 4–3 shows the names and dates of these laws. Although the specific focus of each law is different, in general they are all intended to encourage competition.

Exhibit 4–3 Focus (mostly prohibitions) of Federal Antimonopoly Laws on the Four Ps

Law	Product	Place	Promotion	Price
Sherman Act (1890) Monopoly or conspiracy in restraint of trade	Monopoly or conspiracy to control a product	Monopoly or conspiracy to control distribution channels		Monopoly or conspiracy to fix or control prices
Clayton Act (1914) Substantially lessens competition	Forcing sale of some products with others—tying contracts	Exclusive dealing contracts (limiting buyers' sources of supply)		Price discrimination by manufacturers
Federal Trade Commission Act (1914) Unfair methods of competition		Unfair policies	Deceptive ads or selling practices	Deceptive pricing
Robinson-Patman Act (1936) Tends to injure competition		Prohibits paying allowances to "direct" buyers in lieu of middlemen costs (brokerage charges)	Prohibits "fake" advertising allowances or discrimination in help offered	Prohibits price discrimination on goods of "like grade and quality" without cost justification, and limits quantity discounts
Wheeler-Lea Amendment (1938) Unfair or deceptive practices	Deceptive packaging or branding		Deceptive ads or selling claims	Deceptive pricing
Antimerger Act (1950) Lessens competition	Buying competitors	Buying producers or distributors		
Magnuson-Moss Act (1975) Unreasonable practices	Product warranties			

Antimonopoly law and marketing mix planning

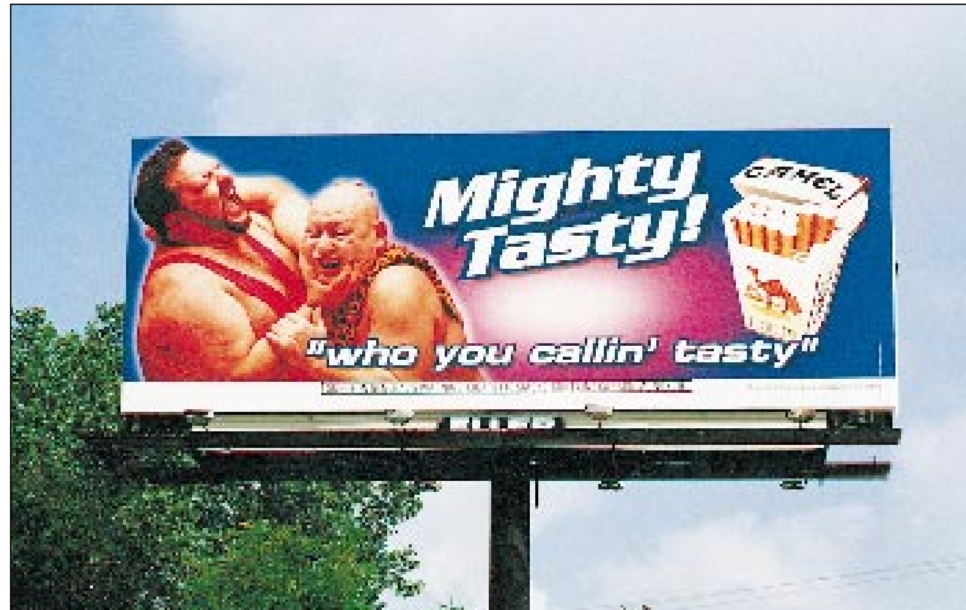
In later chapters, we will specifically apply antimonopoly law to the four Ps. For now you should know what kind of proof the government must have to get a conviction under each of the major laws. You should also know which of the four Ps are most affected by each law. Exhibit 4–3 provides such a summary—with a phrase following each law to show what the government must prove to get a conviction.

Prosecution is serious–you can go to jail

Businesses and *business managers* are subject to both criminal and civil laws. Penalties for breaking civil laws are limited to blocking or forcing certain actions—along with fines. Where criminal law applies, jail sentences can be imposed. For example, several managers at Beech-Nut Nutrition Company were recently fined $100,000 each and sentenced to a year in jail. In spite of unfair ads claiming that Beech-Nut's apple juice was 100 percent natural, they tried to bolster profits by secretly using low-cost artificial juices.[20]

Consumer protection laws are not new

Although antimonopoly laws focus on protecting competition, the wording of the laws in Exhibit 4–3 has, over time, moved toward protecting consumers. Some consumer protections are also built into the English and U.S. common law systems. A seller has to tell the truth (if asked a direct question), meet contracts, and stand



Because of changes in government regulations, the Joe Camel cartoon character is gone from new Camel advertising. At long last, cigarette companies may face pressure to take responsibility for the health hazards of smoking.

behind the firm's product (to some reasonable extent). Beyond this, it is expected that vigorous competition in the marketplace will protect consumers—*so long as they are careful*.

Yet focusing only on competition didn't protect consumers very well in some areas. So the government found it necessary to pass other laws. For example, various laws regulate packaging and labels, credit practices, and environmental issues. Usually, however, the laws focus on specific types of products.

Foods and drugs are controlled

Consumer protection laws in the United States go back to 1906 when Congress passed the Pure Food and Drug Act. Unsanitary meat-packing practices in the Chicago stockyards stirred consumer support for this act. This was a major victory for consumer protection. Before the law, it was assumed that common law and the old warning "let the buyer beware" would take care of consumers.

Later acts corrected some loopholes in the law. The law now bans the shipment of unsanitary and poisonous products and requires much testing of drugs. The Food and Drug Administration (FDA) attempts to control manufacturers of these products. It can seize products that violate its rules—including regulations on branding and labeling.

Product safety is controlled

The Consumer Product Safety Act (of 1972), another important consumer protection law, set up the Consumer Product Safety Commission. This group has broad power to set safety standards and can impose penalties for failure to meet these standards. Again, there is some question as to how much safety consumers really want—the commission found the bicycle the most hazardous product under its control!

But given that the commission has the power to *force* a product off the market—or require expensive recalls to correct problems—it is obvious that safety must be considered in product design. And safety must be treated seriously by marketing managers.[21]

www.mhhe.com/fourps

Windows: Easy to Use but Hard on Competition?

Almost every personal computer uses Microsoft Windows. Wow, talk about capturing market share! What marketer doesn't envy Windows' success? And because Windows is the virtual standard, producers don't need to waste money developing variations of the same basic hardware and software for different systems—and smaller markets. The de facto standard also assures users that what they buy will work together. Many say that it is because the technology is unified that it is so effective, costs are dropping, and demand is increasing. And the macro effect is that computers and computer software account for about one-third of all economic growth in the U.S. during the past five years.

On the other hand, many people think that Microsoft is just too big and too powerful. Some competitors argue that the firm competes unfairly. That's why the Justice Department got a consent decree to stop Microsoft from dictating that computer makers give its Internet browser favored treatment. And it's why there are hearings on how to reduce the firm's "monopoly power." Some critics call for stricter enforcement of rules against tying contracts and other unfair means of competing. Others even want to break it up, as was done to AT&T.

Microsoft is aggressive. It does dominate many markets. However, if you ran the Justice Department, could you be sure that more regulation would be better for consumers—or even for competing firms? Would the changed product-market still spawn new businesses, new jobs, innovative new products, and sustainable economic advantage over other nations? How should a society decide what amount of regulation is best?[22]

Internet

Internet Exercise The Consumer Product Safety Commission sometimes requires auto makers to issue recalls. However, not all consumers learn about the recalls. Go to the *Consumer Reports* web site (www.consumerreports.com/recalls) and check to see if there has been a recall on a year and model of car or truck that is of interest to you (say, one owned by your family).

State and local laws vary

Besides federal legislation—which affects interstate commerce—marketers must be aware of state and local laws. There are state and city laws regulating minimum prices and the setting of prices, regulations for starting up a business (licenses, examinations, and even tax payments), and in some communities, regulations prohibiting certain activities—such as door-to-door selling or selling on Sundays or during evenings.

Know the laws–follow the courts and federal agencies

Often laws are vaguely phrased—to convey intent but not specific detail. Then it's up to the courts and government agencies to spell out the details. As a result, a law may be interpreted and enforced differently over time. For example, during the late 1970s and 1980s, many U.S. government agencies regulated businesses less zealously and instead focused more on encouraging competition. Attention to regulation is swinging the other way in the 1990s—in part to correct abuses such as those that occurred in the savings and loan industry.

Because legislation must be interpreted by federal agencies and the courts, marketing managers need to study both legislative developments and the thinking of the courts and agencies. See Exhibit 4–4 for a description of some important federal regulatory agencies that should be considered in marketing strategy planning.

Consumerists and the law say "Let the seller beware"

The old rule about buyer–seller relations—*let the buyer beware*—has changed to *let the seller beware*. The current shift to proconsumer laws and court decisions suggests that lawmakers are more interested in protecting consumers. This may upset production-oriented managers. But times have changed—and managers must adapt to this new political and legal environment. After all, it is the consumers—through their government representatives—who determine the kind of economic system they want.[23]

Exhibit 4–4 Some Important U.S. Federal Regulatory Agencies

Agencies	Responsibilities
Federal Trade Commission (FTC)	Enforces laws and develops guidelines regarding unfair business practices
Food and Drug Administration (FDA)	Enforces laws and develops regulations to prevent distribution and sale of adulterated or misbranded foods, drugs, cosmetics, and hazardous consumer products
Consumer Product Safety Commission (CPSC)	Enforces the Consumer Product Safety Act—which covers any consumer product not assigned to other regulatory agencies
Federal Communications Commission (FCC)	Regulates interstate wire, radio, and television
Environmental Protection Agency (EPA)	Develops and enforces environmental protection standards
Office of Consumer Affairs (OCA)	Handles consumers' complaints

The Cultural and Social Environment

The **cultural and social environment** affects how and why people live and behave as they do—which affects customer buying behavior and eventually the economic, political, and legal environment. Many variables make up the cultural and social environment. Some examples are the languages people speak, the type of education they have, their religious beliefs, what type of food they eat, the style of clothing and housing they have, and how they view marriage and family. Because the cultural and social environment has such broad effects, most people don't stop to think about it, or how it may be changing, or how it may differ for other people.

A marketing manager can't afford to take the cultural and social environment for granted. Although changes tend to come slowly, they can have far-reaching effects. A marketing manager who sees the changes early may be able to identify big opportunities. Further, within any broad society, different subgroups of people may be affected by the cultural and social environment in different ways. In most countries, the trend toward multiculturalism is making such differences even more important to marketers. They require special attention when segmenting markets. In fact, dealing with these differences is often one of the greatest challenges managers face when planning strategies, especially for international markets.

The growing demand for fat-free and sugar-free foods in the U.S. reflects an increased cultural attention to healthy diets. In many other cultures, however, such products are unpopular.

Twenty-five years ago, United Airlines' ads attracted flight attendants by bragging that most of its "girls" found a husband within a few years of taking the job. The ad explains that the woman shown is viewed as an old maid because she's been on the job three years and isn't yet married. Today, because of shifts in the cultural environment, such an ad would not only be ineffective but also viewed as sexist.

Since we will discuss details of how the cultural and social environment relates to buying behavior in Chapters 5 through 7, here we will just use an example to illustrate its impact on marketing strategy planning.

Changing women's roles

The shifting roles of women in society illustrate the importance of the cultural and social environment on marketing strategy planning. Forty years ago, most people in the United States felt that a woman's role was in the home—first and foremost as a wife and mother. Women had less opportunity for higher education and were completely shut out of many of the most interesting jobs. Obviously, there have been big changes in that stereotyped thinking. With better job opportunities, more women are delaying marriage, and once married they are likely to stay in the workforce and have fewer children. For example, in 1950, only 24 percent of wives worked outside the home. Now that figure is over 62 percent. Among women in the 35–44 age group, the percentage is already over 70. Not everything has changed, though. The median income for women lags and is only 74 percent of men's.

Still, the flood of women into the job market boosted economic growth and changed U.S. society in many other ways. Many in-home jobs that used to be done primarily by women—ranging from family shopping to preparing meals to doing volunteer work—still need to be done by someone. Husbands and children now do some of these jobs, a situation that has changed the target market for many products. Or a working woman may face a crushing "poverty of time" and look for help elsewhere, creating opportunities for producers of frozen meals, child care centers, dry cleaners, financial services, and the like.

Although there is still a big wage gap between men and women, the income working women generate gives them new independence and purchasing power. For example, women now purchase about half of all cars. Not long ago, many car deal-

ers insulted a woman shopper by ignoring her or suggesting that she come back with her husband. Now car companies have realized that women are important customers. It's interesting that Japanese car dealers, especially Mazda and Toyota, were the first to really pay attention to women customers. In Japan, fewer women have jobs or buy cars—the Japanese society is still very much male-oriented. Perhaps it was the extreme contrast with Japanese society that prompted these firms to pay more attention to women buyers in the United States.[24]

Women's changing role has created opportunities for marketing but also complications. A marketing mix targeted at women, for example, may require a real balancing act. Advertising showing a woman at the office may attract some customers but alienate housewives who feel that their job doesn't command as much status as it should. Conversely, an ad that shows a woman doing housework might be criticized for encouraging stereotypes.

Changes come slowly

Most changes in basic cultural values and social attitudes come slowly. An individual firm can't hope to encourage big changes in the short run. Instead, it should identify current attitudes and work within these constraints—as it seeks new and better opportunities.[25]

Using Screening Criteria to Narrow Down to Strategies

A progressive firm constantly looks for new opportunities. Once the opportunities are identified, the firm must screen and evaluate them. Usually, a firm can't pursue all available opportunities, so it must try to match its opportunities to its resources and objectives. First, management must quickly screen out obvious mismatches so other opportunities can be analyzed more carefully. Let's look at some approaches for screening and evaluating opportunities.

Developing and applying screening criteria

After you analyze the firm's resources (for strengths and weaknesses), the environmental trends the firm faces, and the objectives of top management, you merge them all into a set of product-market screening criteria. These criteria should include both quantitative and qualitative components. The quantitative components summarize the firm's objectives: sales, profit, and return on investment (ROI) targets. (Note: ROI analysis is discussed briefly in Appendix B, which comes after Chapter 22.) The qualitative components summarize what kinds of businesses the firm wants to be in, what businesses it wants to exclude, what weaknesses it should avoid, and what resources (strengths) and trends it should build on.[26]

Developing screening criteria is difficult—but worth the effort. They summarize in one place what the firm wants to accomplish—in quantitative terms—as well as roughly how and where it wants to accomplish it. When a manager can explain the specific criteria that are relevant to selecting (or screening out) an opportunity, others can understand the manager's logic. Thus, marketing decisions are not just made or accepted based on intuition and "gut feel." On the other hand, if the criteria are constantly changing when the focus moves from one opportunity to another, then the decision making is not consistent.

The criteria should be realistic—that is, they should be achievable. Opportunities that pass the screen should be able to be turned into strategies that the firm can implement with the resources it has.

Exhibit 4–5 illustrates some product-market screening criteria for a small retail and wholesale distributor. These criteria help the firm's managers eliminate unsuitable opportunities—and find attractive ones to turn into strategies and plans.

Exhibit 4–5 An Example of Product-Market Screening Criteria for a Small Retail and Wholesale Distributor ($5 million annual sales)

1. Quantitative criteria
- a. Increase sales by $750,000 per year for the next five years.
- b. Earn ROI of at least 25 percent before taxes on new ventures.
- c. Break even within one year on new ventures.
- d. Opportunity must be large enough to justify interest (to help meet objectives) but small enough so company can handle with the resources available.
- e. Several opportunities should be pursued to reach the objectives—to spread the risks.

2. Qualitative criteria
- a. Nature of business preferred.
  - (1) Should take advantage of our on-line Internet order system.
  - (2) New goods and services for present customers to strengthen relationships.
  - (3) "Quality" products that do not cannibalize sales of current products.
  - (4) Competition should be weak and opportunity should be hard to copy for several years.
  - (5) There should be strongly felt (even unsatisfied) needs—to reduce promotion costs and permit "high" prices.
- b. Constraints.
  - (1) Nature of businesses to exclude.
    - (a) Manufacturing.
    - (b) Any requiring large fixed capital investments.
    - (c) Any requiring many support people who must be "good" all the time and would require much supervision.
  - (2) Geographic.
    - (a) United States, Mexico, and Canada only.
  - (3) General.
    - (a) Make use of current strengths.
    - (b) Attractiveness of market should be reinforced by more than one of the following basic trends: technological, demographic, social, economic, political.
    - (c) Market should not be bucking any basic trends.

Whole plans should be evaluated

You need to forecast the probable results of implementing a marketing strategy to apply the quantitative part of the screening criteria because only implemented plans generate sales, profits, and return on investment (ROI). For a rough screening, you only need to estimate the likely results of implementing each opportunity over a logical planning period. If a product's life is likely to be three years, for example, a good strategy may not produce profitable results for 6 to 12 months. But evaluated over the projected three-year life, the product may look like a winner. When evaluating the potential of possible opportunities (product-market strategies), it is important to evaluate similar things—that is, *whole* plans.

Opportunities that pass the screen—or all opportunities if you don't use screening criteria—should be evaluated in more detail before being accepted as *the* product-market strategic plans for implementation. Usually, a firm has more opportunities than resources and has to choose among them—to match its opportunities to its resources and objectives. The following approaches help firms select among possible plans.

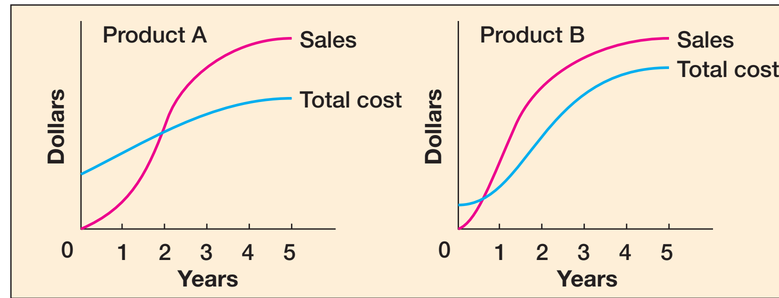
Total profit approach can help evaluate possible plans

In the total profit approach, management forecasts potential sales and costs during the life of the plan to estimate likely profitability.

Managers may evaluate the prospects for each plan over a five-year planning period, using monthly and/or annual sales and cost estimates. This is shown graphically in Exhibit 4–6.

Note that managers can evaluate different marketing plans at the same time. Exhibit 4–6 compares a much improved product and product concept (Product A) with a "me-too" product (Product B) for the same target market. In the short run,

Exhibit 4–6
Expected Sales and Cost Curves of Two Strategies over Five-Year Planning Periods



the me-too product will make a profit sooner and might look like the better choice—if managers consider only one year's results. The improved product, on the other hand, will take a good deal of pioneering—but over its five-year life will be much more profitable.

Return-on-investment (ROI) approach can help evaluate possible plans too

Besides evaluating the profit potential of possible plans, firms may also calculate the return on investment (ROI) of resources needed to implement plans. One plan may require a heavy investment in advertising and channel development, for example, while another relies primarily on lower price.

ROI analyses can be useful for selecting among possible plans because equally profitable plans may require vastly different resources and offer different rates of return on investment. Some firms are very concerned with ROI, especially those that borrow money for working capital. There is little point in borrowing to implement strategies that won't return enough to meet the cost of borrowing.

Planning Grids Help Evaluate a Portfolio of Opportunities

When a firm has many possibilities to evaluate, it usually has to compare quite different ones. This problem is easier to handle with graphical approaches—such as the nine-box strategic planning grid developed by General Electric and used by many other companies. Such grids can help evaluate a firm's whole portfolio of strategic plans or businesses.

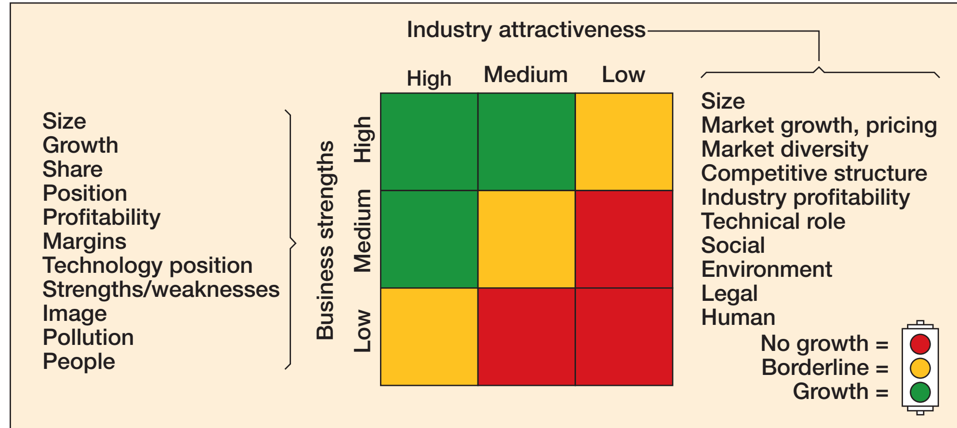
General Electric looks for green positions

General Electric's strategic planning grid—see Exhibit 4–7—forces company managers to make three-part judgments (high, medium, and low) about the business strengths and industry attractiveness of all proposed or existing product-market plans. As you can see from Exhibit 4–7, this approach helps a manager organize information about the company's marketing environments (discussed earlier in this chapter) along with information about its strategy and translate it into relevant screening criteria.

The industry attractiveness dimension helps managers answer the question: "Does this product-market plan look like a good idea?" To answer that question, managers have to judge such factors (screening criteria) as the size of the market and its growth rate, the nature of competition, the plan's potential environmental or social impact, and how laws might affect it. Note that an opportunity may be attractive for *some* company—but not well suited to the strengths (and weaknesses) of a particular firm. That is why the GE grid also considers the business strengths dimension.

The business strengths dimension focuses on the ability of the company to pursue a product-market plan effectively. To make judgments along this dimension, a manager evaluates whether the firm has people with the right talents and skills to implement the plan, whether the plan is consistent with the firm's image and profit

Exhibit 4–7
General Electric's Strategic Planning Grid



objectives, and whether the firm could establish a profitable market share given its technical capability, costs, and size. Here again, these factors suggest screening criteria specific to this firm and market situation.

GE feels opportunities that fall into the green boxes in the upper left-hand corner of the grid are its best growth opportunities. Managers give these opportunities high marks on both industry attractiveness and business strengths. The red boxes in the lower right-hand corner of the grid, on the other hand, suggest a no-growth policy. Existing red businesses may continue to generate earnings, but they no longer deserve much investment. Yellow businesses are borderline cases—they can go either way. GE may continue to support an existing yellow business but will probably reject a proposal for a new one. It simply wouldn't look good enough on the relevant screening criteria.

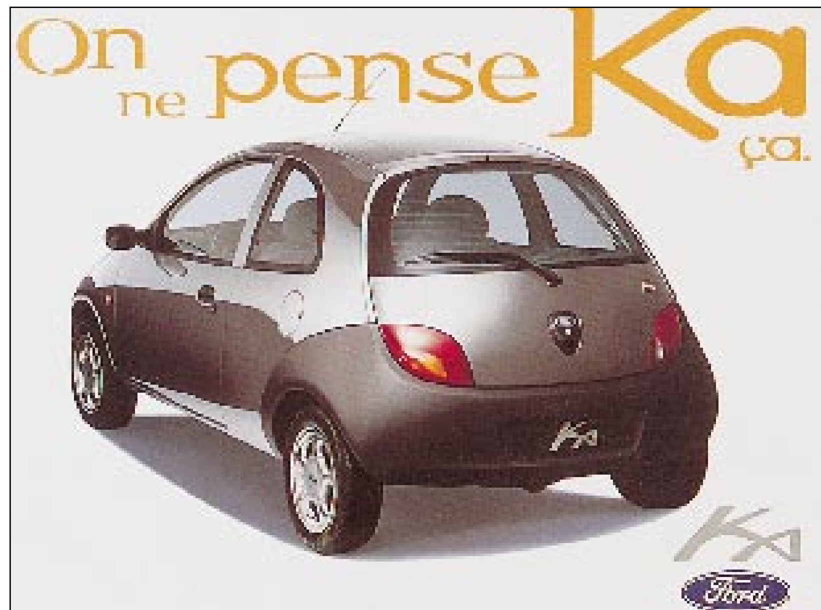
GE's "stoplight" evaluation method is a subjective, multiple-factor approach. It avoids the traps and possible errors of trying to use oversimplified, single-number criteria—like ROI or market share. Instead, top managers review detailed written summaries of many different screening criteria that help them make summary judgments. Then they can make a collective judgment. This approach generally leads to agreement. It also helps everyone understand why the company supports some new opportunities and not others.[27]

General Electric considers factors that reflect its objectives. Another firm might modify the evaluation to emphasize other factors—depending on its objectives and the type of product-market plans it is considering. While different firms focus on different screening criteria, using many factors helps ensure that managers consider all the company's concerns when evaluating alternative opportunities.

Multiproduct Firms Have a Difficult Strategy Planning Job

Multiproduct firms—like General Electric—obviously have a more difficult strategic planning job than firms with only a few products or product lines aimed at the same or similar target markets. Multiproduct firms have to develop strategic plans for very different businesses. And they have to balance plans and resources so the whole company reaches its objectives. This means they must analyze alternatives using approaches similar to the General Electric strategic planning grid and only approve plans that make sense for the whole company—even if it means getting needed resources by "milking" some businesses and eliminating others.

Details on how to manage a complicated multiproduct firm are beyond our scope. But you should be aware (1) that there are such firms and (2) that the principles



Large multiproduct firms, like Ford, evaluate and pursue a portfolio of strategic opportunities all around the world.

in this text are applicable—they just have to be extended. For example, some firms use strategic business units (SBUs), and some use portfolio management.

Strategic business units may help

Some multiproduct firms try to improve their operations by forming strategic business units. A **strategic business unit (SBU)** is an organizational unit (within a larger company) that focuses on some product-markets and is treated as a separate profit center. By forming SBUs, a company formally acknowledges its very different activities. One SBU of Sara Lee, for example, produces baked goods for consumers and restaurants—another produces and markets Hanes brand T-shirts and underwear.

Some SBUs grow rapidly and require a great deal of attention and resources. Others produce only average profits and should be "milked"—that is, allowed to generate cash for the businesses with more potential. Product lines with poor market position, low profits, and poor growth prospects should be dropped or sold.

Some firms use portfolio management

Some top managements handle strategic planning for a multiproduct firm with an approach called **portfolio management**—which treats alternative products, divisions, or strategic business units (SBUs) as though they were stock investments, to be bought and sold using financial criteria. Such managers make trade-offs among very different opportunities. They treat the various alternatives as investments that should be supported, milked, or sold off—depending on profitability and return on investment (ROI). In effect, they evaluate each alternative just like a stock market trader evaluates a stock.[28]

This approach makes some sense if alternatives are really quite different. Top managers feel they can't become very familiar with the prospects for all of their alternatives. So they fall back on the easy-to-compare quantitative criteria. And because the short run is much clearer than the long run, they place heavy emphasis on *current* profitability and return on investment. This puts great pressure on the operating managers to "deliver" *in the short run*—perhaps even neglecting the long run.

Neglecting the long run is risky—and this is the main weakness of the portfolio approach. This weakness can be overcome by enhancing the portfolio management approach with market-oriented strategic plans. They make it possible for managers to more accurately evaluate the alternatives' short-run and long-run prospects.

Evaluating Opportunities in International Markets

Evaluate the risks

The approaches we've discussed so far apply to international markets just as they do to domestic ones. But in international markets it is often harder to fully understand the marketing environment variables. This may make it harder to see the risks involved in particular opportunities. Some countries are politically unstable; their governments and constitutions come and go. An investment safe under one government might become a takeover target under another. Further, the possibility of foreign exchange controls—and tax rate changes—can reduce the chance of getting profits and capital back to the home country.

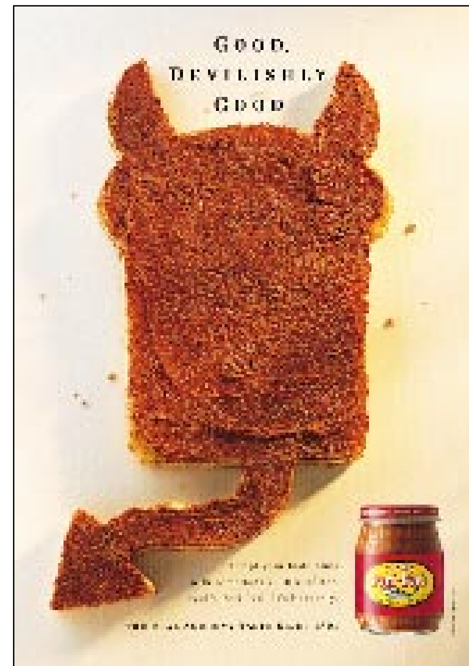
To reduce the risk of missing some basic variable that may help screen out a risky opportunity, marketing managers sometimes need a detailed analysis of the market environment they are considering entering. Such an analysis can reveal facts about an unfamiliar market that a manager in a distant country might otherwise overlook. Further, a local citizen who knows the marketing environment may be able to identify an "obvious" problem ignored even in a careful analysis. Thus, it is very useful for the analysis to include inputs from locals—perhaps cooperative middlemen.[29]

Risks vary with environmental sensitivity

The farther you go from familiar territory, the greater the risk of making big mistakes. But not all products—or marketing mixes—involve the same risk. Think of the risks as running along a "continuum of environmental sensitivity." See Exhibit 4–8.

Some products are relatively insensitive to the economic and cultural environment they're placed in. These products may be accepted as is—or may require just a little adaptation to make them suitable for local use. Most industrial products are near the insensitive end of this continuum.

At the other end of the continuum, we find highly sensitive products that may be difficult or impossible to adapt to all international situations. Consumer products closely linked to other social or cultural variables are at this end. For example, some of the scanty women's clothing popular in Western countries would be totally inappropriate in Arab countries where women are expected to cover even their



Some products, like computer printers made by Brother International, are used the same way all over the world. Other products, like anchovy paste, are more sensitive to different cultures.

Exhibit 4–8
Continuum of Environmental Sensitivity

faces. Similarly, some cultures view dieting as unhealthy; that explains why products like Diet Pepsi that are popular in the United States have done poorly there. "Faddy" type consumer products are also at this end of the continuum. It's sometimes difficult to understand why such products are well accepted in a home market. This, in turn, makes it even more difficult to predict how they might be received in a different environment.

This continuum helps explain why many of the early successes in international marketing were basic commodities such as gasoline, soap, transportation vehicles, mining equipment, and agricultural machinery. It also helps explain why some consumer products firms have been successful with basically the same promotion and products in different parts of the globe.

Yet some managers don't understand the reason for these successes. They think they can develop a global marketing mix for just about *any* product. They fail to see that firms producing and/or selling products near the sensitive end of the continuum should carefully analyze how their products will be seen and used in new environments—and plan their strategies accordingly.[30]

What if risks are still hard to judge?

If the risks of an international opportunity are hard to judge, it may be wise to look first for opportunities that involve exporting. This gives managers a chance to build experience, know-how, and confidence over time. Then the firm will be in a better position to judge the prospects and risks of taking further steps.

Conclusion

Businesses need innovative strategy planning to survive in our increasingly competitive markets. In this chapter, we discussed the variables that shape the environment of marketing strategy planning—and how they may affect opportunities. First we looked at how the firm's own resources and objectives may help guide or limit the search for opportunities. Then, we went on to look at the need to understand competition and how to do a competitive analysis. Then, we shifted our focus to the external market environments. They are important because changes in these environments present new opportunities—as well as problems—that a marketing manager must deal with in marketing strategy planning.

The economic environment—including chances of recessions or inflation—also affects the choice of strategies. And the marketer must try to anticipate, understand, and deal with these changes—as well as changes in the technology underlying the economic environment.

The marketing manager must also be aware of legal restrictions—and be sensitive to changing political climates. The acceptance of consumerism has already forced many changes.

The cultural and social environment affects how people behave and what marketing strategies will be successful.

Developing good marketing strategies within all these environments isn't easy. You can see that marketing management is a challenging job that requires integration of information from many disciplines.

Eventually, managers need procedures for screening and evaluating opportunities. We explained an approach for developing qualitative and quantitative screening criteria—from an analysis of the strengths and weaknesses of the company's resources, the environmental trends it faces, and top management's objectives. We also discussed ways for evaluating and managing quite different opportunities—using the GE strategic planning grid, SBUs, and portfolio management.

Now we can go on—in the rest of the book—to discuss how to turn opportunities into profitable marketing plans and programs.

Questions and Problems

1. Do you think it makes sense for a firm to base its mission statement on the type of product it produces? For example, would it be good for a division that produces electric motors to have as its mission: "We want to make the best (from our customers' point of view) electric motors available anywhere in the world"?
2. Explain how a firm's objectives may affect its search for opportunities.
3. Specifically, how would various company objectives affect the development of a marketing mix for a new type of Internet browser software? If this company were just being formed by a former programmer with limited financial resources, list the objectives the programmer might have. Then discuss how they would affect the development of the programmer's marketing strategy.
4. Explain how a firm's resources may limit its search for opportunities. Cite a specific example for a specific resource.
5. Discuss how a company's financial strength may have a bearing on the kinds of products it produces. Will it have an impact on the other three Ps as well? If so, how? Use an example in your answer.
6. In your own words, explain how a marketing manager might use a competitor analysis to avoid situations that involve head-on competition.
7. The owner of a small hardware store—the only one in a medium-sized town in the mountains—has just learned that a large home improvement chain plans to open a new store nearby. How difficult will it be for the owner to plan for this new competitive threat? Explain your answer.
8. Discuss the probable impact on your hometown if a major breakthrough in air transportation allowed foreign producers to ship into any U.S. market for about the same transportation cost that domestic producers incur.
9. Will the elimination of trade barriers between countries in Europe eliminate the need to consider submarkets of European consumers? Why or why not?
10. Which way does the U.S. political and legal environment seem to be moving (with respect to business-related affairs)?
11. Why is it necessary to have so many laws regulating business? Why hasn't Congress just passed one set of laws to take care of business problems?
12. What and who is the U.S. government attempting to protect in its effort to preserve and regulate competition?
13. For each of the *major* laws discussed in the text, indicate whether in the long run the law will promote or restrict competition (see Exhibit 4–3). As a consumer without any financial interest in business, what is your reaction to each of these laws?
14. Are consumer protection laws really new? Discuss the evolution of consumer protection. Is more such legislation likely?
15. Explain the components of product-market screening criteria that can be used to evaluate opportunities.
16. Explain the differences between the total profit approach and the return-on-investment approach to evaluating alternative plans.
17. Explain General Electric's strategic planning grid approach to evaluating opportunities.
18. Distinguish between the operation of a strategic business unit and a firm that only pays lip service to adopting the marketing concept.

Suggested Cases

2. Healthy Foods, Inc.
6. Three Rivers Steel Company

Computer-Aided Problem

4. **Competitor Analysis**

Mediquip, Inc., produces medical equipment and uses its own sales force to sell the equipment to hospitals. Recently, several hospitals have asked Mediquip to develop a laser-beam "scalpel" for eye surgery. Mediquip has the needed resources, and 200 hospitals will probably buy the equipment. But Mediquip managers have heard that Laser Technologies—another quality producer—is thinking of competing for the same business. Mediquip has other good opportunities it could pursue—so it wants to see if it would have a competitive advantage over Laser Tech.

Mediquip and Laser Tech are similar in many ways, but there are important differences. Laser Technologies already produces key parts that are needed for the new laser product—so its production costs would be lower. It would cost Mediquip more to design the product—and getting parts from outside suppliers would result in higher production costs.

On the other hand, Mediquip has marketing strengths. It already has a good reputation with hospitals—and its sales force calls on only hospitals. Mediquip thinks that each of its current sales reps could spend some time selling the new product—and that it could adjust sales territories so only four more sales reps would be needed for good coverage in the market. In contrast, Laser Tech's sales reps call on only industrial customers, so it would have to add 14 reps to cover the hospitals.

Hospitals have budget pressures—so the supplier with the lowest price is likely to get a larger share of the business. But Mediquip knows that either supplier's price will be set high enough to cover the added costs of designing, producing, and selling the new product—and leave something for profit.

Mediquip gathers information about its own likely costs and can estimate Laser Tech's costs from industry studies and Laser Tech's annual report. Mediquip has set up a spreadsheet to evaluate the proposed new product.

a. *The initial spreadsheet results are based on the assumption that Mediquip and Laser Tech will split the business 50/50. If Mediquip can win at least 50 percent of the market, does Mediquip have a competitive advantage over Laser Tech? Explain.*
b. *Because of economies of scale, both suppliers' average cost per machine will vary depending on the quantity sold. If Mediquip had only 45 percent of the market and Laser Tech 55 percent, how would their costs (average total cost per machine) compare? What if Mediquip had 55 percent of the market and Laser Tech only 45 percent? What conclusion do you draw from these analyses?*
c. *It is possible that Laser Tech may not enter the market. If Mediquip has 100 percent of the market, and quantity purchases from its suppliers will reduce the cost of producing one unit to $6,500, what price would cover all its costs and contribute $1,125 to profit for every machine sold? What does this suggest about the desirability of finding your own unsatisfied target markets? Explain.*

For additional questions related to this problem, see Exercise 4–4 in the *Learning Aid for Use with Basic Marketing*, 13th edition.